

The City of Greater Sudbury

Audit Findings Report to the Audit Committee

For the year ended December 31, 2009

AUDIT

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This Audit Findings Report (the "Report") for the year ended December 31, 2009 provides an overview of the results of our audit.

This Report is confidential and intended solely for the use of the members of the Audit Committee in carrying out and discharging its responsibilities, and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this Report has not been prepared for, and is not intended for, any other purposes.

This Report is a by-product of the audit and is therefore a derivative communication and should not be distributed to others outside the City without our prior written consent.

Topics for Discussion

Auditors initiating discussion with the Audit Committee

We have issued this Report to assist you in your review of the City's financial statements.

The matters that we raise within this Report arise from the audit and are matters that we believe need to be brought to your attention.

<u>Topic</u>	<u>Audit committee action</u>
Audit Status (page 2)	Review and discuss
Significant Matters (page 3)	Review and discuss
Misstatements (page 9)	Review and discuss
Performance Improvement Observations (page 12)	Review and discuss
Other Matters (page 13)	Review and discuss

Audit Status

Audit Status: Complete

- We have completed our audit of the City's financial statements in accordance with professional standards.
- The audit report is dated May 7, 2010.

Significant Matters

Tangible Capital Assets

- The City has implemented Public Sector Accounting Board (“PSAB”) Section 3150 Tangible Capital Assets. This section requires governments to record and amortize their tangible capital assets in the financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition or construction.

Actions taken by Management

- In order to be compliant with PSAB section 3150, management has undertaken an extensive and time consuming exercise to:
 - Accumulate an inventory of the City’s tangible capital assets
 - Accumulate an inventory of the assets held for resale
 - Develop capitalization thresholds and amortization policies
 - Calculate the cost of tangible capital assets based on the actual or estimated historical costs. The methods used are described in note 2 to the financial statements.
 - Determine the net book value of the tangible capital assets at January 1, 2008.
 - Review the capital expenditures for both fiscal years 2008 and 2009 to identify the capital assets acquired or constructed in those years
- The new accounting standard is required to be applied retroactively. Management has restated the 2008 financial statements to include the addition of the net book value of tangible capital assets at January 1, 2008 of \$1,189,079,000 as per note 2 to the financial statements.
- Management has prepared the required disclosures for 2009 which is disclosed in note 13 to the financial statements.

Effects on the audit

- We reviewed the methodology applied by management to determine the net book value of the tangible capital assets at January 1, 2008 and performed tests on these items.
- We reviewed the 2008 and 2009 additions and disposals and performed tests on these items.
- We reviewed the reasonableness of the amortization policies and the amortization expense
- We are satisfied that the assumptions used are rational and that the methodology followed is in accordance with the City’s policy.
- We concur with management’s methodology to calculate the estimated value of tangible capital assets.

Significant Matters (continued)

Financial Statement Presentation

- The City has implemented Public Sector Accounting Board (“PSAB”) Section 1200 Financial Statement Presentation which established general reporting principles and standards for the disclosure of information in government financial statements.

Actions taken by Management

- Management has implemented the required changes to comply with Section 1200.
 - **Statement of Financial Position**
 - Includes tangible capital assets as well as inventory held for resale
 - No longer identifies fund balances on the face of the statement, but instead previous fund balances are included with accumulated surplus
 - Accumulated surplus details are disclosed in note 15 and include, among other items, reserves, reserve funds, committed capital and investment in tangible capital assets.
 - **Statement of Operations**
 - No longer includes capital expenditures as these have been capitalized
 - The 2008 statement of operations has been restated. Management has prepared the required disclosures for the restatement in note 2 to the financial statements
 - **Statement of Changes in Net Financial Assets**
 - New statement has been prepared by management as per the new PSAB requirements
 - This statement provides a reconciliation of the annual surplus to the change in net financial assets

Effects on the audit

- We have reviewed the restatement of the 2008 financial statements
- We have ensured the accuracy of the financial statements
- We have reviewed the disclosures to ensure that they comply with the new standards
- We are satisfied that the financial statements are in accordance with the new PSAB requirements

Significant Matters (continued)

Solid waste landfill closure and post-closure liability

- The City operates four active landfill sites and two closed landfill sites. The active sites have a combined capacity of 11,694,970 (2008 - 11,694,970) metric tons, with approximately 4,924,380 (2008 - 4,986,058) metric tons remaining.
- The liability for the future closure and post closure care costs have increased over the past two years. The total accrual at December 31, 2009 was \$13,829,300 (2008 - \$11,572,746 and 2007 - \$8,295,658).
- The discount rate used to calculate the liability has fluctuated as well. The rate used in 2009 is 3.14% (2008 – 3.18%, 2009 – 3.61%)
- In the past two years there has been a reduction in the estimated remaining useful life of both the Rayside Balfour 25 years (2008 – 26 years, 2007 – 44 years) and Sudbury 22 years (2008 -45 years, 2007 – 46 years) landfill sites due to new information used by the engineering firm who calculates the liability.

Actions taken by Management

- Determination of this liability is dependant upon significant estimates by both management and consultants.
- These estimates include:
 - Inflation rates
 - Discount rates
 - Estimated remaining operating life of landfill sites
 - Pre and post-closure costs
- Management reviewed the information prepared by the consultants.

Effects on the audit

- We reviewed the schedules prepared to record the estimate for landfill closure and post closure liability and are satisfied that the methodology followed is rational, consistent with the approach taken in previous years, and has been appropriately reviewed.

Significant Matters (continued)

Employee Future Benefits

- Benefits including life insurance, dental and health coverage are provided to employees upon retirement.
- The City is presently using a “pay as you go” basis for recording these costs.
- The liability for these future benefits has been estimated using an actuarial valuation prepared in March 2007 along with an extrapolation prepared March 2010 which determines the City’s obligation as at December 31, 2009.
- The employee future benefits include liabilities for;
 - Future payments required to WSIB;
 - Post employment and post retirement benefits;
 - Vacation pay, and;
 - Sick leave benefits.
- Employee benefit obligations total \$44,837,501 at December 31, 2009 (2008 - \$ 43,307,417).

Actions taken by Management

- Determination of this liability is dependant upon significant estimates by both management and consultants.
- Assumptions used by the actuary and by management include:
 - Discount Rate
 - Consumer Price Index increase
 - Salary increases
 - Health care costs trend rates
 - Mortality rates
- The assumptions used have been reviewed by management.

Effects on the audit

- We reviewed the schedules prepared to record the employee benefit obligation and are satisfied that the methodology followed is rational, consistent with the approach taken in previous years, and has been appropriately reviewed.

Significant Matters (continued)

Allowance for Doubtful Taxes

- The allowance is determined by management and includes allowances for properties in arrears (including contaminated properties) as well as allowances for pending adjustments and appeals.
- Determination of the allowance is dependant upon estimation of future payments as well as the success rate of appeal.

Actions taken by Management

- Management estimated the losses in a manner consistent with the methodology used in the prior year.

Effects on the audit

- Management's estimation of losses is consistent with the prior year methodology.
- We concur with management's methodology.

Payroll Related Accruals

- Accruals have been made for anticipated retroactive payments to employees for job evaluations, pay equity and other matters.

Actions taken by Management

- Management has calculated this accrual using assumptions and applying methodology consistent with those used in the prior year.

Effect on the audit

- We have reviewed management's assumptions and methodology to determine the estimate.
- We concur with calculation of the accrual.

Provincial Offences Administration (POA)

- POA accounts receivable have not been recognized due to measurement issues surrounding the collectability of the accounts receivable. As a result, revenue is recorded on the cash basis.

Actions taken by Management

- Management has evaluated the measurement of the collectability of the POA accounts receivable and determined that the cash basis of accounting is appropriate in the circumstances.

Effect on the audit

- We concur with managements evaluation and have determined that this approach is consistent with that adopted by other municipalities.

Significant Matters (continued)

Ontario Municipal Partnership Fund (OMPF) Reconciliation

- The OMPF provisions indicate that an annual reconciliation will be performed by the Province related to Social Program costs. This reconciliation would indicate whether there are amounts receivable from or payable to the Province at the end of the year.

Actions taken by Management

- Management has performed a reconciliation of this grant and has calculated the receivable from the Province to be approximately \$761,000.
- Management has contacted Provincial Officials and it is uncertain whether this grant revenue will flow to the municipality.
- Management has not recorded the receivable and corresponding revenue as there is no certainty that a final reconciliation will be performed by the Province.

Effects on the audit

- We concur with management's assessment.

Commitment to Northern Ontario School of Architecture

- During the year, the City committed \$10 million for the proposed Northern Ontario School of Architecture.

Actions taken by Management

- Management has disclosed the commitment in the notes to the financial statements (note 14) noting that the contribution is conditional upon the School securing funding and receiving approval from Laurentian University and the Province of Ontario.

Effect on the audit

- We concur with management's treatment of the commitment.

Misstatements

Misstatements

- Management is responsible for the financial statements and, accordingly, evaluates uncorrected misstatements to determine whether individually, and in the aggregate, these misstatements, in their judgement, are material to the financial statements.
- Management has represented to us that the uncorrected misstatements, individually and in the aggregate, are, in their judgement, not material to the financial statements.

Audit Differences

- Misstatements identified during the audit ("audit differences") are described in the next few pages and have been categorized as follows:
 - unrecorded audit differences
 - corrected audit differences

Control deficiencies implications

- We have considered whether, for each corrected audit difference, the audit difference was the result of a control deficiency.
- We have not identified any significant control deficiencies.

Misstatements (continued)

Summary of uncorrected audit differences

<u>Description</u>	<u>Financial Position¹</u>			<u>Effect on</u> <u>Statement of</u> <u>Operations</u>
	<u>Financial</u> <u>Assets</u>	<u>Financial</u> <u>Liabilities</u>	<u>Accumulated</u> <u>Surplus</u>	
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
To record miscellaneous receivables	436		(436)	(436)
<i>TOTAL AUDIT DIFFERENCES</i>	436		(436)	(436)
Financial statement amounts	<u>338,405</u>	<u>226,828</u>	<u>1,399,204</u>	<u>43,290</u>
Percentage of financial amounts	<u>0.1 %</u>	<u>0.00 %</u>		<u>1.0 %</u>

¹ Debit (Credit)

Misstatements (continued)

Summary of corrected audit differences

<u>Description</u>	<u>Statement of Financial Position effect of correction²</u>			<u>Statement of Operations effect of correction \$'000</u>
	<u>Financial Assets \$'000</u>	<u>Non Financial Assets \$'000</u>	<u>Accumulated Surplus \$'000</u>	
To adjust contributed assets		407		(407)
To record road disposals		(384)		384

² Debit (Credit)

Performance Improvement Observations

Observation and implication for the City	Recommendation	Management comments
<p><u>Tangible Capital Assets</u></p> <p>The accounting for tangible capital assets has not been incorporated into the People Soft accounting system. Presently a stand alone accounting for tangible capital assets exists.</p> <p>We noted that the preparation of the financial statements required numerous adjustments to account for tangible capital assets that were not accounted for within the People Soft system.</p>	<p>We recommend that management explore the possibility of integrating the tangible capital assets within the People Soft accounting system.</p>	<p>Management concurs with this observation and is currently exploring the options to achieve this recommendation with resolution by the end of 2010.</p>

Other Matters

Changes to our audit plan

We conducted our audit in accordance with the audit plan approved by the Audit Committee.

Illegal and fraudulent activities

We did not identify, during our financial statement audit, any illegal acts or possible illegal acts.

We did not identify, during our financial statement audit, any:

- Matters that pose questions regarding the honesty and integrity of Management
- Fraud or suspected fraud involving Management
- Fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting
- Fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements
- Matters that may cause future financial statements to be materially misstated.

Related party transactions

We did not identify in the course of our audit, any related party transactions outside the normal course of operations that involve significant judgments made by Management concerning measurement or disclosure.

Significant unusual transactions

We have not identified any significant unusual transactions.

Material weaknesses in internal control over financial reporting

We did not identify, in the course of our financial statement audit, any material weaknesses in the design, implementation or operating effectiveness of internal control over financial reporting.

Our audit has not been designed to determine the adequacy of internal control over financial reporting for management purposes.

Dealings with Management

We received the full cooperation of Management and employees of the Municipality, and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit.

We had no disagreements with Management, and we have resolved all auditing, accounting and presentation issues to our satisfaction.

Dealings with the Auditor General

Based on discussions with the Auditor General, we concluded that findings from reviews conducted by the Auditor General were not material to the preparation of the audited financial statements.

Other Matters (continued)

Consultation with other accountants

We are not aware of any consultations by Management with other accountants regarding accounting or auditing matters.

Major issues discussed with Management that influence our audit appointment

We did not engage in discussion with Management about any major issues in connection with our appointment as auditors.

Independence

Our independence letter dated May 7, 2010, includes a list of professional services provided by us to the City, together with the amount of fees billed for such services and any other identified relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We have, since the date of this letter, provided no additional professional services nor identified other relationships that, in our professional judgment, may reasonably be thought to bear on our independence. Accordingly, we confirm that, since the date of this letter, we remain independent.