



City of
Peterborough

To: **Members of the Finance Committee**

From: **Richard Freymond
Commissioner of Corporate and Legislative Services**

Meeting Date: **June 10, 2019**

Subject: **Report CLSFS19-024
Audit of the Consolidated Financial Statements of the City of
Peterborough - Acknowledgement Letter**

Purpose

A report to recommend that the Audit of the Consolidated Financial Statements of the City of Peterborough, Acknowledgement Letter, prepared by Baker Tilly KDN LLP, be received and that the Mayor and Chair of the Finance Committee be authorized to sign the letter acknowledging receipt and contents of the letter.

Recommendations

That Council approve the recommendations outlined in report CLSFS19-024 dated June 10, 2019, of the Commissioner of Corporate and Legislative Services as follows:

- a) That the Acknowledgement Letter Audit of the Consolidated Financial Statements of the City of Peterborough be received.
- b) That the Mayor and Chair of the Finance Committee be authorized to sign the Acknowledgement Letter.

Budget and Financial Implications

There are no budget and financial implications to receiving this report.

Background

Each year the City's auditors, Baker Tilly KDN LLP, communicate aspects of the audit through the form of an acknowledgement letter addressed to members of the Finance Committee.

As part of the audit, Baker Tilly KDN LLP requests that management prepare a letter to re-affirm various representations that have been provided to them and that they have relied upon. A copy of this letter is attached to Appendix A.

To ensure a clear understanding by the Finance Committee, the auditors are requesting that the Mayor and Chair of the Finance Committee sign the letter.

Submitted by,

Richard Freymond
Commissioner of Corporate and Legislative Services

Contact Name:

Richard Freymond
Commissioner of Corporate and Legislative Services
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Attachments:

Appendix A – Acknowledgement Letter by Baker Tilly KDN LLP addressed to Members of the Finance Committee

June 10, 2019

Members of the Finance Committee
City of Peterborough
500 George Street North
Peterborough, Ontario
K9H 3R9

Baker Tilly KDN LLP
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Peterborough, ON
Canada K9J 2V4

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Re: Audit of the Consolidated Financial Statements of the City of Peterborough

Dear Members of the Finance Committee:

We have been engaged to express an audit opinion on the consolidated financial statements of the City of Peterborough ("the City") for the year ended December 31, 2018. We have substantially completed our audit and are pleased to report on the following items.

The purpose of this report is to summarize certain aspects of the audit that we believe to be of interest to the Finance Committee. This report should be read in conjunction with the draft consolidated financial statements and our report thereon, as well as our Audit Planning letter previously forwarded to you.

Auditor Independence

Canadian Auditing Standards ("CAS") require that we communicate at least annually with the Finance Committee regarding all relationships between us and the City that, in our professional judgement, may reasonably be thought to bear on our independence.

As communicated previously in a separate letter to the Finance Committee, we are not aware of any relationship between the City and us that, in our professional judgement, may reasonably be thought to bear on our independence.

Accordingly, we hereby re-confirm that our engagement team, our Firm and the other Baker Tilly Canada offices are independent with respect to the City within the meaning of the Code of Professional Conduct Rule 204 of the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario).

Independent Auditor's Report

We anticipate that our Independent Auditor's Report will be issued as presented with the draft financial statements.

We expect that our Independent Auditor's Report will include an Other Matter paragraph. The proposed wording is as follows:

The financial statements of the City as at and for the year ended December 31, 2017 were audited by Collins Barrow Kawartha LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

Our Independent Auditor's Report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the consolidated financial statements, including evidence that all the statements and disclosures that comprise the consolidated financial statements have been prepared and the Finance Committee has approved the consolidated financial statements.

Evaluation of Internal Controls

Audits include a review and evaluation of the system of internal controls to assist in determining the level of reliance that may or should be placed on the system in assessing the nature and extent of audit procedures to be undertaken.

There are no internal control matters that we wish to bring to your attention.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, were limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts should any exist. Under CAS, we consider the City's control environment, governance structure, circumstances encountered during the audit and the potential likelihood of fraud and illegal acts occurring.

These procedures are not designed to test for fraudulent or illegal acts, nor will they necessarily detect such acts or recognize them as such, even if the effect on the consolidated financial statements is material. However, should we become aware that an illegal or possibly illegal act or act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate directly to the Finance Committee.

It is management's responsibility to detect and prevent illegal action. If such acts are discovered or the Finance Committee members become aware of circumstances under which the City may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of assets or misrepresentation of financial information.

Related Party Transactions

During our audit, we conduct various tests and procedures to identify transactions considered to involve related parties. Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management, members of Council and their immediate family members and companies with which these individual have an economic interest.

All related party transactions that were identified during the audit have been represented by management to have been disclosed in the notes to financial statements, recorded in accordance with Canadian Public Sector Accounting Standards, and have been reviewed with you.

Management has advised that no other related party transactions have occurred that have not been disclosed to us. The Finance Committee is required to advise us if it is aware of or suspects any other related party transactions have occurred, which have not been disclosed in the financial statements.

Significant Accounting Principles and Policies

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The significant accounting principles and policies are disclosed in the notes to the consolidated financial statements.

The Finance Committee has a responsibility to review the accounting policies adopted by the City, and where alternative policies are available, make determinations as to the most appropriate policies to be adopted in the circumstances. If members of the Finance Committee believe that the adoption or change in accounting policy may produce an inappropriate or misleading result in financial reporting or disclosure, this concern must be discussed with management and us.

As described in the notes to the consolidated financial statements, the City has adopted the following:

PSA sections which are now effective under the PSA Handbook: 3320 Contingent Assets, 3380 Contractual Rights, 2200 Related Party Disclosures and 3420 Inter-Entity Transactions.

The adoption of these standards did not have a significant impact on the City's consolidated financial statements; however, the adoption of these standards may have resulted in additional disclosures for the financial statements of the City's boards.

Accounting Estimates

Management is responsible for the accounting estimates included in the consolidated financial statements. Estimates and the related judgements and assumptions are based on management's knowledge of the business and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the consolidated financial statements as a whole. An audit includes performing appropriate procedures to verify the:

- Calculation of accounting estimates;
- Analyzing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

Certain accounting estimates are particularly sensitive because they involve a significant degree of judgement and may have a range of possible outcomes. The most sensitive accounting estimates in order of significance are as follows:

- Useful lives of capital assets and amortization;
- Solid waste landfill closure and post-closure liability;
- Employee future benefits;
- Allowance for uncollectible taxes; and
- Accounts payable and other liabilities.

Significant Matters Discussed With Management

There were no significant matters arising from the audit discussed with management.

Written Representations Requested From Management

As part of our audit, we request that management prepare a letter to us to re-affirm various representations that they have provided to us and we have relied upon. A copy of this letter is attached for your convenience.

Significant Misstatements

In the course of our audit, we have not found any material misstatements or unadjusted items that, in aggregate, exceed materiality thresholds established for the audit, nor have we found significant misstatements that would likely cause future financial statements to be materially misstated.

Uncorrected Misstatements

In the course of our audit, we have not identified any uncorrected financial statement misstatements.

Significant Unusual Transactions

We are not aware of any significant transactions entered into by the City that you should be informed about.

Disagreements with Management

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the City's financial statements or auditor's report. Disagreements may arise over:

- Selection or application of accounting principles;
- Assumptions and related judgements for accounting estimates;
- Financial statement disclosures;
- Scope of the audit: or
- Wording of the auditor's report.

In the course of our audit, we did not have any significant disagreements with management, nor were we under any significant time pressures or poor working conditions. We are not aware of any cause for concern as to management's attitude, competence or credibility with respect to matters affecting the financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties during our audit that should be brought to the attention of the Finance Committee.

Management Letter

We have submitted to management a letter on internal controls and any other matters that we feel should be brought to the attention of management.

Conclusion

We wish to express our appreciation for the co-operation we received during the audit from the City's management.

Should any member of the Finance Committee wish to discuss or review any matter addressed in this letter or any other matters related to financial reporting, please do not hesitate to contact us at any time.

To ensure there is a clear understanding and record of the matters discussed, we ask that two members of the Finance Committee sign their acknowledgement in the spaces provided below.

Yours very truly,

Baker Tilly KDN LLP

per: Joanna Park, CPA, CA
Partner

Acknowledgement of the Finance Committee:

We have read and reviewed the above disclosures and understand and agree with the comments therein:

City of Peterborough

Name

Position

Name

Position

Schedule of Uncorrected Misstatements

Description of Misstatement	Proposed Adjustments Dr (Cr)				
	Statement of Income		Balance Sheet		
	Identified Misstatements	Likely Aggregate Misstatements	Assets	Liabilities	Opening Equity
a) Totals	-	-	-	-	-
b) Misstatements corrected by management	-	-	-	-	-
c) Likely aggregate misstatements net of corrections (a - b)	-	-	-	-	-
d) Effect of unadjusted misstatements from previous year's errors	-	-	-	-	-
e) Aggregate likely misstatements (c + d)	-	-	-	-	-
f) Final overall materiality	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000
g) Amount remaining for further possible misstatement (f - e)	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000

Summary of Classification Errors

Description of Misstatement	Error Amount	Effect On			
		Working Capital	Working Capital Ratio	Income Statement	Other (describe)
2019 Insurance entered into prepaids and payables. Paid in 2019.	1,203,919	-		-	Assets overstated

City of Peterborough
500 George Street North
Peterborough, Ontario
K9H 3R9

June 17, 2019

Baker Tilly KDN LLP
272 Charlotte St.
Peterborough, Ontario
K9J 2V4
Canada
Attention: Joanna Park, CPA, CA

Dear Sirs and Mesdames:

This representation letter is provided in connection with your audit of the consolidated financial statements of the City of Peterborough for the year ended December 31, 2018 for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 10, 2019 for the preparation of the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards; in particular, the consolidated financial statements are fairly presented in accordance therewith.
2. We have assessed that the City is able to continue as a going concern and the consolidated financial statements have been prepared on a going concern basis.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards.
5. There have been no events subsequent to the date of the consolidated financial statements up to the date hereof that would require recognition or disclosure in the consolidated financial statements. Furthermore, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those consolidated financial statements and the related notes.

6. Unrecorded adjustments at year end are trivial in amount and nature, therefore the effects of unrecorded adjustments are, both individually and in the aggregate, immaterial to the consolidated financial statements.
7. The accounting policies selected and the application thereof is appropriate, including those for complex areas of accounting and areas involving management's judgement and estimates, for example, revenue recognition, fair value measurements, transfers of receivables, hedging relationships and consolidation of variable interest entities.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the consolidated financial statements.
9. We are aware of the environmental laws and regulations that impact on our organization and we are in compliance. There are no known environmental liabilities, including liabilities under sections PS3260 - Liability for Contaminated Sites and PS3270 - Solid Waste Landfill Closure & Post-Closure Liability that have not been accrued for or disclosed in the consolidated financial statements.
10. The nature of all material measurement uncertainties has been appropriately disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.
11. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel.
12. There are no derivative or off-balance sheet financial instruments held at year end.
13. We have made the appropriate determination, accounting and disclosure in the consolidated financial statements of the costs, assets and obligations associated with employee future benefits.
14. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated financial statements.
15. The City has satisfactory title to all assets, and there are no liens or encumbrances on the City's assets.

Information provided

16. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the consolidated financial statements such as records, documentation and other matters;
 - 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.
17. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.
 18. We have disclosed to you the results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud.
 19. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
 20. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
 21. We have disclosed to you, and the City has complied with, all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debts.
 22. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
 23. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
 24. The minute books of the City are a complete record of all meetings and resolutions of the City throughout the year and to the present date.

Yours very truly,

Richard Freymond
Commissioner of Corporate and
Legislative Services

Darren Hancock
Chief Accountant

Summary of Classification Errors

Description of Misstatement	Error Amount	Effect On			
		Working Capital	Working Capital Ratio	Income Statement	Other (describe)
2019 Insurance entered into prepaids and payables. Paid in 2019.	1,203,919	-		-	Assets overstated