



City of
Peterborough

To: **Members of the Finance Committee**

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

Meeting Date: **October 13, 2020**

Subject: **Report CLSFS20-045
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2019**

Purpose

A report to recommend the audit of the December 31, 2019 Financial Statements Letter (Management Letter) and Verbal Audit Findings Report prepared and presented by the City's auditor, Baker Tilly KDN Kawartha LLP, be received as information.

Recommendation

That Council approve the recommendation outlined in report CLSFS20-045 dated October 13, 2020, of the Commissioner of Corporate and Legislative Services as follows:

That the audit of the December 31, 2019 Financial Statements Letter (Management Letter) appended to report CLSFS20-045 and the Verbal Audit Findings Report presented by Baker Tilly KDN Kawartha LLP for the year ended December 31, 2019 be received as information.

Budget and Financial Implications

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

Any actions by staff that would have a financial implication as a result of management's response to issues raised in the Management Letter will be considered during future budget deliberations.

Background

Each year as part of the City's audit process, the External Auditors, Baker Tilly KDN Kawarthas LLP, draft a Management Letter (attached) for the use of the Finance Committee to assist in the review of the financial statements and to raise issues for management's consideration and potential action. The matters raised in the letter arise from information obtained during the audit and are matters that Baker Tilly KDN believes need to be brought to the Finance Committee's attention.

Joanna Park, of Baker Tilly KDN Kawarthas LLP, will present a Verbal Audit Findings Report during discussion of this item.

Submitted by,

Richard Freymond
Commissioner of Corporate and Legislative Services

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Attachments:

Appendix A - Audit of December 31, 2019 Financial Statements Letter (Management Letter)



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September 28, 2020

Mr. Richard Freymond, Commissioner of Corporate and Legislative Services
City of Peterborough
500 George Street North,
Peterborough, Ontario
K9H 3R9

Dear Mr. Freymond;

Re: Audit of December 31, 2019 Financial Statements

The objective of our audit was to obtain reasonable assurance that the financial statements were free of material misstatement; our audit was not designed for the purpose of identifying matters to communicate. Accordingly, our audit would not usually identify all such matters that may be of interest to management and Council and it is inappropriate to conclude that no such matters exist.

During the course of our audit of the City of Peterborough ("the City") for the year ended December 31, 2019 we did not identify any of the following matters: misstatements, other than trivial errors; fraud; misstatements that may cause future financial statements to be materially misstated; illegal or possibly illegal acts or significant weaknesses in internal control.

During our interim audit, with a follow-up done at year-end, we reviewed the payroll, purchases/payables/payments, and revenue/receivables/receipts systems. Our review of these accounting systems is done to ensure that appropriate and sufficient internal controls are in place. As part of our reporting process and where necessary, we indicate areas where the internal controls could be strengthened.

It is important to note that Council, through management, is responsible for ensuring that the City has adequate internal controls and uses sound business practices. These form part of management's overall responsibility for the ongoing activities. The City's policies and procedures are present to safeguard its assets and provide reasonable assurance that errors, irregularities or illegal acts are promptly identified.

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Further, these policies and procedures should be properly monitored to ensure that all staff complies with the guidelines provided. Our recommendations should assist you in this regard.

This letter is intended solely for the use of Council and management, and should not be used for any other purpose, including distribution to third parties. The comments and concerns expressed herein did not have a material effect on the City's financial statements and, as such, our opinion thereon was without a reservation. However, in order for the City to ensure the safeguarding of assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect on the honesty or competence of the City's employees.

Internal Controls

We are pleased to report that management is maintaining a strong system of internal control. We found that balancing and reconciliation procedures continue to be performed on a timely basis which serves as a good internal control element to detect errors or discrepancies that require investigation. There is also adequate supervision of employee work including formalized approval and authorization procedures in place.

Landfill Closure and Post-Closure Costs

An important portion of the landfill closure and post-closure cost estimate calculation is the estimated costs to close the site and the annual monitoring costs.

The estimated costs for the closed landfill sites were updated in 2019 based on budget estimates of outstanding costs.

These estimates for the active sites are at least eight years old now and with new technologies and processes, the cost estimates could have changed significantly in that time. We recommend that management consider having these cost estimates updated at a minimum every 5 years.

Management Response

Management agrees with this comment and began the process of updating the landfill closure and post-closure cost estimate calculations for the 2020 fiscal year-end.

Contaminated Sites

The city adopted PS 3260 – Liability for Contaminated Sites during the 2015 fiscal year. PS 3260 requires governments to record the liability for cleanup of the property if the property is no longer in productive use and the contamination has been determined to be in excess of environmental standards. In 2022, PS 3260 will remove the exemption for contaminated sites that are in productive use. As a result, a liability for the clean-up of all contaminated properties will be required to be reported in your 2022 financial statements.

In 2022 the City will be required to adopt PS 3280 Asset Retirement Obligations which will require governments to further review their properties. Under PS 3280, a liability must be recorded if there is a legal obligation on the City to incur retirement costs in relation to a tangible capital asset.

We recommend that the City review all properties to ensure that all known contaminated sites are properly accounted for and to prepare for the implementation of PS 3280 and the change to PS 3260. This review will require obtaining estimates of clean-up costs.

Management Response

Management agrees with these comments. Staff will begin the process to be compliant with PSAB 3280 by 2022.

User Fees

During our testing, we noted that the fees being charges for the capital contribution for certain arenas were not included in the published by-law document. Based on discussions with management, the charges were supposed to be included but were missed on the by-law document. We recommend that the by-law be updated to correspond to managements intentions.

Management Response

Management agrees with this comment. The user fee by-law will be updated with the approval of the 2021 budget. Staff will review the updated by-law to ensure all fees, including the Arena Capital Surcharge are included.

Journal Entries

During our testing, we noted that not all journal entries have supporting documentation attached for filing. It is important to maintain supporting documentation for journal entries so that those reviewing and approving the entries have the documentation to explain the need for the entries and for future reference. We recommend that all journal entries have supporting documentation attached and filed.

During our testing of journal entries, we identified certain journal entries that were prepared and approved by the same staff. We recommend that any journal entries prepared and approved by the same staff have secondary approval.

Management Response

Management agrees with these comments. Staff do maintain supporting documentation for journal entries, however it is not always attached and filed. Staff will attach or ensure supporting documentation is available as support for journal entries. Staff will review all journal entries prepared in 2020 to ensure they are properly approved. With the implementation of the new enterprise software program, SAP, the journal entry approval process has become an electronic process which will prevent this from recurring.

Conclusion

In closing, we would like to thank everyone at the City for their co-operation and assistance during our audit visits. If you have any questions, please do not hesitate to contact us. It is a pleasure for us to be of service and we look forward to many more years of association with you and the City.

Yours truly,

Baker Tilly KDN LLP



Joanna Park, CPA, CA
Partner