



City of
Peterborough

To: **Members of the Audit Committee**

From: **Patricia Lester**
Commissioner of Corporate and Legislative Services

Meeting Date: **June 25, 2018**

Subject: **Report CLSFS18-027**
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2017

Purpose

A report to recommend the audit of the December 31, 2017 Financial Statements Letter (Management Letter) and Verbal Audit Findings Report prepared and presented by the City's auditor, Collins Barrow Kawarthas LLP, be received as information.

Recommendation

That Council approve the recommendation outlined in report CLSFS18-027 dated June 25, 2018, of the Commissioner of Corporate and Legislative Services as follows:

That the audit of the December 31, 2017 Financial Statements Letter (Management Letter) appended to report CLSFS18-027 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2017 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, Collins Barrow Kawarthas LLP, draft a Management Letter (attached) for the use of the Audit 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 Collins Barrow believes need to be brought to the Audit Committee's attention.

Joanna Park, of Collins Barrow Kawarthas LLP, will present a Verbal Audit Findings Report during discussion of this item.

Submitted by,

Prepared by,

Patricia Lester
Commissioner of Corporate and
Legislative Services

Richard Freymond
Manager of Financial Services

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Attachments:

Appendix A - Audit of December 31, 2017 Financial Statements Letter (Management Letter)



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June 25, 2018

Mr. Richard Freymond, Treasurer
City of Peterborough
500 George Street North,
Peterborough, Ontario
K9H 3R9

Dear Mr. Freymond;

Re: Audit of December 31, 2017 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, 2017 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.

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.

Payroll Banked-time Accruals

While working on the special overtime project in 2017, we noted that several of the City departments have manual records of banked time which are not forwarded to the finance department. As such, the year-end amount owing for this accumulated time was not being recorded in the City's accruals.

In last year's management letter, we recommended that these records be forwarded to Finance so they can determine the total outstanding banked-time liability. We would like to report that these bank time records were requested from the departments in 2017 and the related liabilities were included in the 2017 accrued liabilities.

Tangible Capital Assets

During our 2016 audit of work in progress, we noted that there were a few tender contracts that had been 100% billed out by the end of the year but were still included in work in progress which resulted in a considerable increase in work in progress from the prior year. Based on discussions with management, these projects were left in work in progress as there were a few deficiencies that needed to be cleared up in 2017 and it was a lot of additional administrative work to close out the jobs to the tangible capital asset register in 2016 and then add the final expenses in 2017. The ultimate financial statement impact was not significant as the difference between putting the asset into use and leaving it in work in progress would be one half of a year of amortization.

We recommended that management consider revisions to the tangible capital asset policy to account for these situations. We would like to report that the City's tangible capital asset policy was updated in 2017 to account for these situations.

Contaminated Sites

Our 2016 management letter noted that there did not appear to be a formal process for reviewing the status of existing potentially contaminated sites and ensuring review of any acquisitions during the year. We recommended that a formal process be put in place to update this information beginning before the year end to allow time for finance staff to assess the impact, if any, of revisions to the assessment of potential liabilities on financial statement reporting and incorporate any required changes to the financial statements. We would like to report that this process did take place in 2017.

Employee Future Benefits

The three year actuarial valuations expired at the end of 2017. As such, new valuations should be obtained for the 2018 financial statements. Based on discussions with management, the process for having these valuations updated is currently underway.

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. These estimates are at least six 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 Comments

Management agrees with this comment.

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,

Collins Barrow Kawarthas LLP



Joanna Park, CPA, CA
Partner