



City of
Peterborough

To: Members of the Audit Committee

From: Sandra Clancy, Director of Corporate Services

Meeting Date: November 7, 2016

**Subject: Report CPFS16-032
2016 Audit Plan and Pre-Audit Planning Letter**

Purpose

A report to recommend the City's 2016 Audit Plan and the Pre-Audit Planning Letter be received and that the Mayor and Chair of the Audit Committee sign the Pre-Audit Planning Letter.

Recommendations

That Council approve the recommendations outlined in report CPFS16-032 dated November 7, 2016, of the Director of Corporate Services as follows:

- a) That the 2016 Audit Plan for the Corporation of the City of Peterborough attached to Report CPFS16-032 as Appendix A, be received.
- b) That the Mayor and Chair of the Audit Committee be authorized to sign the Pre-Audit Planning Letter, attached to Report CPFS16-032 as Appendix B.

Budget and Financial Implications

There are no budget and financial implications of receiving the 2016 Audit Plan or receiving and signing the Pre-Audit Planning Letter.

The Audit plan is heavily dependent on staff resources from both Financial Services as well as other City divisions for financial statement preparation. The 2016 audit fees for the City and all its local boards and agencies are \$218,540 plus HST. Sufficient funding is included in the 2016 Operating Budget for these fees.

Background

The Terms of Reference for the Audit Committee specifies that the Audit Committee is responsible for “reviewing the arrangements for the scope of the annual audit, accounting principles, materiality limits, and the reasonableness of the annual audit fee”.

Each year the Audit Committee receives the Audit Plan as prepared by the City's external auditors, Collins Barrow, Chartered Accountants (the Auditors). We are submitting this to the Audit Committee for their official endorsement to comply with the Terms of Reference.

During the period December 5, 2016 to December 9, 2016, the Auditors will undertake the Interim Audit and Systems Documentation Phase of the 2016 Audit.

The 2016 Audit Plan is attached as Appendix A to this report.

Also attached, as Appendix B to this report, is a letter from the Auditors addressed to the members of the Audit Committee outlining the responsibilities of the parties involved with the audit and the audit approach and methodology that will be used by the Auditors to audit the 2016 Consolidated Financial Statements of the City of Peterborough.

To ensure a clear understanding by the Audit Committee and a record of matters discussed, the Auditors are requesting that the Mayor and Chair of the Audit Committee sign the letter as acknowledgement.

Submitted by,

Sandra Clancy
Director of Corporate Services

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Attachments:

Appendix A - 2016 Audit Plan
Appendix B – Pre-Audit Planning Letter

Appendix A

2016 Audit Plan

**CITY OF PETERBOROUGH
2016 AUDIT PLAN**

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I. AUDIT PLANNING

Purpose and use of report

To enhance the effectiveness of the external audit process and to facilitate our cost effective approach of working with management to minimize our fees by involving your staff to the greatest extent possible, we are providing you with a written audit plan. This document is for use by both the City and our audit staff in planning the timing and audit emphasis of procedures which we propose to carry out during the audit.

A properly developed Audit Plan also meets the following three specific requirements of auditors:

1. Canadian generally accepted auditing standards require that audits be adequately planned and properly executed and a documented audit plan provides the basis for meeting this requirement.
2. It ensures coordination of audit activities with management's activities such as changes in City personnel, modification of financial systems or changes in emphasis of administrative activities.
3. The preparation of an audit plan assists the Audit Committee in reviewing, and making suggestions to the overall scope of the external auditors' activities.

While the purpose of our planned audit activities is directed towards ultimately expressing a professional opinion on the Financial Report, an important by-product of these services is the ability to provide practical management advice to all levels of personnel at the City. As auditors, we must be cognizant of areas where our knowledge gained, and experience developed, at the City and other organizations can assist in providing useful recommendations and advice. Accordingly, the audit staff is encouraged to make suggestions regarding areas where they believe the City could improve operating results and where work could be completed in a more efficient and timely manner. Any such information will be discussed with management and summarized in our year end letter to management.

The audit plan has been prepared in a flexible manner to accommodate any modifications which may be required as a result of matters discovered during the course of any of our audit activities or as a result of significant operating changes of which we are not yet aware.

CITY OF PETERBOROUGH

2016 Audit Plan

I. AUDIT PLANNING (continued)

Key dates

(a) Meetings

- | | | |
|--|--------------------|--|
| (i) Director of Corporate Services and other financial staff | September 12, 2016 | Review draft audit plan |
| (iii) Audit Committee | October 31, 2016 | Review and approve audit plan |
| (iv) CAO, Director of Corporate Services and other financial staff | May 17, 2017 | Review draft management letter |
| (v) Audit Committee | June 19, 2017 | Present management letter and respond to questions |
| (vi) Local Board meetings to present financial statements and respond to questions | as required | Be present at meetings |

(b) Audit field work

- | | |
|--|--|
| (i) Interim audit and systems documentation | December 5 to December 9, 2016 |
| (ii) Year-end audit | April 3 to 13, 2017 |
| (iii) Audit of the tangible capital assets | May 8 to May 12, 2017 |
| (iv) Audit of financial statement consolidation | May 22 to May 26, 2017 |
| (v) Audit of subsequent events to reporting date | Date of approval of financial statements |
| (vi) Issue legal letters | May 23, 2017 |

(c) Deliverables

- | | |
|-------------------------------|---|
| (i) Draft auditors' reports | June 12, 2017 |
| (ii) Management letter draft | May 15, 2017 |
| (iii) Social Services reports | |
| - EFIS | June 2017 (based on availability) |
| - Other reports as requested | By required deadlines (based on availability) |

CITY OF PETERBOROUGH

2016 Audit Plan

I. AUDIT PLANNING (continued)

Key dates (continued)

(d) Statutory filing deadlines

- | | |
|---|---|
| (i) Audited financial statements | When available |
| (ii) Review report to accompany EFIS | Ministry of Education
deadline – June 2017 |
| (iii) Review report for Ontario Works Reconciliation
Report (OWRR) segmented information | June 30, 2017 |

Use of client's accounting staff and equipment

We would like to use the City's staff to the greatest extent possible through the performance of many tasks ranging from the retrieval of source documents from City files to the preparation of year end working papers. In this regard, we will provide City staff with a list of information we will require.

Although we have gained efficiencies through the use of client's personnel, the audit staff must be continually alert as to other areas where the use of client staff or alternative audit procedures can result in improved audit effectiveness.

As in the past, please inform us of any staff who will be absent during the audit so that we can plan our audit accordingly.

With the City now scanning purchase invoices it would be more efficient for our audit staff to have access to at least two computers with access to these electronic documents.

Accounting services

If any situation should arise, we would discuss the matter with the Senior Staff and possibly the Audit Committee (if considered necessary) prior to any additional work being performed. This discussion would include a commitment to a cost amount.

Materiality

At the planning stage of the audit, materiality is considered in determining the nature, extent and timing of audit procedures. The consolidated materiality used in developing our audit procedures is based on total revenues. Currently, we are planning to use a materiality of \$7,250,000. This materiality is only an estimate based on the 2016 budget. If final year-end figures differ significantly, materiality will be adjusted accordingly.

CITY OF PETERBOROUGH

2016 Audit Plan

I. AUDIT PLANNING (continued)

Tangible Capital Assets

Additions to tangible capital assets will be audited separately from the purchases/payables stream to ensure that they meet the definition of tangible capital assets or betterment to an existing tangible capital asset and that all major additions have been reviewed. Disposals and amortization will be audited on a sample basis with an overall reasonability of amortization performed.

Audit fee budget

Estimated fees are based on an increase of 2% of 2015 fees.

	<u>Total Fee</u>
City of Peterborough (including Reserves and Trust Funds)	\$ 75,750
Peterborough Utilities Group (based on initial requirements)	67,650
Peterborough Housing Corporation	21,100
Peterborough County City Health Unit	16,200
Fairhaven	10,900
Greater Peterborough Regional DNA Cluster	6,365
The Greater Peterborough Area Economic Development Corporation	4,565
The Art Gallery of Peterborough	3,710
The Peterborough Downtown Business Improvement Area	2,960
The Village Business Improvement Area	845
The Peterborough Public Library	3,395
Review reports for TPAR, EFIS and OWAR (estimate)	<u>5,100</u>
	<u>\$ 218,540</u>

Staffing

The engagement team will be as follows:

Joanna Park CPA, CA, Engagement Partner
Richard Steiginga CPA, CA, Concurring Partner
Duane Potter, CPA, CA, Senior Manager
Gloria Raybone CPA, CA, Audit Manager
Kerri Cassalman, Senior Accountant
Alexander Kelly, Senior Accountant
Colin Heffernan, Junior Accountant

CITY OF PETERBOROUGH

2016 Audit Plan

I. AUDIT PLANNING (continued)

Assumptions

Since our prime responsibility will be to express an opinion on the financial statements of the City of Peterborough, our audit approach will be based upon the following assumptions:

- i) That the accounting transactions and monthly reconciliations are completed, reviewed and accurate.
- ii) That your Finance staff will prepare such schedules, analyses, and other information for the City and its internal departments and local boards as requested during the audit. The Finance staff will also prepare the financial statements and the Financial Information Return.
- iii) That effective systems of internal controls continue to be adhered to as have been described to us.

Based on these assumptions being met, we can meet our professional standards and provide high quality professional service to you on a cost-efficient basis.

II. PLANNED AUDIT PROCEDURES

Interim Audit - Systems Review, Internal Control Evaluation, Testing and Recommendations

In order to meet our professional standards, we review the accounting systems and related systems of internal control. Internal controls within the accounting system that we intend to rely upon for audit purposes are tested to ensure that they have operated effectively throughout the year. This reliance allows us to attain audit evidence in a cost-effective manner, and the effectiveness of the internal control structure guides us in determining the extent of our substantive audit testing.

During our interim audit we not only review the systems of internal controls at City Hall, we also review the systems of the following divisions: POA, Transit, Solid Waste, Building, Parking, Social Services and Recreation (including visits to the Memorial Centre and the Sport and Wellness Centre).

Should we determine that there are weaknesses in the system of internal controls, they will be reported to you. Where weaknesses are identified, we will suggest alternatives to allow improvements, where possible. Also included in our report are areas where improvements can be made to maximize revenue and minimize expenditures. With our significant experience in the municipal realm, you benefit from our knowledge of working with many different systems and knowing what "works best" in various circumstances.

CITY OF PETERBOROUGH

2016 Audit Plan

II. PLANNED AUDIT PROCEDURES (continued)

Our reports will be drafted at the end of the audit and presented to your Director of Corporate Services for discussion. The letters will then be finalized incorporating comments for the final version to be included in the Director of Corporate Services' report to Council.

Year End Audit

Our year end visit emphasizes detailed examination of transactions and balances reported on your financial statements. Much of the testing of transactions processed through your accounting systems will have been sampled and tested during the interim audit. We then update these tests for a sample of items processed since our interim visit. Our risk based audit approach will focus our audit efforts on significant items in the year end. This approach ensures the audit process is efficient as possible for us and the City. We will co-ordinate our efforts to complete our field work according to the prearranged deadlines, as set out in the key date section of this plan.

In addition to the above, Canadian Auditing Standards require that we perform subsequent events review up to and including the date of Council approval of the financial statements.

Approach to Sampling

The extent of testing is based on our professional judgement, incorporating our risk assessment, the effectiveness of controls over the business processes and dollar value significance of the transaction. Non-routine and complex transactions are singled out for detailed scrutiny.

Management Letters

We have provided constructive advice to streamline the operations of our clients. We place a high priority on meaningful and timely management letters designed to enhance internal controls and communicate regulatory matters of importance and identify opportunities to enhance operational performance.

Should we discover any information or situation which would otherwise lead to the inclusion of a qualified opinion with respect to the City's financial statements, we will immediately inform and fully discuss such matters with the Director of Corporate Services.

CITY OF PETERBOROUGH

2016 Audit Plan

II. PLANNED AUDIT PROCEDURES (continued)

Quality Control Procedures

We strive to deliver service of the highest quality to all of our clients at all times. Collins Barrow Kawartha LLP will meet this objective in two ways. First, we focus on quality during our field work by placing senior people in the field for project management. This gives us flexibility to fine tune our field work to adapt to ongoing changes in your operations.

Second, our service and technical review policies provide a double check to ensure we meet our clients' needs and maintain a high level of technical excellence. The quality control procedures will include:

- **File Review.** The quality of the service will be enhanced by a requirement that all work be reviewed by a team member more senior than the person performing the work. This will include the review of working papers by partners and managers.
- **Concurring Audit Review.** We have another partner with relevant experience review the financial statements and management letters, and participate in the discussion and resolution of significant accounting and reporting matters.

Meetings

We will attend such meetings as are called to discuss our work and reports and shall provide such information as requested to enhance the understanding of the members of Council concerning matters pertaining to the annual financial statements. In addition to reviewing draft financial statements with staff, we would attend the Audit Committee and/or Council to present our comments as a result of our audit.

III. OTHER PLANNING CONSIDERATIONS

Planning Letter

The planning letter for the Audit Committee is ready to be presented to the Audit Committee for approval.

Review of City finance policies

A review of the status of the City's finance policies will be completed in conjunction with the interim audit in December.

Appendix B

Pre-Audit Planning Letter



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October 31, 2016

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

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

Dear Members of the Audit Committee:

This report is intended solely for the use of the Audit Committee and should not be distributed without our prior consent. We accept no responsibility to a third party who uses this communication.

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, 2016. Canadian Auditing Standards ("CAS") require that we communicate the following information with you in relation to your audit.

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. This includes the design and maintenance of accounting records, recording transactions, selecting and applying accounting policies, safeguarding of assets and preventing and detecting fraud and error.

Auditor Independence

CAS require communications with audit committees, or other appropriate parties responsible for governance, at least annually, regarding all relationships between the City and our Firm that, in our professional judgement, may reasonably be thought to bear on our independence.

We will, through our planning process, identify any potential independence threats and will communicate any concerns we identify. The City, management and the Audit Committee have a proactive role in this process, and are responsible for understanding the independence requirements applicable to the City and its auditor. You must also bring to our attention any concerns you may have, or any knowledge of situations or relationships between the City, management, personnel (acting in an oversight or financial reporting role) and our Firm, its partners/principals and audit team personnel that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario) and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

In accordance with our professional requirements, we advise you that we are not aware of any relationships between the City and our Firm that, in our professional judgement, may reasonably be thought to bear on our independence.

Accordingly, we hereby confirm that our audit engagement team, our Firm and the other Collins Barrow offices are independent with respect to the City within the meaning of the Rules of Professional Conduct Rule 204 of the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario).

Our Responsibilities as Auditor

As stated in the engagement letter, our responsibility as auditor of your City is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the City in accordance with Canadian Public Sector Accounting Standards.

An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

Our audit includes:

- Assessing the risk that the financial statements may contain material misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used, and their application; and
- Assessing the significant estimates made by management.

As part of our audit, we will obtain a sufficient understanding of the business and internal control structure of the City to plan the audit. This will include management's assessment of:

- The risk that the financial statements may be materially misstated as a result of fraud and error; and
- The internal controls put in place by management to address such risks.

The engagement team must undertake a documented planning process prior to commencement of the audit to identify concerns, address independence considerations, assess the engagement team requirements, and plan the audit work and timing. It may be necessary to contact members of the Audit Committee if significant matters arise from planning procedures.

An audit does not relieve management or those responsible for governance of their responsibilities for the preparation of the City's financial statements.

Audit Committee Members' Responsibilities

The Audit Committee's role is to act in an objective, independent capacity as a liaison between the auditor, management and Council to ensure the auditors have a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Audit Committee's responsibilities include:

- Being available to assist and provide direction in the audit planning process when and where appropriate;
- Meeting with the auditors as necessary and prior to release and approval of financial statements to review audit, disclosure and compliance issues;
- Where necessary, reviewing matters raised by the auditor with appropriate levels of management, and reporting back to the auditors their findings;
- Making known to the auditor any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements that are known to them, where such matters may impact the financial statements or the Independent Auditors' Report;
- Providing guidance and direction to the auditor on any additional work the auditor feels should be undertaken in response to issues raised or concerns expressed;
- Making such enquiries as appropriate into the findings of the auditor with respect to corporate governance, management conduct, cooperation, information flow and systems of internal controls; and

- Reviewing the draft financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and recommend same to be passed to Council for approval.

Audit Approach

Outlined below are certain aspects of our audit approach which are intended to help you in discharging your oversight responsibilities. Our general approach to the audit of the City of Peterborough is to assess the risks of material misstatement in the financial statements and then respond by designing audit procedures.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, will be limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts, fraud, intentional misstatements or errors should any exist. We will conduct the audit under CAS, which include procedures to consider (based on the control environment, governance structure and circumstances encountered during the audit), 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 of its consequences on the financial statements is material. However, should we become aware that an illegal or possible illegal act or an act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate this information directly to the Audit Committee.

It is management's responsibility to detect and prevent illegal actions. If such acts are discovered or the Audit Committee becomes 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.

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 individuals have an economic interest.

We will ensure that any related party transactions that are 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 is required to advise us if any related party transactions have occurred that have not been disclosed to us. The Audit Committee is required to advise us if they are aware of or suspect any other related party transactions have occurred which have not been disclosed in the financial statements.

Significant Accounting Principles and Policies

The City's financial statements will be prepared by management using various accounting principles, which have been incorporated into the City's accounting policies and disclosed in the notes to the financial statements. Where accounting policies have changed from one period to the next, such changes will be noted and the effect of these changes will be disclosed.

The accounting policies adopted may be acceptable policies under Canadian Public Sector Accounting Standards; however, alternative policies may also be acceptable under Canadian Public Sector Accounting Standards. The City and the Audit Committee have a responsibility to not adopt extreme or inappropriate interpretations of Canadian Public Sector Accounting Standards that may have inappropriate or misleading results. Alternative policies, if adopted, may produce significant changes in the reported results of the operations, financial position and disclosures of the City.

The Audit 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 Audit Committee are concerned that the adoption or change of an accounting policy may produce an inappropriate or misleading result in financial reporting or disclosure, this concern must be discussed with management and the auditors. If the Audit Committee believes that a policy or policies adopted are inappropriate or produce a misleading result in the circumstances, these concerns should be discussed with us directly, either privately or in Audit Committee meetings.

Risk-based

Our risk-based approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit work on higher risk areas that have a higher risk of being materially misstated.

Materiality

Materiality is defined as:

Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgement in the particular circumstances.

We plan to use an overall materiality of \$7,250,000 and a performance materiality of \$6,162,500. The overall materiality for last year's audit was \$7,000,000 and the performance materiality was \$5,950,000.

Materiality is used throughout the audit and in particular when:

- a) Identifying and assessing risk of material misstatement;
- b) Determining the nature, timing and extent of further audit procedures; and
- c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming an opinion on the auditors' report.

Audit Procedures

In responding to our risk assessment, we will use a combination of tests of controls, tests of details and substantive analytical procedures. The objective of the tests of controls is to evaluate whether certain controls operated effectively. The objective of the tests of details is to detect material misstatements in the account balances and transaction streams. Substantive analytical procedures are used to identify differences between recorded amounts and predictable expectations in larger volumes of transactions over time.

Assignment of Engagement Partner and Key Audit Personnel

The Firm is responsible for assigning an engagement practitioner as lead partner responsible for the City's audit and other engagements. Such individual and his/her roles are to be identified to the Audit Committee. The key individuals involved in the audit are:

Engagement Partner
Joanna Park

Concurring Partner
Richard Steiging

Should any member of the Audit 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 members of the Audit Committee sign their acknowledgement in the spaces provided below.

Yours very truly,

Collins Barrow Kawartha LLP

Joanna Park, CPA, CA

Acknowledgement of the Audit Committee:

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

City of Peterborough

Are you aware of any frauds, illegal acts or management override of internal controls at the City?

Yes / No (please circle one)

If yes, please contact our office immediately

Name

Position

Name

Position