



City of  
**Peterborough**

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**To:** **Members of the Audit Committee**

**From:** **Sandra Clancy, Director of Corporate Services**

**Meeting Date:** **June 19, 2017**

**Subject:** **Report CPFS17-029  
Management Letter and Verbal Audit Findings Report for the  
year ended December 31, 2016**

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## **Purpose**

A report to recommend the audit of the December 31, 2016 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 CPFS17-029 dated June 19, 2017, of the Director of Corporate Services as follows:

That the audit of the December 31, 2016 Financial Statements Letter (Management Letter) appended to report CPFS17-029 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2016 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 Kawartha 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 Kawartha LLP, will present a Verbal Audit Findings Report during discussion of this item.

Submitted by,

Sandra Clancy  
Director of Corporate Services

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Attachments:

Appendix A - Audit of December 31, 2016 Financial Statements Letter (Management Letter)

Appendix A

**Audit of December 31, 2016 Financial Statements Letter  
(Management Letter)**

June 8, 2017

Ms. Sandra Clancy, Director of Corporate Services  
City of Peterborough  
500 George Street North,  
Peterborough, Ontario  
K9H 3R9

Dear Ms. Clancy:

**Re: Audit of December 31, 2016 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, 2016 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, we noted that several of the City departments have manual records of banked time which is not forwarded to the finance department. As such, the year-end amount owing for this accumulated time is currently not recorded in the City's accruals. We recommend that these records be forwarded to Finance so they can determine the total outstanding banked-time liability.

### **Management's Response:**

Agree. Finance staff will collect the appropriate data to record the amounts in the City's accruals at year-end.

### **Tangible Capital Assets**

Overall, the completion of the tangible capital assets section by City staff was the most streamlined that it has been yet. The one item that we did note during our testing of work in progress was 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 is 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 recommend that management consider revisions to the tangible capital asset policy to account for these situations. Projects completed by year-end should continue to be amortized using the current half year policy and projects that are substantially complete

but are waiting for a few minor expenses remain in work in progress at year-end but are amortized for a full year in the year they are put into service.

**Management's Response:**

Agree. Finance staff will make the suggested change.

**Contaminated Sites**

The City was required to adopt Section 3260 of the PSA handbook – Contaminated Sites for the year ended December 31, 2015. This section requires management to review potential liabilities related to contamination for all property owned by the City or which the City has taken responsibility. As a result of not having all the analysis complete for the 2015 audit we recommended that an annual process be put in place to update this information beginning before the year end. The information being available ahead of time will allow time for finance staff to assess its impact, if any, on financial statement reporting and incorporate any required changes to the financial statements.

For the 2016 audit, there did not appear to be a formal process for reviewing the status of existing potentially contaminated sites and ensuring review of any new land acquisitions during the year. We recommended that a formal process be put in place to update this information beginning before the year end.

**Management's Response:**

Agree. Staff will establish an annual formal review process.

**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