



City of
Peterborough

TO: **Members of the Audit Committee**

FROM: **Brian W. Horton, Senior Director of Corporate Services**

MEETING DATE: **June 15, 2009**

SUBJECT: **Report CPFRAS09-007
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2008**

PURPOSE

A report to recommend the "Audit of December 31, 2008 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 CPFRAS09-007 dated June 15, 2009, of the Senior Director of Corporate Services as follows:

That the Audit of December 31, 2008 Financial Statements Letter "Management Letter" appended to report CPFRAS09-007 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2008 be received as information.

BUDGET AND FINANCIAL IMPLICATIONS

There are no additional budget and financial implications of 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 your 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.

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

Submitted by,

Brian W. Horton
Senior Director of Corporate Services

Contact Person

Brian Horton
Senior Director of Corporate Services
Phone: 705-742-7777 Ext 1863
Fax: 705-748-8839
E-mail Address: bhorton@peterborough.ca

Appendix A - Audit of December 31, 2008 Financial Statements Letter (Management Letter)

APPENDIX A

T. 705.742.3418
F. 705.742.9775
email: peterborough@collinsbarrow.com

PRIVATE AND CONFIDENTIAL

May 25, 2009

Ms. Linda Reed, CAO
City of Peterborough
500 George Street North,
Peterborough, Ontario
K9H 3R9

Dear Ms. Reed:

We have completed our audit for the year ended December 31, 2008. We have included our observations of the audit process and accounting systems for your review.

This letter is intended solely for the use of City Council and management, and should not be used for any other purpose, including distribution to third parties.

Overall

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters that may be of interest to management and it is inappropriate to conclude that no such matters exist.

Our examination included:

- tests of accounting records and year-end balances, and
- a general review of accounting procedures.

Although our audit was not designed to consider whether the systems of internal control that management established have been properly designed or have been operating effectively, we did obtain a sufficient understanding of those internal controls that impact on the collection, recording and processing of financial data for us to have planned our audit procedures. In some instances, we performed tests on the operation of certain internal controls as a means of obtaining audit evidence about an account balance or class of transactions.

It is important to note that Council, through management, is responsible for ensuring that the City of Peterborough ("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 comply with the guidelines provided. Our recommendations in this letter are intended to assist you in this regard. Our comments are not intended to reflect on the honesty or competence of the City's employees.

During the course of our audit of the City for the year ended December 31, 2008 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; or illegal or possibly illegal acts.

Internal Controls

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

Management's Response

Management acknowledges the auditor's comments and is committed to maintaining the strong system of internal control.

Taxes Receivable

The ratio of taxes receivable to total taxation for 2008 is 4.7% compared to 4.4% in 2007. We are pleased to report that this ratio is well below the recommended level of 10% established by the Ministry of Municipal Affairs and Housing. The City staff should be commended for their hard work and success in the collection of taxes. We recommend that staff continue their efforts to keep the taxes receivable ratio well below the 10% guideline.

Management's Response

Management will continue to ensure a high level of commitment to the collection of outstanding taxes.

Additional Reviews

During our pre-audit discussions with management we were asked to review the contract at the Memorial Centre with Compass Group Canada Ltd. to ensure that both parties were acting in agreement with the contract and that there was back up to support the commissions being paid to the City. We are pleased to report that we found the contract was being adhered to by both parties and that the Compass Group was providing more financial information to the Memorial Centre, to support the amounts being paid, than was required by contract.

In addition, we were asked to review the amounts being paid to the social housing providers and to ensure that there was back-up to support the payments being made. We are pleased to report that we did perform additional sampling of these payments and we found appropriate support for all payments.

Management's Response

Management acknowledges the comments of the auditor.

Corporate Credit Cards

Transparency and accountability is important for all organizations but especially those in the public sector. Inappropriate spending by elected officials and government employees is gaining more prominence in the media. In organizations where there are corporate credit cards this can be a high fraud risk area if there are minimal controls in place.

As part of our audit, we documented the controls in place to ensure that all purchases on the corporate credit cards were appropriately authorized and further we tested a sample of these statements. We are pleased to report that management and staff are maintaining a strong system of internal controls in this area. We found that all of the selected statements were signed by the cardholder, approved by the appropriate supervisor (or signing authority) and were approved by the Purchasing Card Administrator. In addition we found that all statements were supported with all invoices and that travel and hospitality vouchers were completed when applicable. Staff should be commended for their efforts ensuring that all such payments are appropriately supported and authorized.

Management's Response

Management is committed to maintaining a strong system of internal controls related to the Corporate purchasing card system.

Journal Entries

Our audit objective in reviewing journal entries is to ensure that all journal entries entered into the system are approved and authorized and that there is a review process in place to decrease the possibility of undetected errors. Currently, the Chief Accountant approves all journal entries prepared by non-professional accounting staff prior to the entries being posted in Cayenta. This approval is evidenced by his signature on the print out of the journal entry. Entries prepared by the professional accounting staff are entered into Cayenta and posted by that staff member. There is currently no review or approval process for any entries created by the professional accounting staff. We recommend that all entries created by professional accounting staff be reviewed by an appropriate person.

Management's Response

Management concurs. All journal entries created by professional accounting staff will be reviewed by an appropriate person.

General

City staff should be commended for all of their efforts during the year and in preparing for the 2008 audit. Throughout the audit we received full cooperation and assistance from your staff. If you have any questions or comments regarding the comments addressed in this letter or any other matter please do not hesitate to contact our office.

Yours truly,

Collins Barrow Kawartha LLP

A handwritten signature in black ink, appearing to read 'R. Fisher', is positioned above the printed name.

Robert Fisher, FCA
Partner