



City of
Peterborough

TO: Members of the Audit Committee

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

MEETING DATE: October 13, 2009

SUBJECT: Report CPMRAS09-016
2009 Audit Plan and Pre-Audit Planning Letter

PURPOSE

A report to recommend the City's 2009 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 CPMRAS09-016 dated October 13, 2009, of the Senior Director of Corporate Services as follows:

- a) That the 2009 Audit Plan for the Corporation of the City of Peterborough attached to report CPMRAS09-016 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 CPMRAS09-016 as Appendix B.

BUDGET AND FINANCIAL IMPLICATIONS

There are no budget and financial implications by receiving the 2009 Audit Plan or receiving and signing the Pre-Audit Planning Letter.

The fees for 2009 for the City and all its local boards are estimated to be \$122,050. With the exception of the new audit fees listed, the amounts have been indexed by

2.5% over the previous year. The \$17,500 fee quoted for the audit of the capital assets is a one-time fee for 2009 only, whereas the fee of \$2,575 for the review engagement report required by the Province for certain Social Services programs would become an annual fee.

BACKGROUND

Item 3 of 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”.

Attached, as Appendix A of this report, is the 2009 Audit Plan as prepared by Collins Barrow Kawarthas, Chartered Accountants.

Attached as Appendix B to this report is a letter 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 Collins Barrow Kawarthas to audit the 2009 Consolidated Financial Statements of the City of Peterborough.

To ensure a clear understanding by the Audit Committee and a record of matters discussed, Collins Barrow Kawarthas are requesting that two (2) members of the Audit Committee sign the letter as acknowledgement.

Submitted by,

Brian W. Horton
Senior Director of Corporate Services

Contact Person

Richard Freymond
Manager, Financial Reporting and Accounting Services
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Attachments:

Appendix A - 2009 Audit Plan
Appendix B – Pre-Audit Planning Letter

Appendix A

2009 Audit Plan

CITY OF PETERBOROUGH

2009 AUDIT PLAN

INDEX

I. AUDIT PLANNING

Purpose and use of report
Key dates
Use of client's accounting staff
Audit fee budget
Accounting services
Materiality and error evaluation
New local boards, projects, programs or funds
Distribution of Financial Report
Staffing

II. PLANNED AUDIT PROCEDURES

III. OTHER PLANNING CONSIDERATIONS

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 auditor's activities.

While the general thrust 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

2009 Audit Plan

I. AUDIT PLANNING (continued)

Key dates

(a) Meetings

(i) Senior Director of Corporate Services and other financial staff	September 14, 2009	Review draft audit plan
(ii) Audit Committee	October 13, 2009	Review and approve audit plan
(iii) Senior Director of Corporate Services and other financial staff	May 25, 2010	Review draft management letter
(iv) Audit Committee	June 21, 2010	Present management letter and be in attendance to respond to questions
(v) Local Board meetings	as required	Be present at meetings to present financial statements and respond to questions

(b) Audit field work

(i) Interim audit and systems documentation	November 30 to December 4, 2009
(ii) Gas tax and transit audits	March 23, 2010
(iii) Year end audit including review to accompany TPAR and museum report	April 6 to 16, 2010

(c) Deliverables

(i) Gas tax and transit audit reports	March 26, 2010
(ii) Draft auditors' reports	June 21, 2010
(iii) Management letter	June 21, 2010

(d) Statutory filing deadlines

(i) Audited financial statements	When available
(ii) Financial Information Return (FIR) and Performance Measurers (MPMP)	May 31, 2010
(iv) Gas tax and transit audit reports	March 31, 2010
(v) Review report to accompany TPAR	April 30, 2010
(vi) Peterborough Centennial Museum statement	June 30, 2010

CITY OF PETERBOROUGH

2009 Audit Plan

I. AUDIT PLANNING (continued)

Use of client’s accounting staff

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.

Audit fee budget

Estimated fees are based on our 2008 rates detailed in our Proposal for External Auditing Services with an increase of 2.5%.

	<u>Total Fee</u>
City of Peterborough (including Reserves and Trust Funds)	\$ 66,100
Audit of capital assets <i>NEW</i>	17,500
Review engagement report required by Province for Social Services programs (TPAR) <i>NEW</i>	2,575
Peterborough County City Health Unit	13,650
Fairhaven (long term care facility)	8,950
The Greater Peterborough Area Economic Development Corporation	3,900
The Art Gallery of Peterborough	3,150
The Peterborough Downtown Business Improvement Area	2,400
The Village Business Improvement Area	675
The Peterborough Public Library	<u>3,150</u>
	<u>\$ 122,050</u>

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.

I. **AUDIT PLANNING** (continued)

Materiality and error evaluation

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 expenditures. Currently, we are planning to use a materiality of \$3,500,000. This materiality is only an estimate based on the 2009 budget. If final year-end figures differ significantly, materiality will be adjusted accordingly.

Rather than recording immaterial year end adjustments, all discovered and projected errors, together with the effect of prior year's errors on opening balances, will be summarized and evaluated in terms of their total impact on reported operating surplus, assets, liabilities and fund balances. If these errors are immaterial in total they will be left to be adjusted in the following year unless your staff would prefer a particular adjustment be made. Significant errors identified during the course of our work will be reviewed in detail with management.

Tangible Capital Assets

Capital assets are required to be recorded on the statement of financial position for the 2009 financial statements with comparatives for 2008. All capital assets will be recorded at the historical cost of the assets. Your staff are working diligently to determine the historical costs of all of the City's assets that are still in use. As part of the 2009 audit we will be required to audit these capital assets to ensure that the value is materially stated.

Staffing

The engagement team will be as follows:

Bob Fisher FCA, Engagement Partner
Richard Steiginga CA, Lead Partner
Joanna Park CA, Senior Manager
Jori McMahon CA, Manager
Gloria Raybone CA, Accountant
Jason Zigomanis, Accountant

II. PLANNED AUDIT PROCEDURES

Our planned audit procedures are as follows:

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.

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.

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

II. PLANNED AUDIT PROCEDURES (continued)

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.

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 Senior Director of Corporate Services.

Quality Control Procedures

We strive to deliver service of the highest quality to all of our clients at all times. Collins Barrow Kawarthas 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.

II. PLANNED AUDIT PROCEDURES (continued)

- **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

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

Appendix B

Pre-Audit Planning Letter

September 23, 2009

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

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

Dear Sirs:

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, 2009. Canadian Generally Accepted Auditing Standards 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

Section 5751 of the Canadian Institute of Chartered Accounts (CICA) Assurance Handbook requires 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 judgment, 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 changes in the threshold status of the City, 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 and audit team personnel that may reasonably be thought to bear on our independence.

Such matters may include:

- Self-review threats
- Self-interest threats
- Advocacy threats
- Intimidation threats
- Familiarity threats.

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 judgment, may reasonably be thought to bear on our independence.

Accordingly, we hereby confirm that our Firm is independent with respect to the City within the meaning of the Rules of Professional Conduct Rule 204 and related Council Interpretations of the Institute of Chartered Accountants of Ontario.

Our Responsibilities as Auditor

As stated in the engagement letter dated September 23, 2009, our responsibility as auditors 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 generally accepted accounting principles.

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.

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 City 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 Auditor's 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;
- Reviewing the draft financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approve same to be passed to Council for approval; and
- Pre-approving all professional services and allowable consulting services to be provided by the auditors.

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 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 Canadian generally accepted auditing standards (GAAS), 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 members become 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, directors and their immediate family members and companies with which these individuals have an economic interest.

We will ensure that all related party transactions that were identified during the audit have been represented by management to have been disclosed in the notes to financial statements, recorded in accordance with Canadian generally accepted accounting principles (GAAP), and have been reviewed with you. All gains and losses occurring as a result of transactions with related parties will be recorded in accordance with the recommendations of Section 3840 of the Canadian Institute of Chartered Accountants (CICA) Handbook. Management has advised that no 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 GAAP; however, alternative policies may also be acceptable under Canadian GAAP. The City and the Audit Committee have a responsibility to not adopt extreme or inappropriate interpretations of GAAP 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 members believe 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 in an audit is used to:

- Guide planning decisions on the nature and extent of our audit procedures;
- Assess the sufficiency of the audit evidence gathered; and
- Evaluate any misstatements found during our audit.

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 judgment in the particular circumstances.

We plan to use a materiality of \$3,500,000.

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.

Other Matters

We have reviewed potential revisions to your financial statements due to the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. There are two significant changes for municipalities for the 2009 reporting year.

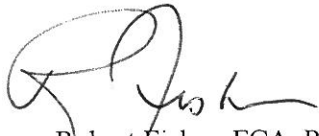
Prior to 2009, municipalities, were not required to record capital assets on the consolidated statement of financial position. Instead, they reported them as a capital expenditure on the consolidated statement of financial activities. Beginning in 2009, capital assets will be reported on the consolidated statement of financial position. As a result, municipalities must determine the costs of all land, buildings, equipment and other infrastructure they have acquired. Your staff have worked very diligently to compile this information for the 2009 financial statements.

The 2009 financial statements will also be changed to eliminate the detail in the municipal position section of the statement of financial position. The municipal position will now be represented by one number on the statement entitled Accumulated Surplus. A schedule will be attached to the financial statements to provide details of the breakdown of the Accumulated Surplus including details on reserve funds, reserves, specific surpluses, and the unfunded liabilities.

To ensure there is a clear understanding and record of the matters discussed, we ask that two members of the Audit Committee sign their acknowledgement in the spaces provided below. 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.

Yours very truly,

Collins Barrow Kawartha LLP



per: Robert Fisher, FCA, Partner

Acknowledgement of Audit Committee:

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

City of Peterborough

Name

Date

Name

Date