



City of
Peterborough

TO: Members of the Audit Committee

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

MEETING DATE: July 26, 2010

SUBJECT: Report CPFRAS10-009
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2009

PURPOSE

A report to recommend the “Audit of December 31, 2009 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 CPFRAS10-009 dated July 26, 2010, of the Senior Director of Corporate Services as follows:

That the Audit of December 31, 2009 Financial Statements Letter “Management Letter” appended to report CPFRAS10-009 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2009 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 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.

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, 2009 Financial Statements Letter (Management Letter)

June 24, 2010

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

Dear Ms. Reed;

Re: Audit of December 31, 2009 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, 2009 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, 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. As well there is adequate supervision of employee work including formalized approval and authorization procedures in place.

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 there is a review process in place to decrease the possibility of undetected errors. In last year's letter we noted that the Chief Accountant approves all journal entries prepared by non-professional accounting staff prior to the entries being posted but that entries prepared by the professional accounting staff were not being reviewed or approved. We are pleased to report that all journal entries prepared by all staff are being appropriately reviewed and approved.

Accounts Receivable

Our audit objective with respect to accounts receivable is to ensure that the receivables exist and that collectability is likely. During our audit it was noted that there are a number of receivables that have been outstanding for many years. We recommend that a review of the existing receivables be completed and that a collection process begin for old amounts and that an appropriate allowance for doubtful accounts be established.

Management's Response

Collection of outstanding Accounts Receivable at the City of Peterborough has been a decentralized function. The Corporate Services Department has taken steps in recent years to assist departments in their collection efforts.

A Collection Clerk was hired in September 2007 who spends 60% of her time working on Provincial Offences Office collections and 40% of her time on all other areas in the City. The City also has an agreement with NCO, a Collection Agency that works on the collection of accounts. Through these two avenues, new processes have been set up with the departments where uncollectible accounts are sent to the Collection Clerk and then, if required, on to the Collection Agency. There are some old accounts for which payment arrangements have been made and are gradually being collected and others where staff are working with the operating department or customer directly to determine collectability. Of the \$1.4 M in Accounts Receivable that were 6 months or older as of December 31, 2009, one-half has either been collected or resolved as of May 31, 2010. There is also another \$212,400 that are long term receivables for which the agreement states it will be paid back over a number of years.

However, the City does recognize that, as much as we have made strides in this area, more can be done and Corporate Services staff will review those areas.

With respect to establishing an allowance for doubtful accounts, the City has taken the approach that if an account is deemed uncollectible, it is charged back into operations. However, during 2010, the possibility of establishing of an allowance for doubtful accounts can be investigated.

Work Order System

The work order system is now being used at the City to help with the processes required to follow PSAB 3150 and to properly record the cost of all tangible capital assets. Costs associated with the construction or development of capital assets remain in work in progress until the work orders are closed. Once closed, the asset gets assigned an asset number and the costs get transferred to the appropriate asset class and amortization begins.

Although Finance has a process and procedure in place to close work orders and transfer the assets to the Asset Register, to ensure that the figures are as accurate as possible it is necessary to close work orders on a timely basis once projects are complete. Project Managers, in conjunction with staff from Finance, must review capital projects on a regular basis throughout the year and identify those projects that can be closed. This will help ensure that completed projects are not left in Work in Progress at year end. For large projects, this may mean transferring balances at various stages of completion as the assets come into service.

Management's Response


Management is committed to reviewing capital projects and transferring assets to the Asset Register on a timely basis.

Conclusion

In closing, we would like to thank everyone at the City for their co-operation and assistance during our audit visits. This has been a very busy year for Finance and staff should be commended for all their hard work. 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 very truly,

Collins Barrow Kawartha LLP



Robert J. Fisher, F.C.A.
Partner