



City of
Peterborough

TO: Members of the Audit Committee

FROM: Sandra Clancy, Director of Corporate Services

MEETING DATE: June 20, 2011

**SUBJECT: Report CPFS11-009
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2010**

PURPOSE

A report to recommend the “Audit of December 31, 2010 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 CPFS11-009 dated June 20, 2011, of the Director of Corporate Services as follows:

That the Audit of December 31, 2010 Financial Statements Letter “Management Letter” appended to report CPFS11-009 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2010 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 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,

Sandra Clancy
Director of Corporate Services

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Appendix A - Audit of December 31, 2010 Financial Statements Letter (Management Letter)

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June 7, 2011

Mr. Brian Horton, CAO
City of Peterborough
500 George Street North,
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Dear Mr. Horton:

Re: Audit of December 31, 2010 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, 2010 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.

Accounts Receivable

Our audit objective with respect to accounts receivable is to ensure that the receivables exist and that collectability is likely. During the 2009 audit we noted that there are a number of receivables that have been outstanding for many years. At that time, we recommended a review of the existing receivables be completed, a collection process begin for old amounts and an appropriate allowance for doubtful accounts be established. Although the City has taken steps in the past year to review the accounts receivable and take appropriate action to collect the accounts, we found that there are still a number of old amounts still outstanding.

Management's Response

The City recognizes that as much as we have made strides in this area, more can be done. Of the \$1M outstanding for more than 3 months at year-end, \$0.4M has been collected to date.

Of the remaining balance outstanding, \$0.2M is for long term loans outstanding where approved agreements are in place and \$0.2M is Payments in Lieu of taxes due from the Ontario Realty Corporation. Staff have evaluated the provision for the Tax Allowance for Doubtful accounts as at year-end and believe that there is sufficient 'general' provision available should the Payments in Lieu accounts become uncollectible. The residual amount of \$0.2M is in various stages of internal and external collection.

Vacation and Statutory Holiday Entitlement Tracking

Although it appears that the tracking of vacation time and statutory holiday entitlement and its usage is being recorded, we were unable to trace a sample of time usage to manual copies of tracking sheets/attendance reports for two of the City Divisions represented in our sample. Per discussion with the Payroll Administrator, some departments do not retain the information after it has been entered into the payroll system. We recommend the original backup for data entered into the payroll system be retained for subsequent review for a period of at least 18 months.

Management's Response

Although the risk of overstatement of the vacation accrual is somewhat mitigated by virtue of the fact that the Human Resources Division reviews and approves all unused vacation carried from calendar year to the next based on information from the Divisional Managers and Supervisors, Financial Services Staff will direct all City Divisions to ensure backup is kept on file for the requested period of time.

Vacation Accrual

The calculation of the vacation accrual was prepared using incorrect information from the 2010 data set. This report was not updated for vacation days used in the first pay in 2011 which included days used in 2010. As a result, the vacation accrual was overstated. When looking into the variances, City staff provided reports detailing the correct days owing at December 31. We recommend the reports used for calculating the vacation accrual be thoroughly reviewed and tested for accuracy.

Management's Response


Staff concur.

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 Kawartha LLP



Robert J. Fisher, FCA
Partner