



City of
Peterborough

TO: **Members of the Audit Committee**

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

MEETING DATE: **June 25, 2012**

SUBJECT: **Report CPFS12-041
Management Letter and Verbal Audit Findings Report for the
year ended December 31, 2011**

PURPOSE

A report to recommend the audit of the December 31, 2011 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 CPFS12-041 dated June 25, 2012, of the Director of Corporate Services as follows:

That the audit of the December 31, 2011 Financial Statements Letter (Management Letter) appended to report CPFS12-041 and the Verbal Audit Findings Report presented by Collins Barrow Kawarthas LLP for the year ended December 31, 2011 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.

Joanna Park and 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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Attachments:
Appendix A - Audit of December 31, 2011 Financial Statements Letter
(Management Letter)

Appendix A –

**Audit of December 31, 2011 Financial Statements Letter
(Management Letter)**

May 19, 2012

Mr. Brian Horton, CAO
City of Peterborough
500 George Street North,
Peterborough, Ontario
K9H 3R9

Dear Mr. Horton:

Re: Audit of December 31, 2011 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 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. As part of our management letters for 2009 and 2010 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

Of the \$0.8 million outstanding for more than 3 months at year-end, \$0.3 million has been collected to date.

Of the remaining balance outstanding, \$0.2 million is for long term loans outstanding where approved agreements are in place and payments being made, \$0.1 million is for 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 remaining \$0.2 million is made up of numerous accounts and is in various stages of the collection process. There is risk that a substantial portion of the \$0.2 million may need to be written-off. Finance Staff will continue to work with the operating departments and ensure that if all collections efforts have been exhausted, the receivable is written off or that other collections efforts are being taken.

Pooled Tangible Capital Assets

We noted during our testing of tangible capital assets that fully amortized pooled assets are not being removed from the asset register. Since this type of asset is not specifically identified and removed from the register when they are disposed of, they continue to be reported in both cost and accumulated amortization on the financial statements. We recommend that the City develop a policy for removing this type of asset from the register.

Management's Response

In managing the Asset Register, the City utilizes two different methodologies for pooled assets:

- a) Systematically written-off pools assume that all assets within the pool are all fully amortized at the same time. Annual disposals or retirements are not accounted for, but rather, are systematically written off as the pool is amortized. An example of this type of pool would include desktop hardware (computers).*

- b) *Pools that account for annual retirements (disposals). This type of pool is used for assets of significant value. For this type of pooling, the cost of all betterments, disposals, and the quantity are recorded. Examples of this type of pool would include roads, sidewalks, and sanitary and storm sewers.*

The comments from the Auditor relate to the Systematically pooled assets as described in a) above. Staff will modify current procedures to accommodate the requested change.

Time Sheet Approvals

As part of our payroll testing, we select samples of payments to agree to supporting documentation. We noted in reviewing supporting documentation that several time sheets did not have evidence of approval by the supervisor. Although, the time sheets may have been reviewed by the employees' supervisor prior to being submitted, without documented approval it is not possible to determine if the hours paid have actually been worked. We recommend that all time sheets be signed by the employees' supervisor as evidence that the hours have been approved to be paid.

Management's Response

Staff concur.

Vacation Accrual

We noted in our 2010 management letter that the report used to calculate the vacation accrual did not include vacation days used at the end of December paid on the first pay in 2011. As a result, the vacation accrual was overstated. During the 2011 audit, we did not find any variances in the items we selected for testing.

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, CA
Partner



Robert J. Fisher, FCA
Partner