

Finance and Administration Committee

Tuesday, February 16, 2010, 4:00 p.m..

City Hall - Council Chambers

Committee Members

Councillor J. Fullarton, Chair
Councillor J. Earle
Councillor L. Journal
Mayor D. Henderson,
Ex-Officio

Areas of Responsibility:

Finance

Clerk's Office

Human Resources

Legal

Joint Services Committee

Safe Communities

Coalition

Volunteer Awards

AGENDA

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Auditor's Communication Letter Prior to
Completion of 2009 Audit |

February 3, 2010

REPORT TO FINANCE AND ADMINISTRATION COMMITTEE – FEBRUARY 16, 2010

2010-028-02

**WSIB – REQUEST FOR
TRANSFER OF FUNDS
FILE: H02-14**

**J. BAKER, DIRECTOR OF HUMAN RESOURCES
D. CYR, DIRECTOR OF FINANCE
L. FERGUSON, SUPERVISOR OF
ACCOUNTING SERVICES
C. HOPKINS, ACCOUNTING & PAYROLL OFFICER**

RECOMMENDATION

THAT Council authorize the transfer of \$60,000 from the Occupational Health and Safety Reserve Fund – Account 02-5-191906-6436; and \$52,301.65 from Fiscal Policy Reserve – for a total of \$112,301.65 to cover the Schedule 2 WSIB expenses deficit for the 2009 fiscal year.

PURPOSE

To have Council approve the transfer from the Occupational Health & Safety Reserve Fund (OHS) and Fiscal Policy Reserve to cover a 2009 deficit for Schedule 2 WSIB expenses.

BACKGROUND

In 2003, the City of Brockville transferred from a Schedule 1 Employer to a Schedule 2 self-funded Employer. At that time an amount of 0.85% of payroll dollars was set aside each pay to cover WSIB expenses.

From 2003 - 2006, WSIB surpluses were transferred to the OHS for future requirements. However, in 2007 and 2008 funding was required from the OHS to cover deficits of \$32,453.78 and \$136,273.03 respectively.

The City of Brockville transferred back to a Schedule 1 Employer in February 2008 to substantially minimize its financial risk associated with claims related to Bill 221 (Firefighter Presumptive Legislation). Any cases that were opened when the City was a Schedule 2 self-funded Employer are billed directly to the City.

ANALYSIS

The estimated uncommitted balance in the OHS is \$85,000.00.

Additional monies (\$80,000) have been incorporated into the 2010 budget to help offset the anticipated increased WSIB costs associated with the new legislative requirements in Bill 221 – an amendment to WSIB Insurance Act.

To date, two firefighters have qualified for health benefits and monthly premiums under Bill 221 which is the reason for the significant increase in costs. Benefits are applicable until either the firefighter attains the age of 65 or to a surviving spouse, for the remainder of their life, should the firefighter pass away prior to the age of 65.

One firefighter has passed away in January 2010 and expenses will continue to be paid to the surviving spouse.

POLICY IMPLICATIONS

Council approval is required to transfer funds from a Reserve Fund.

FINANCIAL CONSIDERATIONS

The allocation of \$60,000 from the OHS and \$52,301.65 from Fiscal Policy Reserve will cover the deficit attributable to Schedule 2 WSIB expenses for 2009.

The transfer will reduce the OHS balance at 2009 fiscal year end to \$25,010.

CONCLUSION

The purpose of the OHS is to manage costs associated with the delivery of Occupational Health and Safety Services, such as WSIB, so as to smooth the impact on the tax rate.

The number of future WSIB claims will determine how long the OHS will be able to fulfill its objective.



C. Hopkins
Accounting & Payroll Officer




L. Ferguson
Supervisor of Accounting Services



D. Cyr
Director of Finance



J. Baker
Director of Human Resources



B. Casselman
City Manager

February 10, 2010

REPORT TO FINANCE & ADMINISTRATION COMMITTEE – FEBRUARY 16, 2010

2010- 034-02

**AUDITOR'S COMMUNICATION LETTER
PRIOR TO COMPLETION OF 2009 AUDIT
FILE: F03-05**

**D. CYR
DIRECTOR OF FINANCE**

RECOMMENDATION

THAT Council receive the letter of communication prior to completion of the 2009 Audit from Bennett Lewis McMahon Stillar Chartered Accountants, our City auditors. [Attachment 1 to Report # 2010-034-02]

PURPOSE

Auditors are required by Canadian generally accepted standards for audit engagements to communicate specific information with regard to the audit prior to its completion.

Section 5751 paragraph 15 "Communications with Those Having Oversight Responsibility for the Financial Reporting Process" of the CICA handbook states that:

"Prior to the completion of the audit, the auditor should communicate the following with the audit committee:

- (a) the audit and non-audit services that the auditor is providing to the entity and its related entities;
- (b) the level of responsibility assumed by the auditor under generally accepted auditing standards; and
- (c) a summary of the overall audit strategy."

BACKGROUND / ANALYSIS

Bennett Lewis McMahon Stillar, Chartered Accountants – the City auditors – will soon be commencing their audit for the year ending December 31, 2009. This process is not expected to differ significantly from those completed in the past. However, there are several areas which will require special attention as part of this year's audit:

- PSAB changes in regard to:
 - revised standard of financial statement presentation which eliminates fund accounting
 - reporting of tangible capital assets
- Implementation in 2009 of specific modules of the new financial system

As a result of the Section 5751 requirement Bennett Lewis McMahon Stillar, Chartered Accountants are submitting their "letter of communication" [Attachment 1 to Report # 2010-034-02].

POLICY IMPLICATIONS

There are no City policy implications with this report.

FINANCIAL CONSIDERATIONS

There are no financial considerations associated with this report.

CONCLUSIONS

As a result of this requirement Bennett Lewis McMahon Stillar, Chartered Accountants are submitting their "letter of communication". [Attachment 1 to Report # 2010-034-02] Mr. Alvin Bennett of Bennett Lewis McMahon Stillar, Chartered Accountants will be in attendance at the Finance & Administration Committee meeting to answer any questions which Committee or Council members may have.



D. Cyr, Director of Finance



for B. Casselman, City Manager

Corporation of the City of Brockville
Victoria Building
Brockville, ON K6V 3P5

February 9, 2010

To the Finance and Administration Committee:

We have been engaged by the Members of Council to audit the consolidated financial statements of the Corporation of the City of Brockville (the "Municipality") for the year ending December 31, 2009. Canadian generally accepted standards for audit engagements require that we communicate the following information to you in relation to the audit of the Municipality's consolidated financial statements.

The Members of Councils' Responsibility for Governance

The Members of Council should ensure, through oversight of management, the integrity of the Municipality's accounting and financial reporting systems and that internal controls are in place, including those for monitoring risk, financial reporting and compliance with the law.

Management's Responsibilities

Management has the primary responsibility for the accurate recording of transactions and the preparation of financial statements in accordance with generally accepted accounting principles. This includes the design of internal control systems, maintaining accounting records, selecting and applying accounting policies, safeguarding assets, and preventing and detecting error and fraud. Management needs to set the proper tone, create and maintain a culture of honesty and high ethics, and establish appropriate controls to prevent and detect fraud and error within the entity.

Management is responsible for assessing the effectiveness of the Municipality's internal control systems and control environment in safeguarding of assets and preventing and detecting fraud and error. In making their assessment there are a number of risk factors management should consider. We will provide a sample of risk factors that management should consider in assessing the risk of fraud or error resulting in the consolidated financial statements being materially misstated. We will obtain a written representation as to management's assessment of the risk.

Our Responsibility as Auditors

Our responsibility as auditors of the Municipality 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 and changes in net financial assets, of the Municipality in accordance with Canadian generally accepted accounting principles.

An audit is performed to obtain reasonable but not absolute assurance as to whether the consolidated 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 consolidated 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 consolidated financial statements may contain misstatements that, individually or in the aggregate, are material to the consolidated financial statements taken as a whole; and
- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements.

As part of our audit, we will obtain a sufficient understanding of the activities and the internal control structure of the Municipality to plan the audit. This will include management's assessment of:

- The risk that the consolidated 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.

Finance and Administration Committee Responsibilities

The Finance and Administration Committee, along with its other duties established by Council, is to act in an objective, independent capacity as a liaison between the auditors, management and the members of Council to ensure the auditors have a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Finance and Administration Committee's responsibilities with regards to the financial reporting process 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 consolidated financial statements to review audit, disclosure and compliance issues
- Where necessary, reviewing matters raised by the auditors with appropriate levels of management, and reporting back to the auditors their findings
- Making known to the auditors 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 consolidated financial statements or auditors' report
- Providing guidance and direction to the auditors on any additional work they feel should be undertaken in response to issues raised or concerns expressed
- Making such enquiries as appropriate into the findings of the auditors with respect to

corporate governance, management conduct, cooperation, information flow and systems of internal controls

- Reviewing the draft consolidated financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approving same to be forwarded to the members of Council for approval.

Audit Approach

Outlined below are certain aspects of our audit approach, which are intended to help the committee in discharging their oversight responsibilities. Our general approach to the audit of the Municipality's consolidated financial statements is to assess the risks of material misstatement in the consolidated financial statements and then respond by designing audit procedures.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our audit procedures, including tests of your accounting records, are limited to those considered necessary in the circumstances and would 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 would they necessarily detect such acts or recognize them as such, even if the effect of their consequences on the consolidated 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 members of the Finance and Administration Committee become aware of circumstances under which the Municipality may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

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 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 from or misstatement in the consolidated financial statements would influence or change a decision. Materiality is a matter of professional judgment in the particular circumstances.

We plan to use a materiality of \$450,000, which is approximately 1% of total revenues. The materiality for last year's audit was \$430,000.

Risk-based Approach

Our risk-based approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the consolidated financial statements to an appropriately low level.

This is achieved by evaluating the risk that:

- misstatements could occur in the first place due to the nature of the Municipality's activities (inherent risk) and
- the Municipality's internal control systems won't prevent misstatements from occurring (control risk).

This means that we focus our audit work on areas that have a higher risk of being materially misstated.

Major risk factors include:

- the adequacy of internal controls
- the nature of transactions (for example and the number and dollar volumes)
- the nature of the activities
- human resources, including the experience of management and staff, turnover, technical competence, and the degree of delegation
- the adequacy of senior management oversight and monitoring; and
- the adequacy of oversight and monitoring provided by Council and the Finance and Administration Committee.

Based on our knowledge of the Municipality's activities and our past experience, we have identified the following areas that have a potentially higher risk of a material misstatement:

Accuracy of consolidation of various fund balances and preparation of the year-end consolidated financial statements

Your general ledger and accounting processes are organized with a view to providing appropriate financial information for the management of the departmental operations and capital projects. There is considerable detail that has to be summarized and interdepartmental transactions and balances between funds need to be eliminated in order to prepare financial statements in accordance with Canadian generally accepted accounting principles. For 2009 you will apply the revised standard PS 1200, *Financial Statement Presentation*. As a result, reserves and discretionary reserve funds won't be reported on the Statement of Financial Position.

Our approach to this area will be as follows:

- review accumulation of detailed general ledger accounts into summary trial balance
- review reconciliation of inter fund transactions during the year and ensure all inter fund balances reconcile and are properly eliminated upon consolidation
- review the disclosure of changes in fund balances during the year in the year-end consolidated financial statements

Also, beginning for fiscal year 2009, the municipality will be required to account for and report tangible capital assets on the statement of financial position under the public sector

accounting standard PS 3150.

Our approach to this area will be as follows:

- review the Municipality's accounting policies established for tangible capital assets
- review management's approach to establishing the cost of tangible capital assets
- examine supporting documentation to support the cost base for tangible capital assets
- assess reasonableness of amortization policies and rates
- test the calculation of 2009 amortization of the capital assets and accumulated amortization for prior years

Implementation of new accounting system during the year and impact on year end financial statement

During 2009, the Municipality began to implement a new financial information system. The Accounts Payable module was implemented effective October 1, 2009 and the Payroll module was implemented effective December 1, 2009. The tax module was implemented in December, but due to year end balancing issues, the taxes were completed on the old system and you will look at the new module again in March. The accounts receivable module and the water/waste water modules are to be implemented in the fall of 2010.

We will need to test the implementation of the new modules to ensure the accuracy of the year end financial information.

Our approach to this area will be as follows:

- review with management the process of implementing the various modules
- review management tests performed on the conversion of data from the previous financial system and the transfer of information into the new system
- update documentation of the system processes due to the new system and perform test of transactions as necessary.

We have set out in Appendix I our audit approach to the following financial statement areas that include significant balances and / or volumes of transactions:

- Completeness and accuracy of taxation revenue
- Completeness of user charges revenue transactions
- Completeness and accuracy of accounts payable and accrued liabilities
- Completeness and accuracy of payroll and related expenditures

Appendix I also describes procedures for other financial statement items.

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.

Appendix II provides definitions as well as examples of these tests.

Management's Representations

Transactions and estimates reflected in the accounts and in the consolidated financial statements are within the direct control of management. Accordingly, the fairness of the representations made in the consolidated financial statements is an implicit and integral part of management's responsibility. During the course of our audit, we obtain representations from management in the form of answers to our audit enquiries. We obtain a formal representation letter from management at the conclusion of the audit.

Use of Specialists

The Municipality engages an actuary to review and determine their liability for employee future benefit costs. We review the information provided to the actuary and the report received from them.

Other Matters

Management requests

The City Manager has requested that, in addition to the audit procedures that we have already planned, we examine the salary expenses for senior managers.

New developments in accounting standards

We continually monitor the potential impact of new accounting pronouncements on the accounting practices of the Municipality. We have mentioned above the changes in financial reporting that are being adopted for 2009.

Timing of audit services

We will perform preliminary audit work in the latter part of February. At this time we will review and test your internal controls and assess the impact of any processing changes and of management's assessment of the risk of fraud and error, on our year-end audit procedures.

As finance staff will be spending time with the continued implementation of your new financial information system, they anticipate that their year end work in preparation for the audit will be later than prior years. In addition they will need to complete their work on tangible capital assets and the changes in financial statement presentation.

As a result the audit work will be conducted during the month of March, April and June to facilitate the completion of the Financial Statements in July and the Financial Information Return by the end of August.

We will review and discuss the year-end consolidated financial statements and our audit findings report with the Finance and Administration Committee prior to presentation of the consolidated financial statements to Council.

Non-assurance services being provided by our firm

Management has indicated that they will require our assistance with the preparation of the year-end consolidated financial statements, including the statement of changes in financial position and the financial statement note disclosures. A self-review threat, to auditors' independence, is created when a firm assists a client in preparing year-end consolidated financial statements. The potential self-review threat is eliminated by virtue of senior management in the Finance Department review and approval of the consolidated financial statements and note disclosures completed by us.

Please feel free to contact us if any member of the Finance and Administration Committee has questions pertaining to the information discussed in this letter. We wish to point out that this communication is prepared solely for the information of the Finance and Administration Committee and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We are available to attend the next meeting of the Finance and Administration Committee at your request.

Yours truly,

A handwritten signature in cursive script that reads "Bennett Lewis McMahon Stillar".

Bennett Lewis McMahon Stillar
Chartered Accountants

Appendix I – Audit Approach to Significant Financial Statement Areas

Completeness and accuracy of taxation revenue

Based on the nature of taxation revenue, we do not consider this area of high risk for a material misstatement; however it is the Municipality's most significant source of revenue.

Our approach to this area will be as follows:

- review, test, and document the Municipality's internal controls for processing taxation revenue and arrears outstanding
- enquire of management how they addressed, if any, changes in the taxation legislation from the preceding year
- check calculation of property taxes billed for the year and reconcile to the amounts recorded in the general ledger
- confirm taxation from other governments and agree to tax assessment changes for the year
- confirm sample of tax arrears outstanding with taxpayers

Completeness of user charges revenue transactions

The Municipality has a significant volume of small dollar transactions in a number of different areas.

Our approach to this area will be as follows:

- review with finance staff systems of internal controls they examined during the year (where available) and discuss and review their findings and any follow-up of deficiencies identified
- review internal controls and processing controls over water billings
- confirm a sample of other accounts receivable and water receivables outstanding with users of municipal services
- review management's departmental variance analysis comparing actual to budget and relating significant variances to supporting evidence such as departmental statistical reports
- compare revenue and receivables to preceding year and discuss significant variances with management

Completeness and accuracy of accounts payable and accrued liabilities

Our approach to this area will be as follows:

- review internal controls over processing of accounts payable
- review internal controls over processing of expense accounts
- verification of amounts recorded as accounts payable at year-end to invoices and supporting documentation
- perform a search for unrecorded liabilities and unpaid invoices for the period from the year-end date to the audit report date
- review management's estimate of solid waste landfill closure and post-closure liability, compare it to current expenditures and to preceding year and enquire of management of any significant changes in assumptions in determining estimate

Completeness and accuracy of payroll and related expenditures

Based on the Municipality's internal controls over processing of payroll, we do not consider this area of high risk for a material misstatement; however it is a significant expenditure for the Municipality.

Our approach to this area will be as follows:

- review, test, and document the Municipality's internal controls for processing payroll and related costs
- check the calculation of retro-active payroll adjustments for contract settlements
- perform analytical procedures for payroll related costs
- review year-end cut-off for payroll and related costs
- enquire of human resource personnel and management as to any outstanding contract settlements at year-end and test year-end calculations of accrual for unsettled wage contracts based on discussion with management as to estimate of expected settlement amounts
- review material submitted to actuary in relation to other audit evidence obtained and review actuarial report for reasonableness of accrued employee future benefits liability and agree the amounts to the related note to the consolidated financial statements
- review the Municipality's variance analysis of actual payroll expenses to budget

If we discover any significant errors or deficiencies in your system of internal controls over processing of payroll we will notify management immediately.

Audit Procedures for other Financial Statement Items

We plan to perform "tests of details" to the following financial statement balances:

- cash and short-term investments, and accounts receivable
- accrued liabilities, accrued interest on long-term liabilities, deferred development charges revenues, and net long-term liabilities
- government grants, contributions from developers, investment income, donations, sale of property and equipment
- general fund and capital fund expenditures

We will perform substantive analytical procedures in the following areas:

- compare inventories of supplies and prepaid expenses, deferred revenues to prior years
- user charges revenue utilizing written actual vs. budget variance explanations prepared by department heads and senior management
- penalties and interest on taxes in relation to change in tax arrears during the year
- review managements variance analysis and explanations of variances of actual to budget and significant variances contributing the year's surplus or deficit

Appendix II – Definition of Terms

Internal Controls

Auditors obtain an understanding of internal control relevant to the audit. It is a matter of the auditors' professional judgment whether a control, individually or in combination with others, is relevant to the auditors' considerations in assessing the risks of material misstatement and designing and performing further procedures in response to assessed risks.

Tests of controls are activities performed by auditors in gathering evidence as to the effectiveness of operation of a client's control procedures. We will perform tests of controls for water and sewer revenue and payroll and employee benefits.

Tests of Details

The term "tests of details" refers to a collection of certain evidence-gathering activities auditors perform during the substantive stage of the audit and that have as their objective the gathering of substantive evidence i.e. evidence relating to the completeness, validity and/or accuracy of individual account balances and underlying classes of transactions.

Although some of the following activities may be performed during other audit stages, it is only where they are performed in the substantive testing stage to gather substantive evidence that they are referred to as "tests of detail". Tests of details include the following activities:

- vouching of information relating to an account balance or class of transactions with supporting documentation (vouching is the process of matching documentary evidence with the details recorded in accounting records and provides evidence as to the completeness, validity or accuracy of an account balance or underlying class of transaction)
- physical examination of assets
- confirmation of the existence of an asset/liability/equity or the occurrence of a transaction
- recalculation of a total, spreadsheet, reconciliation, etc.
- inquiry of employees of the client
- cut-off tests relating to either or both of the completeness and/or validity of account balances and/or classes of transactions (cut-off tests gather evidence that transactions are recorded in the period to which they refer)
- verify information in the notes to the consolidated financial statements.

Substantive Analytical Procedures

When performing substantive analytical procedures, an auditor develops an expectation about a current financial statement amount using other data, such as comparable to prior years' amounts and/or budgeted amounts. The auditor then compares the expectation to the current amount and investigates any significant differences that resulted.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of substantive analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. The presence of these relationships provides audit evidence as to the completeness, accuracy and occurrence of transactions captured in the information produced by the entity's information system.