

COMMITTEE AGENDA



CONSOLIDATED AS OF NOVEMBER 1, 2013

TO **Audit Committee**

DATE November 4, 2013

LOCATION Council Chambers, Guelph City Hall, 1 Carden Street
TIME 10:00 a.m.

DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

CONFIRMATION OF MINUTES – September 18, 2013 Open and Closed Meeting Minutes

PRESENTATIONS (Items with no accompanying report)

a) None.

CONSENT AGENDA

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
AUD-2013.14 Deloitte Audit Service Plan – December 31, 2013	<ul style="list-style-type: none">Elaine Read, & Adam Cross, Deloitte (Presentation attached)		√
AUD-2013.15 Status Update on the Implementation of PS 3260 – Liability for Contaminated Sites			

Resolution to adopt the balance of the Audit Committee Consent Agenda.

ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

-
- 1) delegations (may include presentations)
 - 2) staff presentations only
 - 3) all others.

STAFF UPDATES AND ANNOUNCEMENTS

ADJOURNMENT

NEXT MEETING – February 4, 2014



City of Guelph 2013 Audit Service Plan

For the year ending December 31, 2013
Presented to the Audit Committee
November 4, 2013

Agenda

Audit service plan – key elements

- Audit scope
- Audit risks
- Internal control
- Group audit
- Your audit team
- Communication & reporting
- Other

Audit service plan – key elements

Audit scope

- **Audit scope**

The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope.

- **Materiality**

We are responsible for providing reasonable assurance that your consolidated financial statements as a whole are free from material misstatement.

Materiality is determined on the basis of consolidated revenue. Our preliminary estimate of performance materiality for the year ending December 31, 2013 is \$5,600,000 (2012, \$5,400,000).

We will report to the Audit Committee all uncorrected misstatements greater than a clearly trivial amount of \$320,000, (2012, \$300,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements, if any, be corrected.

Audit service plan – key elements

Audit risks

- **Audit risks**

Our audit scope reflects the risks that we have identified at the City and our planned audit response to them.

The more significant of the risks that we identified as part of our strategic audit planning, together with our planned audit response, are set out in the body of this report.

Audit service plan – key elements

Audit risks

Significant areas of audit risk	Our proposed audit response
Accounts payable and accrued liabilities Description: Accounts payable and accrued liabilities may be understated due to improper cut-off.	<ul style="list-style-type: none"> • Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities. • Test the supporting assumptions for accruals. • Review the outcome of prior year estimates and accruals to assess for bias.
Actuarially determined liabilities Description: Actuarial liabilities may be misstated due to improper inputs used in valuation. In addition, the financial statement disclosure may not contain all required items.	<ul style="list-style-type: none"> • Review actuary report, including related assumptions. • Ensure appropriate accounting treatment has been applied. • Review related financial statement note disclosure for accuracy and completeness. • Communicate with actuary on our reliance on their report for audit purposes.
Contingencies Description: Contingent liabilities are not properly accrued for or disclosed in the financial statements.	<ul style="list-style-type: none"> • We will contact the City of Guelph's external law firms to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition. • We will review Council minutes and Audit Committee minutes for evidence of contingent liabilities.
Council and senior management expenses Description: Council and Senior management may expense items not in line with the City of Guelph's expense policy.	<ul style="list-style-type: none"> • Test a sample of expense reports and VISA statements for validity and proper approval.
Estimates Description: Management estimates are not calculated in accordance with GAAP or properly supported.	<ul style="list-style-type: none"> • Assess the reasonableness of estimates by testing the supporting assumptions used for the estimates. • Review the outcome of prior year estimates to assess for bias.

Audit service plan – key elements

Audit risks

Significant areas of audit risk	Our proposed audit response
Payroll Description: Payroll expense is not accurately recorded.	<ul style="list-style-type: none"> • Test the supporting assumptions for payroll accruals. • Perform analytical testing on payroll expenditures and investigate any significant variances.
Reserves and Reserve Funds Description: Transfers to and from reserves and reserve funds have been completed without council approval.	<ul style="list-style-type: none"> • Test the change in reserve and reserve fund balances and verify material transactions to determine if transfers have been approved by Council.
Revenue / deferred revenue Description: Revenue is overstated through the recognition of revenue that should be deferred to a subsequent period.	<ul style="list-style-type: none"> • Test a sample of grant charges, contributions or other monies received during the year and verify the terms and conditions to assess whether the amount should be recorded as revenue or as deferred revenue.
Taxation revenue Description: Management's estimate of allowance for doubtful accounts is understated.	<ul style="list-style-type: none"> • Recalculation of a sample of assessments based on verified property value and tax rates. • Evaluate management's estimate of the allowance for doubtful accounts to ensure it is reasonable and consistent with the City's accounting policy. This will include a review of assumptions and supporting documents used to determine the estimate, a retrospective review and a test of subsequent receipts.
Tangible capital assets Description: Assets recorded are not capital in nature and assets disposed of by the City of Guelph have not been recorded.	<ul style="list-style-type: none"> • Test a sample of tangible capital asset additions and verify that the asset additions are capital in nature. If the tangible capital asset addition replaces an old tangible capital asset, ensure that the old tangible capital asset has been properly disposed. • Assess the disposal schedule prepared by management for reasonability and test selected transactions.

Audit service plan – key elements

Audit risks

- **Fraud risk**

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

1. Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
2. Evaluate whether the selection and application of accounting policies by your organization, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.
3. Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures.

We will inquire directly of the Audit Committee regarding its views about the risk of fraud, whether it has knowledge of any actual or suspected fraud affecting the City and the role it exercises in the oversight of management's antifraud programs.

If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Audit service plan – key elements

Internal control

- **Internal control matters**

We will obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all such controls are relevant to the audit. It is a matter of professional judgment whether a control, individually or in combination with others, is relevant to the audit.

We will communicate in writing significant deficiencies in internal control identified during the audit to the Audit Committee on a timely basis.

Audit service plan – key elements

Group audit

- **Group audit**

When designing our audit strategy, we also considered:

- the financial significance or relative importance of the consolidated entities to your organization as a whole;
- the complexity and nature of the operations, internal controls and accounting issues at the consolidated entities;
- the degree of centralization or decentralization of processes and controls including, the extent of relevant enterprise-level controls; and
- the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at each of the consolidated entities.

Referral instructions will be sent to each of the engagement teams outlining items such as risks and materiality. Any issues arising from these audits will be communicated to the Audit Committee in the audit results presentation.

We will report instances where our evaluation of the work of component auditors gives rise to a concern about the quality of that auditors' work and any limitations on the group audit, where access to information may have been restricted.

Audit service plan – key elements

Group Audit

Business unit	Location and notes
Full scope audits	
City of Guelph	Guelph, City Hall – Deloitte
Wellington-Dufferin-Guelph Public Health	Fergus – Deloitte
Guelph Downtown Business Improvement Association	Guelph – Deloitte
Guelph Junction Railway	Guelph, City Hall – Deloitte
Guelph Municipal Holdings Inc.	Guelph, City Hall – Deloitte
Guelph Hydro Inc.	Guelph – KPMG LLP
The Elliot	Guelph – KPMG LLP

Audit service plan – key elements

Your audit team

- **Use of the work of experts**

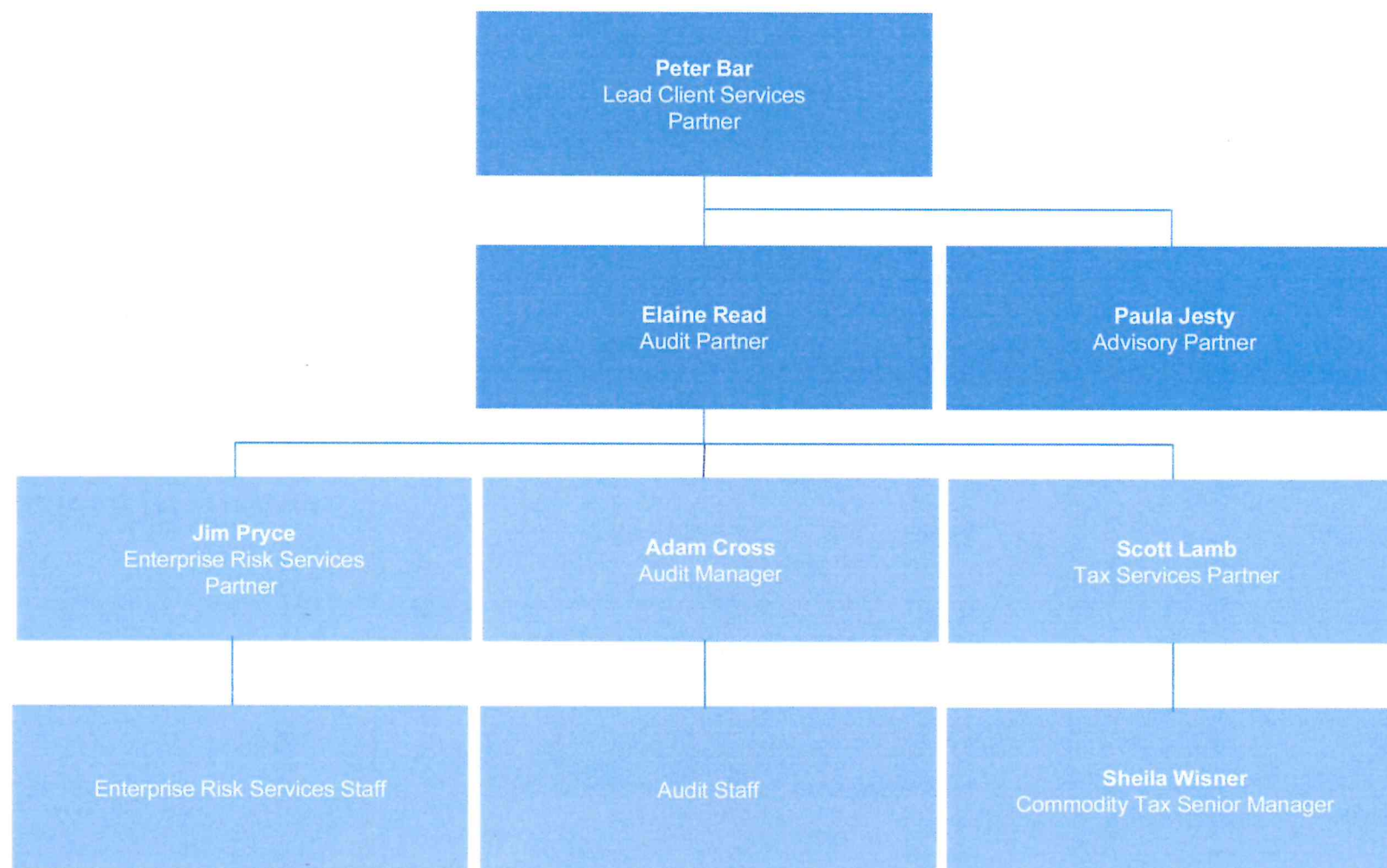
Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist them with more complex technical, accounting, auditing and reporting issues.

- **Audit team**

The engagement team that will serve the City of Guelph provides a balance of continuity among existing members with knowledge of and experience with your organization and new members who will provide fresh perspectives and insights. Our team also includes high-quality technical specialists and other professionals. We are committed to continuing to serve the City with quality and distinction.

Audit service plan – key elements

Your audit team



Audit service plan – key elements

Communication & reporting

- **Engagement letter**

The terms and conditions of our engagement are included in the engagement letter.

- **Complete engagement reporting**

Upon the satisfactory completion of our audit, we will provide you with an audit report on your consolidated financial statements.

We will also provide reports to the Audit Committee to assist it in fulfilling its responsibilities, as required by applicable auditing standards.

- **Communications**

We have summarized the required communications between Deloitte and the Audit Committee.

Audit service plan – key elements

Communication & reporting

Communication calendar Interaction	September	October	November	December	January	February	March	April	May	June	July	August
Audit execution – meetings with Audit Committee												
Audit Committee meeting to present Audit Service Plan			●									
Interim fieldwork			●									
Final fieldwork								●	●			
Final Audit Committee meeting										●		
Annual year-end issues meetings										●		
Client feedback												
Audit continuous improvement meetings				●						●		
Annual client feedback process												●

Audit service plan – key elements

Communication & reporting

Required communication	Timing of communication
1. Our responsibilities under Canadian GAAS.	November 2013
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.	November 2013
3. Management judgments and accounting estimates.	June 2014
4. Financial statement adjustments.	June 2014
5. Audit adjustments.	June 2014
6. Uncorrected misstatements and disclosure items.	June 2014
7. Significant accounting policies.	June 2014
8. Critical accounting policies and practices.	June 2014
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	June 2014
10. Our views about significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	June 2014
11. Our responsibility for other information in documents containing audited Financial Statements (e.g., Annual Report), any procedures performed, and the results.	As available
12. Disagreements with management.	June 2014
13. Our views about significant matters that were the subject of consultation with other accountants.	June 2014

Audit service plan – key elements

Communication & reporting

Required communication	Timing of communication
14. Major issues discussed with management prior to our retention.	June 2014
15. Significant difficulties, if any, encountered dealing with management related to the performance of the audit. Significant deficiencies in internal control, if any, identified by us during the interim period in the conduct of the audit of the financial statements.	June 2014
16. Material written communications between management and us.	June 2014
17. All relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on independence.	June 2014
18. A statement that, in our judgment, the engagement team and others in our firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.	June 2014
19. Illegal or possibly illegal acts.	June 2014
20. Fraud or possible fraud identified through the audit process.	June 2014
21. Significant transactions inconsistent with ordinary business, including related party transactions.	June 2014
22. Non-compliance with laws and regulations that come to our attention.	June 2014
23. Communication in writing to the City Council regarding any areas we became aware of where the oversight of the City of Guelph's external financial reporting and internal control over financial reporting by the City of Guelph's Audit Committee may be ineffective.	June 2014
24. Limitations placed on our scope.	June 2014
25. Written representations we are requesting.	June 2014
26. Modifications to our opinion(s).	June 2014

Audit service plan – key elements

Other

- **Audit fees**

Our fees are in accordance with our response to the 2010 request for proposal. The fees for the December 31, 2013 consolidated year-end audit are as presented in our proposal for audit services of \$41,400 (2012 - \$40,400).

Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from the City staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS.

- **Independence**

We have developed important safeguards and procedures to protect our independence and objectivity.

We are independent of the City and we will reconfirm our independence in our final report to the Audit Committee.

Audit service plan – key elements

Other

- **Management representations**

We will obtain written and oral representations from management to complement our audit procedures. These representations are intended to confirm the information that is provided to us and reduce the possibility of misunderstanding.

We will provide the Audit Committee with a copy of the written representations to be provided by management in our final report.

Audit service plan – key elements

Other

- **New financial reporting standards**

We have included, in Appendix 5 of our detailed Audit plan, the Deloitte Standard-setting Activities Digest, which summarizes the changing standards (both finalized and in development) that we believe are particularly relevant to the City.

Significant new financial reporting standards and other regulatory requirements that are likely to impact the City's financial reporting are:

- Public sector accounting standards effective as at December 31, 2013:
 - Section PS 3410 (Revised), *Government Transfers*.
 - Section PS 3510, *Tax Revenue* (early adopted by the City in 2012).
- Public sector accounting standards effective as at December 31, 2015:
 - Section PS 3260, *Liability for Contaminated Sites*.
- Public sector accounting standards effective as at December 31, 2016:
 - Section PS 1201, *Financial Statement Presentation*.
 - Section PS 2601, *Foreign Currency Translation*.
 - Section PS 3450, *Financial Instruments*.
 - Amendments to the Transition Provisions of Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*.