



CITY OF
ST. CATHARINES

Corporate Report

Report from Financial Management Services, Accounting and Payroll

Date of Report: July 4, 2013

Date of Meeting: July 22, 2013

Report Number: FMS-201-2013

File: 10.57.99

Subject: Summary of Auditor Comments and Recommendations for the Year Ended December 31, 2012

Recommendation

That Council receive the report for information purposes.

Background

The primary purpose of an audit is to form an opinion on the annual financial statements of the City. At the completion of the audit, the Auditors communicate with Council and staff regarding certain matters which were encountered in the course of the audit.

Report

The purpose of this report is to inform Council on the results of the 2012 Audit.

For the 2012 fiscal year the City received two letters directed to City Council, a post-audit letter (Appendix "1") and a management letter (Appendix "2").

Post Audit Letter

This letter communicates, in general, the findings or lack of findings as a result of the audit. For example, the Auditors confirm that there were no findings of fraud, illegal acts, or significant weaknesses in internal control. They also confirm that they are satisfied with all management estimates contained in the financial statements and that they encountered no difficulties in the performance of the audit.

Auditors are required under Canadian Audit Standard 450 to communicate with the Members of Council uncorrected misstatements and the effect that they may have, individually or in aggregate, on the opinion in the auditors' report. For 2012 there were no uncorrected misstatements.

Management Letter

This letter is issued by the Auditors to provide additional professional services to management offering suggestions on how to improve financial systems.

The Auditors report that they were provided with full co-operation and no limitations of any kind were placed on the scope of their examination. The observations and recommendations for the year ended December 31, 2012, along with the Corporation's response follows:

Sidewalk and Lot Grading Deposits

Auditor's Comments

"We recommend that staff review the sidewalk and lot grading account listings to determine the likelihood that accounts on file for years prior to 2002 will be refunded. If a determination can be made that repayment is highly unlikely, then these amounts should be considered for write off to income. You may want to do this by recording an offsetting allowance account to reflect those balances to be maintained for continuity purposes. Any subsequent repayment would be treated as an expense in the year refunded."

Corporation's Response

Staff concur that deposits held should be evaluated for likelihood of repayment and therefore will continue to monitor these accounts. The City holds sidewalk deposits for 20 years before funds can be transferred to revenue or refunded as appropriate. Lot grading deposit payers are required to submit a lot grading certificate prepared by an Ontario Land Surveyor to receive a refund.

Financial Implications

Not applicable.

Submitted by:

John Sim

Prepared by:

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**crawford
smith &
swallow**

June 4, 2013

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Members of Council
The Corporation of the City of St. Catharines
Box 3012, 50 Church Street
St. Catharines, Ontario
L2R 7C2

Dear Members of Council:

The following is the communication of matters arising from the audit of The Corporation of the City of St. Catharines ("the City") for the year ended December 31, 2012 required under Canadian Auditing Standards 260 and 265 of the CICA Handbook. This list is not meant to be all-inclusive, nor in any way to restrict the communication of other matters.

Completion of External Audit

The responsibilities of the auditors in relation to the financial statements is to form and express an opinion on the financial statements which have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. We have expressed an unqualified opinion as to whether the financial statements present fairly in accordance with Canadian public sector accounting standards the financial position, results of operations and cash flows of the organization.

The interim audit was conducted from October 29 to November 2, 2012 and the year-end audit was conducted from April 1 to June 4, 2013.

Fraud

Auditors' Responsibilities Relating to Fraud in an Audit of Financial Statements, CICA Handbook CAS 240, defines fraud as "an intentional act by one or more individuals among management, employees, those charged with governance, or third parties, involving the use of deception to obtain an unjust or illegal advantage". Although fraud is a broad legal concept, the auditor is concerned with fraudulent acts that cause a material misstatement in the financial statements. Misstatement of the financial statements may not be the objective of some frauds, and misappropriation of assets may not necessarily result in a misstatement of the financial statements. Auditors do not make legal determinations of whether fraud has actually occurred.

Fraud involving one or more members of management or those charged with governance is referred to as "management fraud"; fraud involving only employees of the entity is referred to as "employee fraud". In either case, there may be collusion with third parties outside the entity.

We confirm that there were no findings of fraud to communicate to the members of council.

Consideration of Laws and Regulations

Consideration of Laws and Regulations in an Audit of Financial Statements, CICA Handbook CAS 250 states that the term "non-compliance" means "acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity." As explained in CICA CAS 250, auditors conducting an audit in accordance with Canadian generally accepted auditing standards must obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry of sector in which the entity operates and how the entity is complying with that framework. To do this the auditors inquire of management, and where appropriate those charged with governance, as to whether the entity is in compliance with such laws and regulations and inspecting correspondence, if any, with the relevant licensing or regulatory authorities. Although the auditors are required to remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention, in the absence of identified or suspected non-compliance the auditors are not required to perform audit procedures regarding the entity's compliance with laws and regulations.

We confirm that no evidence which indicates non-compliance with laws and regulations was found.

Weaknesses in Internal Control

Internal Control in the Context of an Audit, CICA Handbook CAS 265, provides the following guidance concerning the communication of significant weaknesses in internal control:

CICA Handbook CAS 265.11 In conducting the audit, the auditors would consider only those "internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control". An audit is not designed to consider whether internal control is adequate for management's purposes. Consequently, the auditors would only identify weaknesses in internal control that come to the auditors' attention during the financial statement audit. The auditors may not identify all the weaknesses that exist. A weakness in internal control is a deficiency in the design or effective operation of internal control. The identification of weaknesses in internal control is influenced by matters such as the auditors' assessment of materiality, the auditors' preliminary assessment of the components of audit risk and the audit approach used by the auditors. For example, if the auditors use a substantive audit approach for a particular financial statement assertion, they will not perform tests of controls in this area. Therefore the auditors'

knowledge of controls in this area will generally be limited. Accordingly, the auditors will not have a detailed knowledge of the control systems that enhance the reliability of data and information and therefore may not identify weaknesses in these control systems.

A deficiency exists when, a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis or a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing. A significant deficiency exists when a deficiency, or a combination of deficiencies in internal control, is of sufficient importance to merit the attention of those charged with governance in the auditor's professional judgment. The matters being reported are limited to those deficiencies of sufficient merit to be reported to those charged with governance.

We confirm that we encountered no significant deficiencies in internal control that should be communicated to the members of council.

Related Party Transactions

As explained in Related Parties, CICA Handbook CAS 550, auditors conducting an audit in accordance with generally accepted auditing standards may identify related party transactions which are not in the normal course of operations and which, in the auditors' professional judgement, involve significant judgements by management concerning measurement or disclosure.

We confirm that no such transactions requiring the members of council to be informed were identified during the audit. We also confirm that the City has adequate controls in place to identify related party transactions.

Significant Accounting Principles and Policies

The auditors should determine that the members of council are informed about:

- (a) the initial selection of and changes in significant accounting policies, including the adoption of new accounting pronouncements, which encompass the specific principles and their method of application;
- (b) the effect of significant accounting policies in controversial or emerging areas, or those unique to an industry;
- (c) the existence of acceptable alternative policies and methods, and the acceptability of the particular policy or method used by management;
- (d) the extent to which the financial statements are affected by unusual transactions (including non-recurring amounts recognized during the period) and the extent to which such transactions are separately disclosed in the financial statements; and
- (e) the effect of the timing of transactions in relation to the period in which they are recorded.

There were no changes to significant accounting policies during the year.

Management Judgements and Accounting Estimates

The auditors should determine that the members of council are informed about:

- (a) the issues involved, and related judgements made by management, in formulating particularly sensitive accounting estimates and disclosures (for example, disclosures related to going concern, subsequent events and contingency issues);
- (b) the basis for the auditors' conclusions regarding the reasonableness of the estimates made by management in the context of the financial statements taken as a whole;
- (c) the risks of material misstatement from estimates;
- (d) indicators of possible management bias;
- (e) the factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets;
- (f) the timing of transactions that affect the recognition of revenues or avoid recognition of expenses; and
- (g) disclosure of estimation uncertainty in the financial statements.

We confirm that we are satisfied with all management estimates.

Financial Statement Disclosures

The auditors should determine that the members of council are informed about:

- (a) the issues involved, and related judgements made, in formulating particularly sensitive financial statement disclosures;
- (b) the overall neutrality, consistency, and clarity of the disclosures in the financial statements;
- (c) the potential effect on the financial statements of significant risks, exposures and uncertainties (such as pending litigation); and
- (d) the selective correction of misstatements.

Please refer to the notes to the financial statements for further explanation regarding all disclosures.

Other Matters Arising From the Audit

The members of council often consider information, other than the annual and interim financial statements, that management prepares and includes in the annual or interim report. The auditors' responsibility for such information is set out in The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, CICA Handbook CAS 720. The auditor communicates this responsibility with the members of council, the procedures he or she performed, and the results thereof.

This information has not been prepared as at the date of this letter, however, we will review to ensure consistency with the financial statements.

In accordance with CICA Handbook CAS 600, when the financial statements of an entity (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee [other than a portfolio investment], or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the members of council those matters relating to the component entities that in the auditors' judgement are of significance in the context of the primary entity as well as:

- (a) instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work;
- (b) any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted; and
- (c) fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.

We confirm that there are no matters of significance related to the financial statements of a component entity that require communication to the members of council.

In some cases, management may decide to consult with other accountants about auditing and accounting matters. When the auditors are aware that such consultation has occurred, the auditors would communicate with the members of council as appropriate. If the auditors find that the consultation has not occurred in accordance with Reports on the Application of Accounting Principles, Auditing Standards or Review Standards, CICA Handbook 7600, this would be communicated with the members of council.

We confirm that we are not aware of any consultations with other accountants.

The auditors communicate with the members of council any major issues discussed with management in connection with the initial or recurring appointment of the auditors, including, among other matters, discussions regarding the application of accounting principles and auditing standards, and fees.

We confirm that there are no major issues in connection with the recurring appointment of the auditor.

The auditors inform the members of council of any significant difficulties encountered while performing the audit, including significant delays in management providing information required for the audit, an unnecessarily brief timetable in which to complete the audit, extensive unexpected effort required to obtain sufficient appropriate audit evidence, the unavailability of expected information, restrictions imposed on the auditor by management, and management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

We confirm that no significant difficulties were encountered in the performance of the audit.

The auditors inform the members of council of any significant matters discussed, or subject to correspondence with management, while performing the audit including business conditions affecting the entity and business plans and strategies that may affect the risks of material misstatement and written representations requested.

We confirm that no significant matters were discussed or communicated with management during the course of the audit. Please see management's representation letter for written representations requested.

In accordance with CICA Handbook CAS 450, the auditors shall communicate with the members of council uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditors' report. The auditors' communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

We confirm that there are no uncorrected misstatements.

The auditors inform the members of council of any other significant matters relevant to the financial reporting process including material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.

We confirm that no significant matters relevant to the financial reporting process were identified during the audit.

We look forward to discussing with you the matters outlined in this letter as well as other matters that may be of interest to you.

Yours very truly,

A handwritten signature in black ink, appearing to read "Crawford, Smith and Swallow", written in a cursive style.

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

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June 4, 2013

Private and Confidential

The Corporation of the City of St. Catharines
Box 3012, 50 Church Street
St. Catharines, Ontario
L2R 7C2

Dear Mayor McMullan and Members of Council:

We have now completed our examination of the consolidated financial statements of The Corporation of the City of St. Catharines for the year ended December 31, 2012.

Scope of Examination

As stated in our report dated June 4, 2013 addressed to the corporation, the consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2012 and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Intent of the Management Letter

The post audit management letter is intended to provide an additional professional service of the auditor as a direct by-product of the audit. Although auditors are not required by Canadian generally accepted auditing standards to issue a post audit management letter, they are encouraged to do so. We are pleased to offer the comments that follow as a service to the corporation.

As directed by the Ministry of Municipal Affairs and Housing, the management letter should communicate the following general explanations:

- (1) the recommendations arise out of normal audit work related to the expression of an opinion on the consolidated financial statements and do not constitute a complete report on internal control;
- (2) normal audit work will not detect all internal control weaknesses;
- (3) the audit procedures performed were as extensive as necessary for audit report purposes;

- (4) suggestions or comments concern systems only and are not intended to reflect on the competence or integrity of personnel;
- (5) there are inherent limitations to any system of internal control;
- (6) internal controls should be evaluated annually.

Current Observations

Sidewalk and Lot Grading Deposits

We recommend that staff review the sidewalk and lot grading account listings to determine the likelihood that accounts on file for years prior to 2002 will be refunded. If a determination can be made that repayment is highly unlikely, then these amounts should be considered for write off to income. You may want to do this by recording an offsetting allowance account to reflect those balances which may never be refunded. This would allow the original account balances to be maintained for continuity purposes. Any subsequent repayment would be treated as an expense in the year refunded.

This communication is prepared solely for the information of the The Corporation of the City of St. Catharines and is not intended for any other purpose. We accept no responsibility to a third party who relies on this communication.

We would like to take this opportunity to thank the staff for all their assistance and co-operation during our audit. Should you wish to discuss the above matters further, please contact our office at your convenience.

Yours very truly,

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP



Mark Palumbi, CA
Engagement Partner

c.c. Ms. S. Chemnitz, CA, Director of Financial Management Services