



Audit Committee Meeting Minutes

**Tuesday, March 8, 2011
11:30 a.m.
City Council Chambers**

ACTION

Present: Councillor Roussin, Committee Member
Councillor McMillan, Committee Member
Councillor McKay, Committee Member
Cindy Gasparini, Committee Member
Councillor Smith
Karen Brown, CAO
Paul Derouard, Budget/Auditor General
Charlotte Edie, Treasurer
Joanne McMillin, Clerk
Jennifer Pyzer-Whetter, BDO

Regrets: Kathleen O'Flaherty, Committee Member

**A. Public information Notices as per By-law Number 144-2007
N/A**

**B. Declaration of Pecuniary Interest & the General Nature
Thereof**

- 1) On Today's Agenda
- 2) From a Meeting at which a Member was not in Attendance
There were none declared.

C. Confirmation of Minutes

Moved by R. McMillan, Seconded by C. Gasparini & Carried:
That the Minutes from the last meeting of the Audit Committee held
Thursday, October 28, 2010, be confirmed as written and ordered filed.

**D. Deputations/Presentations:-
N/A**

E. Reports:-

1. Selection of Committee Chair/Vice-Chair

Paul Derouard opened Nominations for the position of Chair:

Councillor McKay nominated Councillor Roussin.

Paul called for further nominations for the position of Chair three times, there were no further nominations.

Moved by R. McMillan, Seconded by R. McKay and Carried:-

That Nominations for the position of Chair be closed.

Councillor Roussin accepted the position of Chair, with a term to November 30, 2012.

Paul then opened Nominations for the position of Vice-Chair:

Councillor Roussin nominated Councillor McKay.

Paul called for further nominations for the position of Vice-Chair three times, there were no further nominations.

Moved by R. McMillan, Seconded by L. Roussin and Carried:-

That Nominations for the position of Vice-Chair be closed.

Councillor McKay accepted the position of Vice-Chair, with a term to November 30, 2012.

It was noted this Committee usually meets 3 or 4 times per year however it may meet more often now that we have an Auditor General on staff.

The meeting was then turned over to Chair Councillor Roussin.

2. Audit standards presentation by BDO

Jennifer Pyzer-Whetter reviewed the March 8, 2011 BDO document with Committee, noting there are some fairly significant changes to the auditing standards.

Jennifer went through the report starting with "Materiality and CAS – Evaluation of Misstatements." It was explained if there is an area of concern by the Committee, they can request BDO to take a look at the specific item/s.

"Subsequent Events" – It was noted the report will be dated with the date Council actually adopts the Auditor's Report. Statements are audited annually in December each year.

Appendix 1 – Form of Report was reviewed and it was explained this information is required to be brought to the City's attention.

Internal controls were discussed and how these items are processed; it was noted they would go through Paul with recommendations to this Committee.

"Independence" – The protocol for questions to the Auditor was asked and it was explained the process would be through the Chair of the Committee.

"Responsibilities of the Auditor" – It was noted the Auditor's responsibility is to express an opinion on the consolidated financial statements based on an audit. Jennifer highlighted what an audit entails as outlined in the provided documentation.

"Audit Approach" – Jennifer noted things appear to working well in the City as they should be, and as they have in the past.

"Higher Risk Financial Statement Areas" – These items were reviewed together with proposed audit procedures for each area: allowance for taxes receivable; environmental liabilities and post-closure costs for land fill sites; post-employment benefit liabilities and impairment of long-lived assets.

"Materiality" – This item was explained, noting the City of Kenora for the year ended December 31, 2010 had a materiality level based on 2% of expenses, and adjusted by qualitative factors for purposes of planning the audit.

"Reliance on an Expert" – This process is carried out every year. BDO relies on the work of and the report prepared by actuaries Morneau Shepell (formerly Sobeco), and BDO's report details the various items they will be reviewing with this Company.

"Management Representations" – It was noted that Karen Brown and Charlotte Edie are representatives of the Corporation for this aspect of the audit.

Jennifer referenced "Inquiry of the Audit Committee" for purposes of fraud from December, 2010 to-date, and Councillor McMillan, being the only incumbent at the table advised there is nothing known at this time or in the financial statements regarding fraud of any sort to his knowledge.

3. 2010 Audit plan review by BDO

The March 8, 2011 letter from BDO was discussed regarding the terms of engagement as auditors of the City for the year ending December, 2010 and it was agreed it would not be necessary to review the contract. It will be necessary for it to be signed and Karen advised it will be processed by Administration. BDO is already appointed as our Auditor by by-law for a five year term, or until December, 2012.

KBrown

4. 2009 Management Letter Report

Paul reviewed the details of his March 2 report to the Audit Committee regarding the Audit Management Letter outlining the Auditor Observations and City's Action/Recommendations. The Auditors' comments are **highlighted in blue:**

Recreation Centre – Auditor Observation:

During the course of our testing at the Kenora Recreation Centre, we noted that one employee performs several incompatible functions (preparing invoices, opening the mail, receiving payments, and recording and preparing cash receipts and deposits). Lack of segregation of duties in this area exposes the City to the risk of misappropriated funds.

Recommendation:

In follow-up to last year's recommendation, the Recreation and Human Resource managers along with the treasurer and auditor general met and reviewed the current allocation of duties. It was decided that the duties of the recreation centre employee will be changed in order to provide better segregation of duties. In November 2010 the employee no longer accepts payments for invoices. All payments now flow through the front cashier and are logged and deposited as part of the cashier deposit. The log is reconciled monthly by the accounting clerk at City Hall.

Discussion:

Councillor Smith questioned if there is a financial policy regarding some of these types of items, and she was advised there is not a formal policy. This particular item is specific to the Rec. Centre and Karen indicated there is not a specific procedure for internal controls as the Auditors have the documentation on all internal controls.

Councillor Smith commented there should be something for each department for training purposes, simply a generic policy for internal control on say cash handling processes. Karen explained that the detail of duties from department to department and location to location differs and it would be difficult to put a policy in place at a generic level. Segregation of duties was referenced when it comes to financial matters and that there could be an overall statement to this effect. Councillor Roussin mentioned there should be something set out regarding the policies that are in place for handling cash for the various departments.

Employee Future Benefits - Auditor Observation:

The most recent actuarial valuation of post-employment benefits was performed as at January 1, 2007.

An updated report should be obtained for the December 31, 2010 year-end.

Recommendation:

The City recently tendered for an actuarial valuation for employee future benefits. The firm Morneau Shepell was chosen. The firm is currently working on the City's valuation and is planning to have report complete by Mar 17. The revised valuations will be reflected in the 2010 financial statements.

Landfill Liability - Auditor Observation:

The most recent closure and post-closure activities report for the Tri-Municipal and Jones Road landfill's is from 2006.

Given the changes to the City's landfill usage, an updated report be obtained for the December 31, 2010 year-end.

Recommendation:

The City recently received a revised report from the City's landfill monitoring provider. The revised values will be reflected in the December 31, 2010 financial statements.

Vacation Pay - Auditor Observation:

We reviewed vacation carried forward as at December 31, 2009. The accumulated liability at that date was \$122,967.

Vacation carried forward should be reviewed periodically to ensure that balances are within policy limits. In addition, the liability should be recorded in the books and records.

Recommendation:

The City keeps track of employee vacation time and ensures the proper entitlements for vacation carry forwards are maintained. It is known in advance of any vacation amounts that need to be paid out during the course of the year. When an employee takes vacation in the subsequent year, there is no incremental cost to the city. Carry forward vacation is only payable when an employee retires or is terminated and if there is a carry forward balance at year end for a retired/terminated employee the vacation payable is recorded.

Capital Asset Management Software - Auditor Observation:

We noted a potential error in calculating amortization expense when an addition is made to an existing asset.

This calculation should be reviewed and corrected if necessary to prevent possible material errors in the future.

Recommendation:

The City reviewed the amortization calculation in the Capital asset software program. There is no error in the amortization calculation with the software program. If an addition is made to an asset during the year, the revised asset value is amortization (straight line) over the remaining usefully life of the asset.

Sewer & Water Unbilled Revenue - Auditor Observation:

We noted that unbilled revenue for sewer and water (resulting from billings that cutoff after December 31 but includes service prior to December 31) was not being recorded in accounts receivable and revenue. The exact calculation of the unbilled amount was not readily available at the time of our audit and we estimated that the amount was not material.

In the current year the unbilled revenue at December 31 was calculated and determined to be approx. \$425,000. While the income statement impact is not significant and the balance sheet impact is not material, it is a significant dollar amount.

The City should consider recording the liability.

Recommendation:

The 2009 unbilled revenue was not recorded do to not having the prior year's information. The prior year's balances were not tracked as this was just implemented in 2009. Now that the City has opening balances in 2010, the city is planning on recording the unbilled revenue in the 2010 financial statements.

5. Draft Internal Audit Policy

It was noted this item stems from discussion from the previous Audit Committee Meeting and that a policy is required to help govern the Audit Department as it provides a frameworks with guidelines. It was explained there is Audit planning and a work plan required with reporting mechanisms with this Committee, however this Committee does not replace the Finance Standing Committee of Council.

Moved by R. McMillan, Seconded by C. Gasparini and Carried:-

That the Draft Internal Audit Policy be referred to Council for approval and adoption by by-law.

Recommendation approved.

Paul will prepare a report for the March 14 COW meeting for the Internal Audit Policy.

It was discussed that any recommendations are to be made to Paul on inquiries about issues within the Corporation in terms of areas of concern. Paul would then undertake an investigation independent of the Audit Committee and would likely involve the Mayor and/or the Committee Chair, however Paul but has the latitude to initiate action on his own. Paul would then report to Audit Committee with a recommendation to be forwarded to Council.

Councillor Roussin requested various information of Paul such as i) spending and spending limits; ii) Procurement Policy iii) control of overtime by department; however Karen mentioned the HR Manager prepares and circulates an overtime report; iv) Dispatching of equipment and associated costs, including logging of mileage and who monitors/approves associated time as well as how coffee breaks are supervised.

Reference was made to the Procurement Policy and it was asked if the City follows the provincial broad public sector procurement guideline, but it was noted the City follows their own approved policy.

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Charlotte indicated she has shared some internal auditing ideas with Paul that he could consider implementing and he advised he will provide this list to the Committee for its information.

The Transfer Station was referred to and the matter of a control on cash handling procedures. Paul advised he has already looked into this area and some recommendations have been made.

Other Business:

N/A

Items on Hold:

N/A

Next Meeting:

- **To be Determined.**

Adjournment:

Moved by R. McMillan, Seconded by L. Roussin & Carried:

That this meeting do now adjourn at 12:45 p.m.