



The City of Saint John

Report to the Finance Committee on
the 2018 audit

Presented to Finance Committee on May 29, 2019

May 24, 2019

To the Finance Committee of the City of Saint John

Report on audited annual financial statements

Dear the Finance Committee Members:

We are pleased to submit this report on the status of our audit of the City of Saint John ("the City") for the 2018 fiscal year. This report summarizes the scope of our audit, our findings and reviews certain other matters that we believe to be of interest to you.

As agreed in our master service agreement dated February 22, 2019, we have performed an audit of the financial statements of The City of Saint John as of and for the year ended December 31, 2018, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report once all work is finalized and the statements are approved.

This report is intended solely for the information and use of the Finance Committee, management and others within the City and is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

Deloitte LLP
Chartered Professional Accountants

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Our audit explained

This report summarizes the main findings arising from our audit.

Audit scope and terms of engagement

We have been asked to perform an audit which includes the City's consolidated financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2018. Our audit was conducted in accordance with Canadian Generally Accepted Auditing Standards ("Canadian GAAS").

The terms and conditions of our engagement, including our responsibilities for any additional audit-related services you have asked us to provide, are described in the master service agreement dated February 22, 2019, which was signed by management on behalf of the Finance Committee members.

Significant audit risks

Through our risk assessment process, we have identified the significant audit risks. These risks of material misstatement and related audit responses are discussed in the Significant Risks section of this report.



Materiality

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

Materiality levels are determined on the basis of total revenues. Our materiality for the consolidated financial statements the year ended December 31, 2018 was \$6,900,000 (2017 - \$6,500,000).

We have informed the Finance Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected.

Audit fees

Our audit fees for the year ended December 31, 2018 will be \$63,150 in accordance with our agreement dated September 6, 2018.

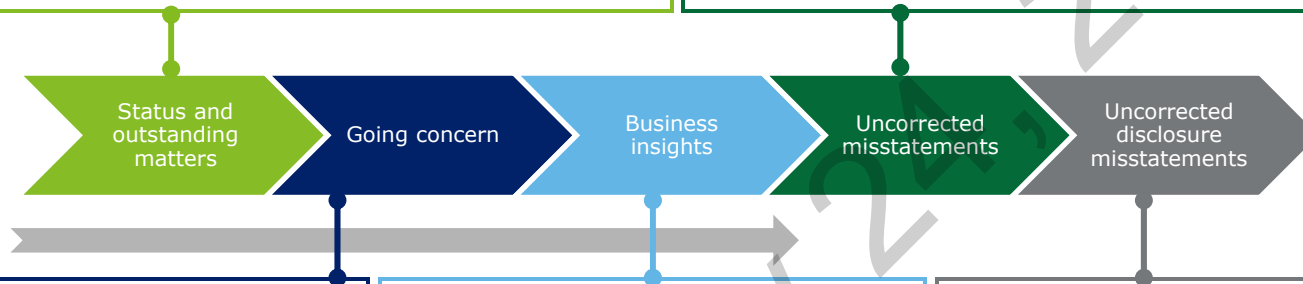
Status and outstanding matters

We expect to be in a position to render our audit opinion dated on the financial statements of the City following approval of the financial statements by the Finance Committee, Council members, and the completion of the following outstanding procedures:

- Receipt of signed management representation letter
- Confirmation of subsequent events
- Receipt of legal letter from City solicitor
- Finalization of quality assurance
- Minor documentation items

Uncorrected misstatements

There were no uncorrected misstatements during the engagement any misstatements detected in our audit have been corrected by management.



Going concern

Management has completed its assessment of the ability of the City to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon the City's ability to continue as a going concern. We agree with management's assessment.

Business insights

During the course of our audit, we examined the accounting and internal controls employed by the City. We did not identify any significant deficiencies or material weaknesses in internal control.

Uncorrected disclosure misstatements

In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected. We conclude that there are no material or significant disclosures omitted from the consolidated financial statements.

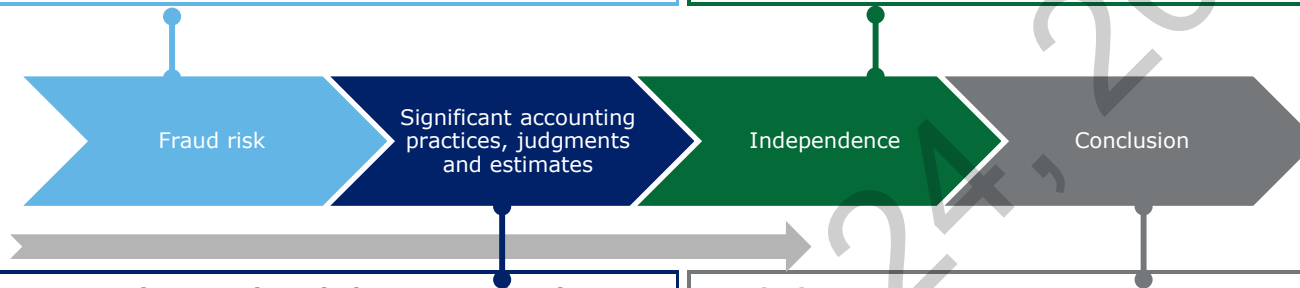
Fraud risk

A summary of the results of our audit procedures designed to address the risk of material misstatement in the financial statements relating to fraud is provided in the Significant audit risks section of this report.

Based on the audit evidence obtained, our assessment of the risks of material misstatement due to fraud remain appropriate.

Independence

We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.



Significant accounting practices, judgments and estimates

The significant accounting practices, judgments and estimates include:

- Allowance for doubtful accounts
- Tangible capital assets – useful lives, amortization, and impairment
- Accounts payable accruals
- Assumptions relating to pension plans

Our assessment of these items is included in the Significant accounting practices, judgments and estimates section of this report.

Conclusion

In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of the City's annual financial statements prepared in accordance with PSAS.

No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.
















We intend to issue an unmodified audit report on the financial statements of the City for the year ended December 31, 2018 once the outstanding items referred to above are completed satisfactorily and the financial statements are approved by the Finance Committee.

A draft version of our auditor's report is included in Appendix 2.

Significant audit risks

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

Significant risk dashboard

Audit risk	Fraud risk	Assessment of the design and implementation of internal controls	Results of the testing of the operating effectiveness of internal controls	Results of the substantive testing	Results of the use of experts	Overall conclusion
Management override of controls						Satisfactory
Presumed risk of fraud on revenue recognition for property taxes, unconditional grants and utility revenue						Satisfactory
Complex and non-routine consolidation entries for controlled entities						Satisfactory



Addressed during the audit



An issue was identified



Not applicable

Management override of controls

Audit risk

Management is in a unique position to override internal controls, which could allow manipulation of the accounting records that could result in financial statements that are materially misstated.

This represents a fraud risk for the 2018 audit.

Our audit response

- We discussed fraud with management.
- We tested a sample of journal entries made throughout the period, and adjustments made at the end of the reporting period.
- We evaluated the business rationale for any significant unusual transactions.
- We determined whether the judgements and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

Presumed risk of fraud on revenue recognition for property taxes, unconditional grants and utility revenue

Audit risk

Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition. We have evaluated the revenue transactions, and we have concluded that the significant risk is that revenue may have been recorded in the incorrect period.

This represents a fraud risk for the 2018 audit.

Our audit response

- We evaluated the design and implementation of the internal controls that address this risk. We did not rely on controls.
- We confirmed balances with third parties when possible to ensure that the revenue recorded was appropriate. When not possible we detail tested the revenue streams and ensured that proper revenue recognition criteria were met and that the transactions were recorded in the proper period.

Audit results

We concluded that the internal controls were designed and implemented appropriately.

We obtained sufficient audit evidence to conclude that there were no material misstatements.

Complex and non-routine consolidation entries for controlled entities

Risk identified

Accounting for controlled entities is a requirement of PSAS and there is a risk of inaccurate or missing consolidation journal entries and that disclosures are incomplete.

Our audit response

- We tested the design and implementation of controls specific to this risk.
- The City of Saint John is considered a Group Audit under Canadian Auditing Standards due to the existence of controlled entities. As the Group Auditor, we gained an understanding of the complexity and nature of the operations of controlled entities audited by other accounting firms and obtained the audited financial statements to ensure the City's disclosures are complete and accurate.
- We reviewed management's determination of controlled entities and method of consolidation under PSAS.
- Testing of the complex and non-routine consolidation entries, including elimination entries, were performed and reviewed by senior members of the engagement team who have experience auditing consolidations.

Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

Other reportable matters

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Finance Committee as part of the audit plan.

	Comment				
Changes to the audit plan	The audit was conducted in accordance with our audit plan, which was communicated to the Finance Committee. We confirm that there have been no significant amendments to the audit scope and approach communicated in the audit plan.				
Use of the work of specialists and experts	As planned, external specialists and experts assisted in the audit to the extent we considered necessary: <table> <tr> <td>IT specialists:</td><td>Participated in evaluating internal controls and in using our computerized audit applications</td></tr> <tr> <td>Actuarial experts:</td><td>Helped assess the adequacy of the shared risk pension plan</td></tr> </table>	IT specialists:	Participated in evaluating internal controls and in using our computerized audit applications	Actuarial experts:	Helped assess the adequacy of the shared risk pension plan
IT specialists:	Participated in evaluating internal controls and in using our computerized audit applications				
Actuarial experts:	Helped assess the adequacy of the shared risk pension plan				
Significant difficulties encountered in performing the audit	We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.				
Related party transactions	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments by management concerning measurement or disclosure.				
Disagreements with management	In the course of our audit, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.				
Consultation with other accountants	Management has informed us that the City has not consulted with other accountants about auditing or accounting matters.				
Legal and regulatory compliance	Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the City.				
Post-balance sheet events	At the date of finalizing this report, we are not aware of any significant post balance sheet events.				

Group audit

Entity	Significance	Other auditors
The City of Saint John General Operating Fund (includes Saint John Police Commission)	Significant	Deloitte
The City of Saint John Capital and Loan Fund	Significant	Deloitte
The City of Saint John Water and Sewerage Utility Operating Fund	Significant	Deloitte
The City of Saint John Water and Sewerage Capital and Loan Fund	Significant	Deloitte
Saint John Parking Commission	Significant	Deloitte
Harbour Station Commission	Significant	Deloitte
Saint John Transit Commission	Significant	Deloitte
Develop Saint John	Significant	Deloitte
Power Commission of Saint John	Significant	KPMG
Saint John Trade and Convention Centre	Non – Significant	Deloitte
Lord Beaverbrook Rink	Non – Significant	Frank Ashe
Saint John Aquatic Centre Commission	Non – Significant	Deloitte
Saint John Free Public Library	Non – Significant	Deloitte

No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.

Appendix 1 – Communication requirements

Required communication	Reference	Refer to this report or document described below
Audit Service Plan		
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS ¹ 260.14	Engagement letter
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk d. Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit 	CAS 260.15	Audit plan communicated in fall 2018.
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27	The City has properly identified, accounted for, and disclosed its relationships and transactions with related parties in the consolidated financial statements.
Year end communication		
4. Fraud or possible fraud identified through the audit process	CAS 240.40-.42	We are not aware of any fraudulent events.
5. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.	Significant Accounting practices, judgements and estimates.
6. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.	Significant Accounting practices, judgements and estimates.

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference	Refer to this report or document described below
7. Matters related to going concern	CAS 570.23	We concluded that there was no substantial doubt about the City's ability to continue as a going concern.
8. Management judgments and accounting estimates	CAS 260.16 a.	Significant Accounting practices, judgements and estimates
9. Significant difficulties, if any, encountered during the audit	CAS 260.16 b.	No significant difficulties to report.
10. Material written communications between management and us, including management representation letters	CAS 260.16 c.	Management representation letter
11. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16d.	No other matters to report.
12. Modifications to our opinion(s)	CAS 260.A18	We will issue an unmodified opinion.
13. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A19	Consultation with other accountants, chartered professional accountants or other experts
14. Significant matters discussed with management	CAS 260.A.19	Consultation with other accountants, chartered professional accountants or other experts
15. Illegal or possibly illegal acts that come to our attention	CAS 250.23	We are not aware of any illegal acts.
16. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	CAS 265	No deficiencies to report.
17. Uncorrected misstatements and disclosure items	CAS 450.12-13	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements and uncorrected disclosure to report.

Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.



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Independent Auditor's Report

Independent Auditor's Report

To His Worship the Mayor and Members of Common Council of
The City of Saint John

Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of The City of Saint John (the "City"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, and accumulated surplus, change in net debt and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018, and the results of its operations, its accumulated surplus, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Saint John, NB

XXXX, 2019

Appendix 3 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

<input type="checkbox"/> Canada's Best Managed Companies (www.bestmanagedcompanies.ca)	<ul style="list-style-type: none"> • Directors • CEO/CFO 	The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.
<input type="checkbox"/> Centre for financial reporting (www.cfr.deloitte.ca)	<ul style="list-style-type: none"> • Directors • CEO/CFO • Controller • Financial reporting team 	Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.
<input type="checkbox"/> Financial Reporting Insights (www.iasplus.com/fri)	<ul style="list-style-type: none"> • CFO • Controller • Financial reporting team 	Monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.
<input type="checkbox"/> On the board's agenda	<ul style="list-style-type: none"> • Directors • CEO/CFO 	Bi-monthly publication examining a key topic in detail, including the perspectives of a Deloitte professional with deep expertise in the subject matter as well as the views of an experienced external director.
<input type="checkbox"/> State of change (www.iasplus.com/StateOfChange)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Bi-monthly newsletter providing insights into key trends, developments, issues and challenges facing the not-for-profit sector in Canada, with a Deloitte point of view.
<input type="checkbox"/> Deloitte Financial Reporting Update (www.deloitte.com/ca/update)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.



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