



City of Surrey

Audit Committee

Minutes

Councillor's Boardroom
City Hall
14245 - 56 Avenue
Surrey, B.C.
TUESDAY, APRIL 19, 2005
Time: 12:10 p.m.

Present:

Chairperson – Councillor M. Hunt
Councillor J. Higginbotham

Absent:

Councillor P. Priddy

Staff Present:

City Manager
General Manager, Finance, Technology and HR
Budget and Reporting Manager
Manager, Financial Services Division
Assistant City Clerk, Legislative Services

KPMG Staff Present:

B. Hui, Sr. Manager, KPMG, External Audit Team
A. Johnston, Partner, Assurance Services, KPMG

A. ADOPTION OF MINUTES

1. Audit Committee – April 29, 2004

Minutes to be adopted.

It was

Moved by Councillor Higginbotham
Seconded by Councillor Hunt
That the minutes of the Audit Committee

meeting held April 29, 2004 be adopted.

Carried

B. INTRODUCTIONS

Round table introductions were held.

C. REVIEW BY GENERAL MANAGER, FINANCE, TECHNOLOGY AND HUMAN RESOURCES

The following reports to be provided on table:

1. Overview of the 2004 Annual Finance Report (Verbal report)

The General Manager, Finance, Technology and HR provided the following comments:

- Revenues have increased to \$402 million reflecting increases due to 2.9% property tax, tax growth in 2004, traffic fine revenues, and gaming revenues.
- Increased traffic fine revenues, Planning Department revenues, and GST rebate have all been directed to current and future capital projects.
- All revenues not budgeted for, but received, have been put to capital programs.
- In 2004, the City adopted new GAAP principles (Generally Accepted Accounting Principles), based on new requirements relating to post employment benefits or compensated absence and termination benefits accrued over a period of time.
- Local governments are required to get an actuarial forecast on post-employment costs.
- The total liability for these benefits at the end of 2004 is \$12.8 million.
- Investment portfolio has been increased and has since earned 4.28% interest in 2004 compared with 4.65% in 2003.
- Reserve funds have increased to \$139 million from \$128 million in 2003, due in part to a significant increase in Deferred Development Cost Charges (\$162 million in 2004 compared with \$136 million in 2003).

2. 2004 Consolidated Statement of Financial Position

- Investments have increased.
- Financial equity has been renamed “Work in Progress” representing capital works started but not completed.

3. 2004 Consolidated Statement of Financial Activities

- The 2004 Consolidated Statement of Financial Activities provides a comparison to the 2004 budget which was amended to reflect the 2004 Actuals prior to the end of the year.
- There were significant changes in the area of Development Cost Charges (DCC's).
- The 2004 budget includes all the DCC's, including “carry forwards” to date.
- Investment has become a significant difference in 2004 budget - numbers only include the general operating interest, but all statutory reserve interest is also paid.
- The 2005 budget will include the interest to be paid in 2005.
- On the Expenditures side, the “General Government” item provides significant change due to a GST rebate that came in and was not budgeted. This rebate was approximately \$4 million.
- It was noted that “General Government” includes Finance, City Manager, Clerk's, and Mayor and Council departments, realizing significant savings in those areas.
- The suggestion was made to eliminate the budget column formatting.
- The \$80 million acceleration on accumulated Capital was approved by Council in 2004.

- Financial equity is made up of committed funds, appropriated and unappropriated funds.
- The suggestion was made to provide highlights to Council – the Statement is for filing purposes only.

4. 2004 Consolidated Statement of Changes in Financial Positions

The 2004 Consolidated Statement of Changes in Financial Positions provides information on Cash Flows.

5. 2004 Notes to the Consolidated Financial Statement and Supplementary Schedules

- The 2004 Notes are similar from one year to the next, however Item (j) has been added to explain “Employee Future Benefits”.
- Item (k) was reported previously under “Financial Equity” but is now reported under “Work in Progress”.
- On page 14, the second note outlines the investments as far as their maturity is concerned.
- Deferred DCC’s – there is a significant area which breaks down DCC charges into arterial, parkland, etc.
- Deferred DCC reconciliation indicates dollars in and dollars spent.
- Capital Asset numbers will significantly change within the next few years, as they will be pushed the same direction as the provincial and federal governments, and commercial organizations.
- There has been a \$1.7 billion accumulated historical cost with no depreciation spent over the whole life of Surrey.
- Assets will go to a historical cost basis with depreciation.
- There is an opportunity for the City to respond and express views relative to the proposed historical cost, less consumption accounting practices at an upcoming presentation by the Canadian Institute of Chartered Accountants at the upcoming FCM convention.
- The comment was made that many of the City’s assets do not depreciate (i.e. land).

A brief discussion ensued regarding the Surrey Public Library relative to Employee Future Benefits. It was noted that sick leave is not a financial liability to the City, but it was noted that benefits accrue to the employee.

It was

Moved by Councillor Higginbotham
Seconded by Councillor Hunt
That Items C1 through C5 be received.
Carried

D. REVIEW BY EXTERNAL AUDITORS

1. Auditors’ Independence Letter

Mr. A. Johnston noted that the Auditors' Independence Letter satisfies the annual requirement for the auditor to communicate to Council that they are indeed independent.

2. Auditors' Oversight Letter

Mr. A. Johnston noted that the Auditors' Oversight Letter communicates certain required matters to the Audit Committee and sets out certain significant matters for understanding relative to the roles of Auditor and Management. There were several significant matters revealed under Item (c) such as "Employee Future Benefits". He continued that Item (b) - Whistle Blowing Policy is an emerging issue within the public company and the public sector environment required by the National Securities Commission. He added that the public sector is following suit, tailoring it to meet its own needs and noted that such a policy meets general good governance practice and would allow others to report perceived fraud or illegal activities. He continued that such policy promotes open communication and provides a positive vehicle to deal with perception problems.

It was noted that the policy would be reviewed before proceeding and looked at carefully to determine elements of balance, responsibility, fairness, and pragmatic implementation.

Mr. A. Johnston commented that such policy would clarify and eliminate some problems and provide an opportunity within the system to appropriately deal with issues in a controlled environment.

3. Auditors' Management Letter

It was

Moved by Councillor Higginbotham
Seconded by Councillor Hunt
That Items D.1 to D.3 be received.
Carried

E. RECOMMENDATION TO RECEIVE AND APPROVE THE 2004 AUDITED FINANCIAL STATEMENTS

It was
 Moved by Councillor Higginbotham
 Seconded by Councillor Hunt
 That the Audit Committee:

1. receive and approve the Audited Financial Statements for the year ended December 31, 2004; and
2. recommend to Council that the Audited Financial statements for the year ended December 31, 2004 be approved.

Carried

F. DISCUSSION OF FUTURE COUNCIL MEETINGS, DATES AND FORMAT

It was
 Moved by Councillor Higginbotham
 Seconded by Councillor Hunt
 That the following Council meetings, dates and meeting formats be approved:

1. Regular Council – Public Hearing – May 2 or 16, 2005

- (a) Receive Audit Committee Recommendations
- (b) Receive 2004 Annual Financial Report

2. Regular Council - June 20, 2005

Public Opportunity for Questions/Comments

Carried

G. OTHER BUSINESS

1. Motion to Hold Closed Audit Committee Meeting

It was
 Moved by Councillor Higginbotham
 Seconded by Councillor Hunt
 That the Audit Committee would recommend that a Closed Audit Committee meeting be held pursuant to Section 90(1) (g), (k) and (l) of the *Community Charter*.

Carried

H. ADJOURNMENT

It was
 Moved by Councillor Higginbotham
 Seconded by Councillor Hunt
 That the meeting do now adjourn.

Carried

The meeting adjourned at 1:35 p.m.

Certified as true and correct:

Margaret Jones, City Clerk

Chairperson: Councillor M. Hunt
Audit Committee