



City of Surrey

Audit Committee

Minutes

Councillor's Boardroom
City Hall
14245 - 56 Avenue
Surrey, B.C.
MONDAY, MAY 6, 2003
Time: 11:30 a.m.

Present:

Chair: Councillor Hunt
Councillor Higginbotham
Councillor Priddy

Other Persons:

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

Staff Present:

U. Mital, City Manager
V. Wilke, General Manager, Finance, Technology & HR
J. Mays, Financial Analyst/ Internal Auditor
S. Palmer, Legislative Services

A. ADOPTION OF MINUTES

1. Audit Committee – April 15, 2002

It was Adopted by Councillor Higginbotham
Seconded by Councillor Priddy
That the minutes of the Finance Committee
meeting of April 15, 2002 be adopted.
Carried

B. INTRODUCTIONS

Roundtable introductions were held.

C. BRIEF REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

The Financial Analyst/Auditor reported that Council approved amendments to the Audit Committee Terms of Reference at the May 14, 2002 Regular Council meeting as follows:

“That the Audit Committee Terms of Reference be altered to read under item 3(a) ‘The Audit Committee shall meet at least twice annually in the spring and in the fall, as needed.’”

and:

“That the Audit Committee Terms of Reference be altered to read under Item 5(d) ‘The Audit Committee shall receive a copy of all internal audit or management reports issued by either the Financial Reporting Division or the Risk Management Division of the Finance, Technology & Human Resources Department and addressed to a General

Manager or the City Manager, and further that a sampling of other reports as selected by the General Manager, Finance, Technology and Human Resources Department.””

It was

Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Terms of Reference of the Audit

Committee, as amended, be received.

Carried

The Chair noted the agenda order would be varied to enable the KPMG representative an opportunity to speak to Item D.

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

1. Overview of 2002 Annual Financial Report

The General Manager, Finance, Technology & HR provided the following information:

- That the Financial Statements and related information in the 2002 Annual Financial Report was prepared in accordance with Canadian generally accepted accounting principles, as prescribed by the Public Sector Accounting Board. The Canadian Institute of Chartered Accountants (CICA) has authorized PSAB to develop and issue recommendations and guidance with respect to accounting in the public sector.
- That the City of Surrey received the Canadian Award for Financial Reporting from the Government Finance Officers of U.S.A. and Canada for the sixth year in a row.
- That there are two matters concerning the 2002 Financial Statements similar to 2001 report:
 - Development Cost Charges (DCC's) related to growth: as the City collects DCC's, they are put into a deferred revenue liability account and as funds are spent on capital expenditures, funds are drawn out of deferred revenues to match those expenditures. The DCC monies collected last year will become expenditure in the budget target next year. DCC's are collected but the physical works are undertaken the next year, which ensures funding is in place.
 - That the Capital Legacy Fund interest earnings for the last two years have been taken out of the Capital Legacy Fund, and put into Capital Projects.
 - That three years ago, Council Guidelines stated there could be corporate borrowings from the Capital Legacy Fund, provided it could be paid back within a short time (two or three years).

- That the Five Year Comparison of Reserves and Surplus were reviewed and have increased overall.
- That, in review, 2002 had a 0% tax increase.
- That \$3.6 million in additional tax revenue was received due to new development in the City, comparable to the \$2.7 million the year prior.
- That Grants-in-Lieu contributed an additional \$900,000 primarily because of the Fraser Port Authority (see page 24).
- That all investments adhered to the City's Investment Policy and the \$413 million in the City's portfolio is made up of monies sitting in Reserve Funds like the DCC's and Capital Legacy Fund.
- That Unappropriated Surplus Accounts (Schedule 6) listed on page 25 in the notes to the statements at December 31, 2002 show a total of \$16.6 million, which increased slightly over the 2001 year end balance of \$16.1 million.
- Under the Reserve and Surplus Policy approved by Council, Unappropriated Surplus balances in the General, Water and Sewer & Drainage Operating Funds are within the recommended ranges. That General Operating should sit between \$8 million and \$12 million and is \$10.6 million at December 31, 2002 (see page 25).
- That there is \$600,000 left in External Long Term Debt which will be retired in 2003. This amount goes back to the early 1980's when the City borrowed significant amounts of money to put into sewer and water systems. This was a utility loan against the utility and the reason it was borrowed at the time was that there were grants available that basically gave the City \$0.75 back on every \$1.00 borrowed.
- That there are provisions in the current Five Year Financial Plan to modestly increase funding for infrastructure.
- That Council approved a 2.9% tax increase in 2003, and that the City continue to pursue new revenue sources in order to comply with the Five Year Financial Plan.

2. 2002 Consolidated Statement of Financial Position

The General Manager, Finance, Technology and HR noted that the 2002 Consolidated Statement of Financial Position listed on page 27 is the equivalent to a balance sheet showing consolidation of all funds in the City's General Operating, Sewer, Water, Reserves, and Capital Funds providing a total picture of how the City sits on December 31, 2002.

A. Johnston entered the meeting at 11:56 a.m.

The statement was made that the DCC Accounts Receivable represents DCC's that have not come in yet, are payable over years 2 and 3, and that when the money comes in it moves from Accounts Receivable to Cash.

The statement was made that a significant change shows on page 27, indicating that Cash and Investments have risen by approximately \$50 million from 2001 due mainly to an increase in DCC's collected in 2002.

B. Hui entered the meeting at 12:07 p.m.

3. 2002 Consolidated Statement of Financial Activities

The General Manager, Finance, Technology and HR noted there was nothing significant to report under General Operating, Sewer, and Water. She further noted that when DCC's are budgeted, it is based on an estimate to collect and the Actuals reflect what was spent in the Capital program over the year.

4. 2002 Consolidated Statement of Cash Flows

It was noted that the 2002 Consolidated Statement of Cash Flows shows the difference in cash and investments from one year to the next.

5. 2002 Notes to the Consolidated Financial Statement and Supplementary Schedules

The question was raised that Note 8: Capital Assets is the accumulative Expenditure, since the city started, and reflects total capital expenditures.

It was noted that Sewer & Drainage Capital Fund included a significant amount of money in Sewer & Drainage Reserves spent on raising dykes and that in 1997 Council approved funding for a Lowland Drainage Program over the next six years.

Discussion ensued with respect to the Surrey Public Library Statement of Financial Position (page 59) and it was noted that there was nothing significant to report at this time.

The original agenda order then resumed.

D. REVIEW BY EXTERNAL AUDITORS

A. Johnston noted and related the purposes for the following three documents which were provided to the Audit Committee:

1. Auditors' Independence Letter

Purpose: Required on an annual basis to provide assurance of the Auditors' independence. That there are currently no items, in the auditors' opinion, that would affect their independence.

2. Letter to the Audit Committee – dated May 6, 2003

Purpose: To provide information on the following:

- (a) The responsibilities of management and the Auditors.
- (b) Scope of Examination
- (c) Auditors' Report and Opinion
- (d) Assurances to the Committee
- (e) Recommendations to the Committee

3. Letter from KPMG LLP dated April 16, 2003 – Management Letter

Purpose: To provide the current status of the Audit Examination.

Mr. Johnston noted that the General Manager, Finance, Technology and HR and the Financial Analyst/Auditor had provided excellent reports and service. He noted that it is KPMG's responsibility to test various transactions, look at internal controls, assess the accounting principles used, and on that basis issue the audit opinion and answer any questions.

He then noted that the City of Surrey is a six-time recipient of the Government Finance Officers of U.S.A. and Canada Award, an independent financial organization. He continued that he instructs a course through the Institute of Chartered Accountants dealing with public sector financial statements and uses the City of Surrey's Financial Statement as an example and that Surrey's Financial Statements are used as a model for the province.

The question was raised as to the City's internal controls in comparison with other cities to which Mr. Johnston responded that KPMG looks at revenues and receipts, recording controls, cash expenditure and payroll systems. He noted that capital expenditure accruals indicate that some expenditures did not get to the Accounting Department, resulting in more work processing entries.

He also noted that KPMG would look at data conversion for any new system installations to ensure the information is being recorded properly.

It was then noted that new accounting standards regarding compensated absences such as sick time and vacation time allowances to be accrued as part of the payroll. These requirements become effective in 2004 but early adoption is recommended by the Canadian Institute of Chartered Accountants. The City Manager then reported that the City has reasonably effective policies ensuring these amounts don't prove as liabilities. He explained that sick leave is not an entitlement, but only to be used when people get sick, and if a person is sick or on vacation in the current year, the person is covered within the operating budget. It was emphasized that sick leave should not be represented in the City's budget as a

liability beyond the current year. It was further noted that the City's policy on vacation entitlement is that if an employee does not take vacation in the year earned, he/she would lose that vacation entitlement, therefore no future liability exists.

F. RECOMMENDATION TO APPROVE THE 2002 AUDITED FINANCIAL STATEMENTS

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audited Financial Statements for
the year ended December 31, 2002 be approved and received by the Audit Committee.
Carried

G. RECOMMENDATION THAT COUNCIL RECEIVE THE 2002 AUDITED FINANCIAL STATEMENTS

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audit Committee recommends to
Council that Council receive the Audited Financial Statements for the year ended
December 31, 2002.
Carried

H. DISCUSSION OF FUTURE COUNCIL MEETINGS, DATES AND FORMAT

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the following dates and meeting
formats:

- 1. May 26, 2003**
 - (a) Receive Audit Committee Recommendations
 - (b) Receive 2002 Annual Financial Report
 - (c) Receive Report of Council Remuneration and Expenses

- 3. June 16 – Public Opportunity for Questions/Comments,**
be approved.
Carried

I. FUTURE DIRECTION OF INTERNAL AUDIT FUNCTION

Discussion ensued with respect to the handling of timesheets, and concerns regarding accountability of reported hours and paychecks. The statement was made that every timesheet must be initialed by the supervisor and this information has been forwarded to the various departments. The explanation was given that this procedure ensures staff time is reported to the correct cost center and the appropriate checks and balances are in place.

The statement was made that the area of recording time is a low risk activity for the corporation; this measure would offer management more tools to capture the right costs, and ensure that the appropriate controls are in place.

J. OTHER COMPETENT BUSINESS

K. ADJOURNMENT

It was

Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audit Committee meeting do now

adjourn.

Carried

The Audit Committee adjourned at 12:53 p.m.

Chairperson