

Corporate Report

REPORT NUMBER 383-2024-Corporate Services-Office of the City Treasurer		
DATE PREPARED October 16, 2024		FILE
MEETING DATE October 28, 2024		
SUBJECT 2023 Audit Committee Annual Report		

RECOMMENDATION

WITH RESPECT to Report 383-2024-Corporate Services-Office of the City Treasurer, we recommend that; the audited Consolidated Financial Statements and the Trust Fund Statements of The Corporation of the City of Thunder Bay, for the year ended December 31, 2023, be approved, as recommended by the Audit Committee;

AND THAT any necessary by-laws be presented to City Council for ratification.

LINK TO STRATEGIC PLAN

The recommendations outlined in this Report align with two underlying priorities in the City's 2023-2027 Strategic Plan "Maamawe, Growing Together": providing cost-effective services to citizens and improving financial sustainability.

Sound fiscal management enables the Corporation to successfully carry out strategic priorities. Specifically, this report focuses on continuous improvement and delivery of positive outcomes for clients by providing public update and promoting transparency in regard to the City's fiscal position and the mandate defined in the Audit Committee's Terms of Reference (TOR).

EXECUTIVE SUMMARY

One of the deliverables of the Audit Committee is to provide an annual report to City Council on its activities, including a review of its terms of reference, and a summary of how the Committee has fulfilled its role and mandate. The aim of this Report is also to keep the lines of communication among the external auditors, Administration, and the public, open and transparent in keeping with the high standards of accountability that the City of Thunder Bay has established.

This report also presents the Annual Financial Report 2023 (formerly known as the “Treasurer’s Report”) which includes the audited Consolidated Financial Statements and the Trust Fund Statements of the Corporation of the City of Thunder Bay, for the year ended December 31, 2023. The Annual Financial Report 2023 has been designed to comply with the Government Finance Officers Association (GFOA) standard for financial Reporting in terms of format and content.

The Audit Committee has recommended the audited Consolidated Financial Statements and the Trust Fund Statements of the Corporation of the City of Thunder Bay, for the year ended December 31, 2023, be approved.

DISCUSSION

Terms of Reference and Governance

The Audit Committee is governed by Terms of Reference which sets out the key objectives and the scope of work for the Audit Committee. The Committee is currently comprised of five members which includes two members of City Council and three citizen appointees. The 2024 Audit Committee is comprised of John Friday (Chair), Councillor Shelby Ch’ng, (Vice Chair), Mayor Ken Boshcoff, Linda Baca, and Andrew Garro. The Committee reviews the Terms of Reference (Attachment A) annually.

Under the Terms of Reference, the Audit committee is to meet at least three times per year. The Committee held the following meetings related to the review of Internal Audit reports and Financial Statements for the fiscal year ended December 31, 2023:

1. January 27, 2023
2. May 3, 2023
3. September 28, 2023

Internal Audit Summary

The Internal Audit Division conducts internal audits to improve internal controls and minimize risk to the Corporation. Results of audit assignments were presented to the Audit Committee throughout 2023.

The Internal Audit Division conducts its role in accordance with the Internal Audit Charter (Attachment B, as approved by the Audit Committee). The Internal Audit Charter outlines: Scope; Authority; Independence; Responsibilities; Audit Planning; Reporting; and Professional Standards.

As outlined in the Charter, the three-year work plan is based on a Risk Assessment framework and is approved by the Audit Committee. At the conclusion of each audit, the Manager - Internal Audit prepares and presents a written report to the Audit Committee. The report identifies risks, outlines recommendations for improvements, and includes

management response. Internal Audit is guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

In 2023, the Internal Audit Division completed the following audits:

- Payment Card Industry Data Security Standards (PCI DSS) - a corporate-wide initiative to ensure compliance with standards.
- Annual Corporate Credit Card Compliance Audit
- Inventory Audit
- Eye on the Street Audit

The Internal Audit Division provides an update on the status of past recommendations to the Audit Committee. Since 2012, 256 recommendations have been made by the Audit Committee through 58 internal audit reports and 87% of past recommendations have either been implemented or are in progress. The status of each recommendation is categorized as implemented, in progress, or outstanding. Once a recommendation has been implemented, Internal Audit conducts a verification process.

Presentation of Audited Consolidated Financial Statements

The Audit Committee oversees the City's financial reporting process on behalf of City Council. The consolidated financial statements for the City are prepared by Administration annually and audited by the City's independent external auditor. The external auditor is responsible for expressing an opinion on the conformity of the consolidated financial statements with Canadian public sector accounting standards.

At the October 15, 2024, Audit Committee Meeting, the external auditor confirmed its independence from The Corporation of the City of Thunder Bay and Administration and presented its audit report.

The City's Audited Consolidated Financial Statements have been prepared using generally accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

Administration presented the Annual Financial Report 2023 (Attachment C) to the Audit Committee for review and inquiry. The Annual Financial Report 2023 includes the audited Consolidated Financial Statements and the Trust Fund Statements of the Corporation of the City of Thunder Bay, for the year ended December 31, 2023.

The Annual Financial Report 2023 has been designed to comply with the Government Finance Officers Association (GFOA) standard for financial Reporting in terms of format and content. In addition to the audited Consolidated Financial Statements, the Report provides commentary on the City's financial condition, a detailed analysis of financial results, and a five-year overview of key statistics and financials.

At the October 15, 2024, meeting of the Audit Committee, the Committee passed a resolution recommending the audited Consolidated Financial Statements and Trust Fund Statements for the year ended December 31, 2023, be approved by City Council.

Assessment of Internal Controls

The Audit Committee also reviewed and discussed, together with Administration and the external auditor, the assessment of the effectiveness of the City's internal control over financial reporting.

The Committee discussed with the City's Internal Auditor and with the external auditor the overall scope and plans for their respective audits. The Committee meets with the Internal Auditor and with the external auditor to discuss the results of their examinations, their evaluations of the City's internal controls (including internal control over financial reporting), and the overall quality of the City's financial reporting.

FINANCIAL IMPLICATION

There are no direct financial implications associated with the recommendations in the Report.

The consolidated financial statements reflect the assets, liabilities, revenues, expenses and accumulated surplus of the reporting entity, including all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City including:

- Parking Authority
- Tbaytel (Municipal Service Board)
- Thunder Bay Community Economic Development Commission Inc.
- Thunder Bay Police Services Board
- Thunder Bay Public Library Board
- Victoriaville Centre Board of Management
- Victoria Avenue Business Improvement Area
- Waterfront District Business Improvement Area

Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

The Consolidated Statement of Operations and Accumulated Surplus presents an annual surplus of \$59.7 million for the 2023 year.

Consistent with other Canadian municipalities, the City prepares its budget using a modified cash basis, which considers required cash inflows and expected cash outflows for a given fiscal year. The unaudited financial results for the 2023 year were previously provided to City Council (Report 168-2024-Corporate Services-Office of the City

Treasurer) on the same basis as the municipal budget and indicated an unfavourable variance of \$1.9 million which was funded by reserves. This presentation does not include the financial activities of the organizations listed above.

In contrast, the audited consolidated financial statements are prepared under the accrual basis of accounting and Public Sector Accounting Standards (PSAS). PSAS provides standards for the recognition of assets and liabilities in the Statement of Financial Position; for example, capital expenditures that provide long-term benefits are recognized as Tangible Capital Assets (non-financial assets) while debentures issued are obligations that require future repayment and are therefore, recognized as Municipal Debenture Debt.

The difference in the two accounting methodologies results in performance differences. The budget variance measures the differences between expected and actual cash flows in and out of the organization, resulting in annual deficiency, requiring draws from reserves, or surplus, which allow for contributions to reserves. The accounting surplus, presented on the Statement of Operations and Accumulated Surplus, represents the difference between revenues and expenses recognized using PSAS, which considers when revenues are earned and expenses incurred, regardless of when the cash is received or used to make a payment.

CONCLUSION

It is concluded that the Audit Committee fulfilled its fiduciary role in 2023. It is further concluded that the audited Consolidated Financial Statements for the year ended December 31, 2023 presented within the Annual Financial Report 2023 (Attachment C), as recommended by the Audit Committee, should be approved by City Council.

BACKGROUND

On January 14, 2002, City Council passed a resolution establishing in principle an Administrative Sub-Committee (of the Committee of the Whole) identified as an Audit Committee. The Audit Committee was formally established and commenced its work once the original terms of reference were approved on June 4, 2002.

REFERENCE MATERIAL ATTACHED

Attachment A – Terms of Reference – Audit Committee
Attachment B – Internal Audit Charter – City of Thunder Bay
Attachment C – Annual Financial Report 2023 (Distributed Separately)

REPORT PREPARED BY

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REPORT SIGNED AND VERIFIED BY

Keri Greaves, CPA, General Manager – Corporate Service & City Treasurer

10/16/2024