



**Mike Mayes, Director
Financial Services/Treasurer**

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November 24, 2014

CORPORATE SERVICES REPORT - FINANCIAL SERVICES-2014-43

TO: Mayor Tony Van Bynen and Members of Council
Committee of the Whole

SUBJECT: 2014 Audit

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATIONS:

THAT Corporate Services Report - Financial Services – 2014-43 dated November 24, 2014 regarding the 2014 Audit be received and the following recommendations be adopted:

- 1. THAT BDO Canada LLP be appointed as the Town's auditors for the 2014 financial statements;**
- 2. AND THAT the BDO audit plan be received.**

COMMENTS

Purpose

The purpose of this report is to appoint BDO as the Town's auditors for the 2014 fiscal period and to receive their proposed audit plan.

Budget Impact

The audit fees are a fixed amount for 2014. The audit plan does not result in any alterations to this pricing. Appointment of BDO as the Town's auditors will have no effect on the budget.

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Background

Audit Committee

A committee structure review is taking place early in 2015 and changes to the Audit Committee's mandate may result through that process. However, the current terms of reference for the Audit Committee state, "The primary function of the Audit Committee is to assist the Council in maintaining the financial integrity of the municipality" and that to do so, they are to meet three times a year:

1. April/May: To recommend approval of the annual financial statements.
2. June: To review the newly issued external auditors' management letter with senior management.
3. October/November: To review and approve the scope of the external audit and to follow up with senior management on disposition of the previous year's external auditors' management letter points.

At the October/November meeting, it has been the general practice for the Audit Committee to recommend to Council the appointment of the auditors for the current year's financial statements. However, due to the election, this meeting did not occur in 2014 and as such, staff are bringing this appointment request directly to Committee of the Whole.

BDO Canada LLP

In 2012, the municipalities of Aurora, East Gwillimbury, Georgina, King, Newmarket and Whitchurch-Stouffville (the N6) issued a joint request for proposal (RFP) for audit services. BDO Canada LLP was the successful candidate and was awarded a three-year contract. Newmarket's share of costs for each of the 2012, 2013 and 2014 audits was set at \$52,500 before taxes. An additional discount of 15% was also given, as all six municipalities elected to go with BDO.

They have audited our 2012 and 2013 financial statements. Neither staff nor the Audit Committee has had any issues with their performance.

Analysis & Options

Given that BDO is already contracted for 2014 and that there are no concerns with their work related to the previous audits, it would be appropriate to appoint them as Town auditors for 2014.

This appointment would be for the Town's consolidated financial statements, for the Newmarket Public Library, the Newmarket Downtown Business Improvement Area (BIA), and the Trust Fund. The audit of the federal gas tax allocation is no longer required.

The audit plan has been reviewed by staff. It does not differ significantly from the plan for 2013 and there are no major new developments.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

This report links to Newmarket's key strategic directions in being *Well Managed through fiscal responsibility*.

CONSULTATION


This audit plan has been reviewed with the auditors.

BUDGET IMPACT


The audit fees for 2014 have already been set and are accounted for in the 2014 operating budget.

CONTACT

For more information on this report, contact: Mike Mayes at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca



Mike Mayes, CPA CGA
Director, Financial Services/Treasurer



Anita Moore, AMCT
Commissioner, Corporate Services

MM/nh
Attachment

1. BDO Audit Plan (7 pgs.)



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Private & Confidential

November 25, 2014

The Corporation of the Town of Newmarket
395 Mulock Drive
PO Box 328, STN Main
Newmarket Ontario L3Y 4X7

Dear Mayor and Council:

Re: Audit of the Financial Statements of The Corporation of the Town of Newmarket
For the year ended December 31, 2014.

We are pleased to present our audit plan for the audit of the financial statements of The Corporation of the Town of Newmarket for the year ending December 31, 2014.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit including audit risks, the nature, extent, timing and results of our audit work and the terms of our engagement, including fees. This report forms a significant part of our overall communication strategy with the Mayor and Council and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the Mayor and Council throughout the entire audit process so that we may both share timely information. The audit process will conclude with an Mayor and Council meeting and the preparation of our final report to the Mayor and Council.

This report has been prepared solely for the use of the Mayor and Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

Terms of Reference

Our overall responsibility is to form and express an opinion on the financial statements. These financial statements are prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work, as confirmed in our engagement letter, and a summary of our proposed fees are set out below.

Engagement Objectives

- Forming and expressing an audit opinion on the financial statements.
- Present significant findings to the Mayor and Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Consult regarding accounting and reporting matters as requested throughout the year.
- Read the other information included in the Municipality's Annual Report to identify material inconsistencies, if any, with the audited financial statements.
- Work with management towards the timely issuance of financial statements.
- Audit opinion on the Newmarket Public Library
- Audit opinion on the Trust Fund and Main Street District Business Improvement Area

Independence

At the core of the provision of external audit services is the concept of independence. We are communicating matters that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the municipality.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute/ordre covering such matters as the following:

- holding of a financial interest, either directly or indirectly in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the external audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the municipality and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

Audit Team

In order to ensure effective communication between the Mayor and Council and BDO Canada LLP, we briefly outline below the key members of our audit team and the role they will play:

- Michael Jones, CPA, CA - Partner
- Trudy White, CPA, CA, CFE - Manager
- Daniel Toma, CPA, CA, Senior

Audit Strategy

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the municipality.

We will perform a risk based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Mayor and Council.

To assess risk accurately, we need to gain a detailed understanding of the municipality's business and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls (when appropriate), substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

Planning Matters Relating to Group Audits

We will be relying on the work of Collins Barrow in relation to the financial statements of Newmarket Hydro Holdings Inc.. We will need to obtain information to ensure that the audit completed for Newmarket Hydro Holdings Inc. meets Canadian generally accepted auditing standards.

We will be required to communicate with Collins Barrow, asking that they provide us with written representation in the form of a letter that covers at least the following points:

- The fact that Collins Barrow is aware that financial information from the financial statements of Newmarket Hydro Holdings Inc. is to be relied upon in the preparation of the financial statements of The Corporation of the Town of Newmarket, on which BDO Canada LLP, as primary auditors, intends to report.
- The component auditor must also indicate if the accounting policies followed are essentially consistent with Canadian GAAP, and if not, to explain and quantify the differences.
- The letter will clearly state that Collins Barrow is aware that BDO Canada LLP intends to rely on the work performed by them in forming our opinion on the municipality's financial statements.
- We need written representation that Collins Barrow is independent of the municipality as required under the Canadian rules of independence.

Materiality

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at \$1,250,000 for the municipality.

Our materiality calculation is based on the municipality's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Mayor and Council as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Mayor and Council, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encouraged management to correct any misstatements identified throughout the audit process.

Risks and Planned Audit Responses

Based on our knowledge of the municipality's business, our past experience, and knowledge gained from management and the Mayor and Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, required special consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Mayor and Council has identified. We have also provided a brief summary of how we plan to audit these significant risks.

Financial Statement Areas With Significant Risks	Proposed Audit Procedures
<ul style="list-style-type: none"> • Revenue 	<ul style="list-style-type: none"> • Review revenue recognition policy for consistency with the professional standards.
<ul style="list-style-type: none"> • Employee future benefits 	<ul style="list-style-type: none"> • Actuarial valuation for employee future benefits - audit information given to actuary and actuarial assumptions
<ul style="list-style-type: none"> • Significant accruals - firefighter 	<ul style="list-style-type: none"> • Test reasonableness of assumptions for accrual
<ul style="list-style-type: none"> • Contributions from Developers 	<ul style="list-style-type: none"> • Test reasonableness of assumptions and estimates made by management on replacement costs and other factors

Auditor's considerations of possible fraud and illegal activities

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- Identifying and assessing the risks of material misstatement due to fraud;
- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may

involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the municipality's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and make inquiries of management regarding:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud in the municipality, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the municipality; and
- Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

- Inquiry of management, the Mayor and Council, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including:
 - ◆ Testing internal controls designed to prevent and detect fraud;
 - ◆ Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - ◆ Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
 - ◆ Evaluating the business rational for significant unusual transactions.

Other Planning Points

- Liability for Contaminated Sites is a new standard that will come into effect for the December 31, 2015 year end. As a result of applying this standard, the Municipality can apply this standard retroactively or prospectively.

The Mayor and Council plays an important role in the audit planning process and should you have any questions regarding the above, we will be pleased to discuss them with you.

Yours truly,

A handwritten signature in cursive script that reads "Michael Jones".

Michael Jones, CPA, CA

Partner

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants