

The Corporation of the Town of Newmarket
Report to the Audit Committee on the results of the
December 31, 2018 financial statement audits

To be presented to the Audit Committee on June 18, 2019



Deloitte LLP
400 Applewood Crescent
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June 11, 2019

Private and confidential

To the Members of the
Audit Committee of
The Corporation of the Town of Newmarket
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Report on December 31, 2018 audited annual financial statements

Dear Audit Committee Members,

We are pleased to submit this report on the results of our audit of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the 2018 fiscal year. This report summarizes the scope of our audits, our findings and reviews certain other matters that we believe to be of interest to you.

We expect to issue our Independent Auditor's Reports on the financial statements of the Town, the Town of Newmarket Library Board (the "Library"), the Town of Newmarket Main Street District BIA (the "Main Street District BIA") and the Town of Newmarket Trust Funds (The "Trust Funds"), upon approval of the financial statements. Our audits were conducted in accordance with the Audit service plan presented to the Audit Committee on September 12, 2018.

This report is intended solely for the information and use of the Audit Committee, management, and others within the Town and is not intended to, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from management and the employees of the Town and the related entities with whom we worked to discharge our responsibilities. We look forward to discussing this report summarizing the outcome of our audit with you, and, to answering any questions which you may have.

Yours truly,

A handwritten signature in grey ink that reads "Deloitte LLP".

Chartered Professional Accountants
Licensed Public Accountants

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Our audits explained

This report summarizes the main findings arising from our audits.

Audit scope and terms of engagement

We have been engaged to perform the audits of the Town's, Library's, Main Street District BIA's and Trust Funds' Financial Statements as at, and for the year ended, December 31, 2018 (the "Financial Statements") prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") for the Town, the Library and the Main Street District BIA and Canadian Accounting Standards for Not-for-Profit Organizations for the Trust Funds. Our audits were conducted in accordance with Canadian Generally Accepted Auditing Standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement for professional services that is dated November 14, 2017 and the subsequent confirmation of changes letter dated September 7, 2018.

Significant audit risks

Through our risk assessment process, we have identified the significant audit risks. These areas of risk of material misstatement and our related audit responses are described in the 'Areas of significant audit risk' section of this report.

Scope and terms of engagement

Materiality

Significant audit risks

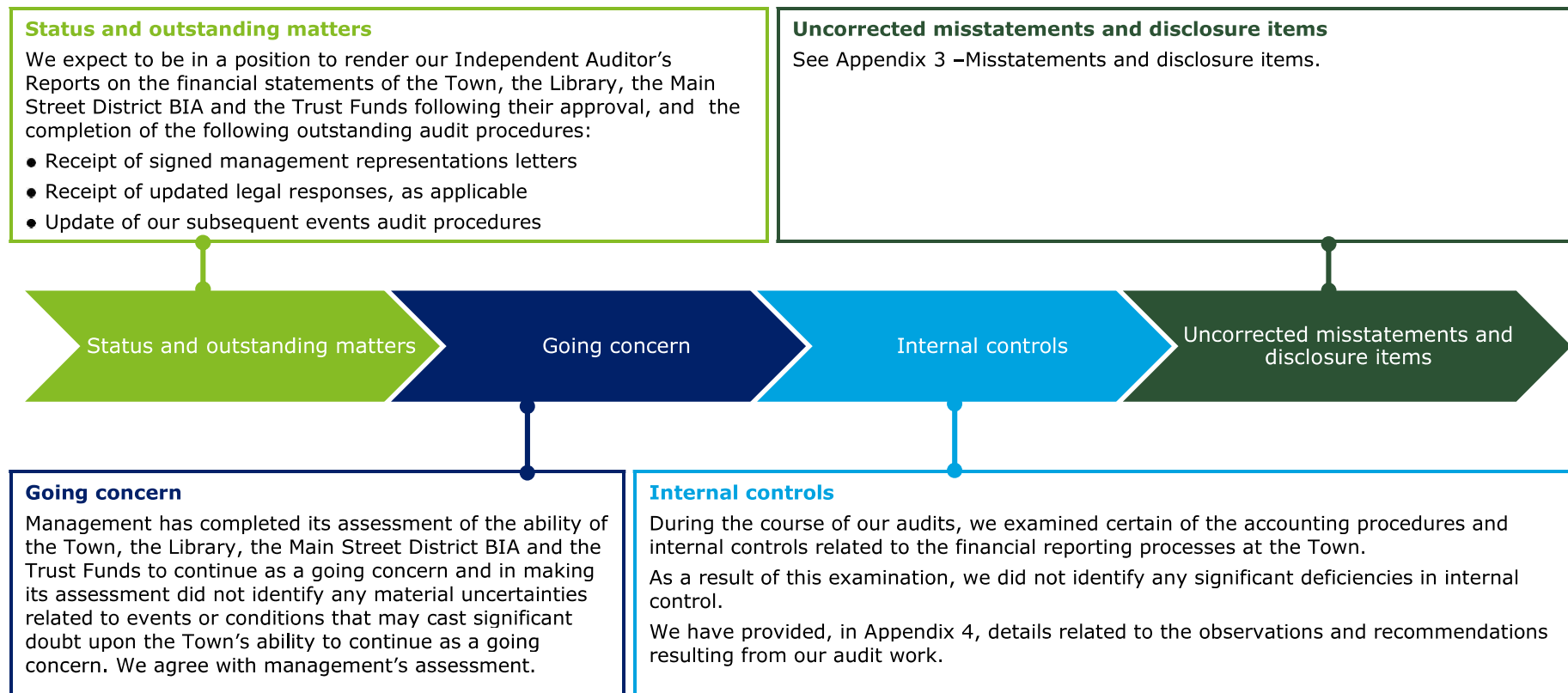
Materiality

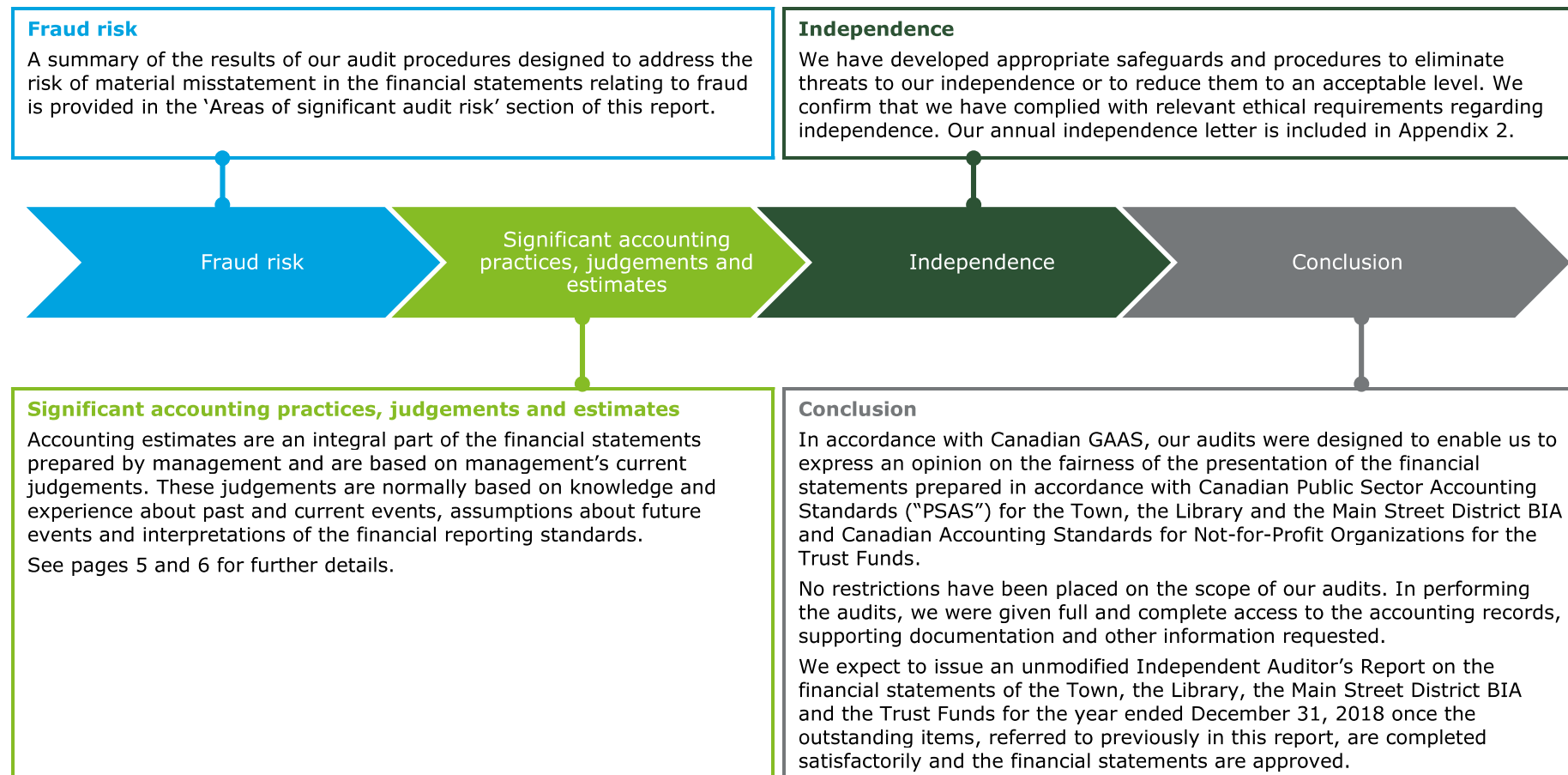
We are responsible for providing reasonable assurance that the financial statements as a whole are free from material misstatement.

Our materiality levels are a matter of professional judgement and were assessed as follows:

- Consolidated Financial Statements for the Town – \$2,000,000
- Town of Newmarket Public Library Board – \$60,000
- Main street District BIA – \$1,500
- Town of Newmarket Trust Funds – \$5,000

We agreed to inform you of any uncorrected misstatements detected during the audit which were greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgement, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected. See Appendix 3 –Misstatements and disclosure items.





Areas of significant audit risk

Revenue recognition

Audit risk

Canadian GAAS include the presumption of a fraud risk involving improper revenue recognition. (Revenue/deferred revenue)

Our audit response

- Certain revenue streams are presumed areas of significant audit risk. We tested the design and implementation of controls in significant revenue streams and performed substantive analytic procedures and/or detailed testing of revenues, and
- Substantive testing to determine if restricted contributions (i.e., development charges), and government transfers/grants were recognized appropriately. (Revenue vs. deferred revenue).

Audit results

See Appendix 3 –Misstatements and disclosure items. Certain misstatements relate to Revenue Recognition of capital grants.
We obtained sufficient audit evidence in this area and are satisfied with the results of audit procedures performed.

Management override of controls

Audit risk

Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance, to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.

Our audit response

- Engaged in periodic fraud discussions with certain members of senior management and others
- Considered the potential for bias in judgements and estimates, including performing retrospective analysis of significant accounting estimates
- Evaluated the business rationale for any significant unusual transactions
- Evaluated the Town's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process
- Tested journal entries that exhibit characteristics of possible management override of controls, identified using manual techniques.

Audit results

Our testing did not identify any evidence of management override of controls.

Significant accounting practices, judgements and estimates

The accounting policies of the Town, the Library, the Main Street District BIA and the Trust Funds are set out in the notes of their respective financial statements.

In the course of our audits of the financial statements, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the financial statements.

Significant accounting policies

There were no significant changes in previously adopted accounting practices or their application at the Town, the Library, the Main Street District BIA and the Trust Funds.

In our judgement, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS for the Town, the Library and the Main Street District BIA; and under Accounting Standards for Not-for Profit-Organizations for the Trust Funds and are appropriate to the particular circumstances of the Town, the Library, the Main Street District BIA and the Trust Funds.

Management judgement and accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. These judgements are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

During the year ended December 31, 2018, management advised us that there were no significant changes in accounting estimates or in judgements relating to the application of the accounting policies.

In our judgement, the significant accounting estimates made by management (with assistance from the Town's actuary as applicable) appear, in all material respects, to be free of possible management bias and of material misstatement. The disclosure in the consolidated financial statements with respect to estimation uncertainty (Note 1(b)(x)) is in accordance with PSAS and is appropriate to the particular circumstances of the Town.

Significant accounting estimates include:

	Reference to Town's consolidated financial statements	2018 \$	2017 \$
Employee future benefits liability	Note 12	6,128,206	5,531,198
Long-term disability benefits liability	Note 13	4,461,290	4,302,741
Allowance for doubtful accounts – taxes receivable	Note 6(a)	1,115,743	865,743
Allowance for doubtful accounts – accounts receivable	Note 6(b)	170,780	71,598

Other reportable matters

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

	Comment
Changes to the audit service plan	The audits were conducted in accordance with our Audit service plan, which was presented to the Audit Committee on September 12, 2018. We confirm that there have been no significant amendments to the audit scope and approach communicated in our Audit service plan.
Significant difficulties encountered in performing the audit	<p>We did not encounter any significant difficulties while performing the audits.</p> <p>There were no significant delays in receiving information from management required for the audits nor was there an unnecessarily brief timetable in which to complete the audits.</p> <p>Due to the misstatements detected in our audit testing of revenue recognition related to capital grants, performed on a sample basis, we extended the scope of our testing. In addition, we incurred additional time to review updated analysis prepared by Management with respect to grant revenue recognition.</p>
Related party transactions	<p>Effective January 1, 2018 and for the fiscal year ending December 31, 2018 the Town was required to adopt Canadian Public Sector Accounting Standard Section 2200, Related Party Disclosures.</p> <p>As part of the implementation of this new standard, the Town became aware of a related party transaction involving the spouse of a Director of the Town. This contract had been ongoing for several years and the Town's finance department did not appear to be aware of the potential conflict of interest until inquiries around related party transactions were made during the 2018 audit. This matter has been disclosed in Note 29 to the Town's consolidated financial statements.</p> <p>Related party transactions or balances have been properly disclosed in the financial statements.</p>
Non-routine transactions during the year	No non-routine transactions were noted during the course of the audit.
Disagreements with management	During the course of our audits, we did not have 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 Town, the Library, the Main Street District BIA and the Trust Funds have not consulted with other accountants about auditing or accounting matters.

	Comment
Legal and regulatory compliance	<p>Management is responsible for ensuring that the Town's operations are conducted in accordance with the laws and regulations applicable to the Town. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations</p> <p>Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the Town, the Library, the Main Street District BIA and the Trust Funds.</p>
Subsequent events	<p>Note 28 to the Town's financial statements provides subsequent events disclosure related to the following two items:</p> <p><i>Closure of the Museum bank account</i></p> <p>Subsequent to December 31, 2018 on March 15, 2019, the Town transferred the Museum bank account cash balance to the Town's reserve fund bank account and closed the Museum bank account. Additionally, the Museum reserve fund was created.</p> <p><i>Repayment of Debenture</i></p> <p>Subsequent to December 31, 2018 on April 24, 2019, the Town repaid \$7,796,000 of outstanding debentures. This payment represents the outstanding balance of the debenture owed to the Corporation of the Regional Municipality of York less sinking fund interest of \$59,414.</p> <p>At the date of finalizing this report, other than the matters noted above, we are not aware of any significant subsequent events that would require adjustment or disclosure in the December 31, 2018 financial statements.</p>

Appendix 1 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication	Comments
Audit service plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Master Services Agreement for Professional Services dated November 14, 2017 and subsequent confirmation of changes letter dated September 7, 2018
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audits b. Significant risks, including fraud risks c. Planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audits 	Audit service plan presented on September 12, 2018 We received all of the reporting requested from the independent auditor of Newmarket Hydro Holdings Inc.
3. Significant transactions outside of the normal course of business, including related party transactions	Refer to the <i>Other Reportable Matters</i> section of this report - related party transactions
Enquiries of those charged with governance	
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks	Discussed when presenting the audit plan on September 12, 2018
5. Any known suspected or alleged fraud affecting the Town	No fraudulent events communicated
6. Whether the Town is in compliance with laws and regulations	Refer to the <i>Other reportable matters</i> section of this report
Year-end communication	
7. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	Refer to 'Significant accounting practices, judgements and estimates' section of this report

Required communication	Comments
Year-end communication	
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	None
10. Matters related to going concern	None
11. Management judgements and accounting estimates	Refer to <i>Significant accounting practices, judgements and estimates</i> section of this report
12. Significant difficulties, if any, encountered during the audits	Refer to the <i>Other reportable matters</i> section of this report
13. Material written communications between management and us, including management representation letters	Management representation letter is included in Appendix 5
14. Other matters that are significant to the oversight of the financial reporting process	None
15. Modifications to our Independent Auditor's Reports	None
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	We are not aware of any such consultations
17. Significant matters discussed with management	None
18. Matters involving non-compliance with laws and regulations that come to our attention	None noted
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audits of the financial statements	No significant deficiencies noted Refer to Appendix 4 – Internal control matters
20. Uncorrected misstatements and disclosure items	Refer to Appendix 3 – Misstatements and disclosure items
21. Any significant matters arising during the audit in connection with the Town's related parties	Refer to the <i>Other Reportable Matters</i> section of this report - related party transactions Refer to Appendix 4 – Internal control matters

Appendix 2 – Independence letter

June 11, 2019

Private and confidential

To the Members of the Audit Committee of
The Town of Newmarket
395 Mulock Dr, PO Box 328 STN Main
Newmarket ON L3Y 4X7

Dear Audit Committee members:

We have been engaged to audit the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2018.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Town, our Firm and network firms that, in our professional judgement, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

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

- a) Holding a financial interest, either directly or indirectly, in a client.
- b) 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.
- c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
- d) Economic dependence on a client.
- e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 31, 2018, the date of our last letter.

In addition to audit services we have also provided HST advisory and HST recovery services during the period from May 31, 2018 to June 11, 2019. These services were commenced prior to our appointment as external auditors, have been discussed with the Audit Committee and are permissible services.

We are not aware of any relationships between the Deloitte Entities and the Town and its affiliates, or persons in financial reporting oversight roles at the Town and its affiliates, that, in our professional judgement, may reasonably be thought to bear on independence, that have occurred from May 31, 2018 to June 11, 2019.

We hereby confirm that we are independent with respect to the Town in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of June 11, 2019.

This letter is intended solely for the information and use of the Audit Committee, Town Council, management, and others within the Town and is not intended to be should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at your upcoming Audit Committee meeting on June 18, 2019.

Yours truly,

A handwritten signature in dark ink that reads "Debitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Appendix 3 – Misstatements and disclosure items

Uncorrected misstatements - detected in the current year (Town of Newmarket)

1. To correct for the timing of the recognition of capital grant revenue and expenditures.

a. Dr. Accounts Receivable	\$19,000	
b. Dr. Reserve Funds	\$104,480	
c. Cr. Obligatory Reserve Fund - Deferred Revenue		\$123,480

2. To adjust for grant revenue recorded for expenditures that were not incurred by the Town, and in which the Town has to repay the funds to LSRCA.

a. Dr. Revenue	\$75,008	
b. Cr. Expense		\$75,008

3. To adjust for a likely misstatement in the year end provision recorded for uncollectible taxes receivable, but not in accordance with Canadian Public Sector Accounting Standards.

a. Dr. Taxes Receivable	\$175,000	
b. Cr. Taxation Revenue		\$175,000

Uncorrected misstatements - detected in the current year (Library Board)

4. To record the factual and likely misstatement in prepaid assets discovered in F2018 impacting the current year prepaid and expense balances.

a. Dr. Prepaid Assets	\$2,846	
b. Cr. Expense		\$2,846

Uncorrected misstatements - detected in the current year (BIA)

5. The full amount of HST (13%) was included in expenses, rather than only the non-refundable portion (1.76%).

a. Dr. Accounts Payable	\$266	
b. Cr. Expense		\$266

Misstatements detected in the current year relating to the prior year (Town of Newmarket)

6. To correct for an over accrual of Central York Fire Services retro-pay
 - a. Dr. Accruals \$392,672
 - b. Cr. Expense \$392,672

7. To correct a WIP capital item related to work performed in 2017 that was only capitalized in 2018. This matter relates to the Viva Bus Transit project.
 - a. Dr. TCA \$162,816
 - b. Cr. Accounts Payable \$162,816

8. To correct for a utilization of obligatory reserve funds that should have been recorded as a reduction from reserves. This entry was corrected in 2018 Financial Statements.
 - a. Dr. Mulock Farm Reserve \$377,485
 - b. Cr. Parkland Reserve – deferred revenue \$377,485

9. To correct grant revenue received and earned in the current year to reflect recognition of grants revenue and expenditures on an accrual basis.
 - a. Dr. Accounts Receivable \$276,374
 - b. Cr. Revenue \$276,374

Misstatement detected in the current year relating to the prior year (Library)

10. To record the factual and likely misstatement in prepaid assets discovered in F2018 impacting the prior year prepaid and expense balances.
 - a. Dr. Prepaid \$1,503
 - b. Cr. Accumulated Surplus \$1,503

Disclosure misstatements

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference
Note 2	Budget Figures	The original council approved budget was adjusted for the March 5, 2018 council approved supplementary budget.	PS 1200 The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.
Note 10	Investment in Newmarket Hydro Holdings Inc.	The Town's consolidated financial statement note disclosure omits the disclosure of the contractual obligations and commitments of Newmarket Hydro Holdings Inc.	PS 3070.60 Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on: (d) contractual obligations and contingencies

Appendix 4 – Internal control matters

June 11, 2019

Private and confidential

To the Members of the Audit Committee of
The Corporation of the Town of Newmarket
395 Mulock Dr, PO Box 328 STN Main
Newmarket ON L3Y 4X7

Dear Audit Committee Members:

We have recently completed our examination of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2018.

In addition to our Independent Auditor's Report on the consolidated financial statements, we would like to provide the attached management letter for your consideration.

As part of our audit examination, we are required to obtain an understanding of the Town and its environment, including internal controls, sufficient to identify and assess the risk of material misstatements in the financial statements, and sufficient to design and perform further audit procedures. The scope of our review of internal controls is not sufficient to express an opinion as to the effectiveness or efficiency of the Town's internal controls; however, we do undertake to report any matters that come to our attention during the audit. We have reviewed our comments with management and their responses to our recommendations are included in the attached letter.

The letter is intended solely for the information and use of management, the Audit Committee and the Town Council and is not intended for and should not be used by anyone other than the specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

Yours very truly,



Chartered Professional Accountants
Licensed Public Accountants

Management letter

The Corporation of the Town of Newmarket

December 31, 2018

1. Liability balances (carry forward from 2017)

Observation

During our testing of accounts payable and accrued liabilities, we identified a *letter of credit* general ledger account with a balance of approximately \$350,000 described as representing liabilities to developers for various projects. This account appears to be comprised of long-standing balances with the most recent from 2009 and some transactions dating as far back as 1987. From our discussions with Town management, we understand that it is unlikely developers will submit a request to obtain these funds as many of the related projects likely had deficiencies. Therefore developers would not be eligible to receive refunds. The lack of timely tracking and reconciliation of the underlying items included in this general ledger account could result in an overstatement of the Town's liabilities if they are no longer payable to developers.

Recommendation

We recommend that the Town implement a formal review of long-standing balances to determine whether the Town still has a liability or whether certain balances should be recognized in revenue. In future, this analysis should be performed on a regular basis and within a timely manner. Furthermore, the Town should implement a process of how to recognize these balances into revenue, when it is determined they no longer have an obligation to settle the liability.

Management Response

Management agrees with the recommendation. There have been attempts to deal with this, but it has not been a priority. In 2019 we will review these and reduce the liability to an appropriate and reasonable amount.

2. Approval of invoices (carry forward from 2017)

Observation

During our testing of accounts payable, we noted that invoices were not always approved in a timely manner. Invoices are not sent to the Finance Department until they have been approved by the appropriate department, and this may result in invoices being processed late and/or not recorded in accounts payable in the correct accounting period.

Recommendation

We recommend that the Town review its year end close process and request that all invoices be submitted to the Finance Department on a timelier basis.

Management Response

Management agrees with the recommendation. We continue to work with the Business Performance Specialist on outreach to Development and Infrastructure Services – the commission with the majority of the relevant invoices. Multiple emails are sent to all departments about year-end deadlines and submission of invoices. A more formal invoice routing process was instituted in early 2019 and all invoices not paid on a corporate credit card should now be sent directly to accounts payable. This process should result in an improvement.

3. Approval of transactions made on purchasing cards (carry forward from 2017)

Observation

During our testing of key internal controls related to disbursements, we noted that the single payment for the Town's outstanding balance on all Town purchasing cards is automatically made by the due date in order to avoid interest charges. Due to high number of purchasing cards and the high volume of transactions, this payment is automatically disbursed before the transactions charged to the purchasing card are reviewed by the authorized card holder, receipts submitted and appropriately approved.

Recommendation

We recommend that the Town review its internal control processes related to purchasing cards with a view to streamlining the processes related to authorization of transactions at the card holder and approver level. In addition, it is always best practice to review the number of purchasing cards in use by the Town to ensure they are still required.

We understand that effective May 15, 2019, the Town has moved the approval of purchasing card transactions from Procurement to Finance. Deloitte will review the design and implementation of the key internal controls as part of the audit of the Town's December 31, 2019 financial statements.

Management Response

Recommendations from York Region's internal audit department, as well as an external consultant, included a recommendation that responsibility for the PCard should be in Finance. This change occurred on May 15, 2019. Finance is reviewing all aspects of the PCard, including training, policies, procedures and the number of cards in use. We have requested and are currently working with the internal audit department of York Region to identify and establish best practices. When this is finalized we anticipate a follow up audit from York Region.

4. Recognition of prepaid expenditures on an accrual basis

Observation

During our audit testing of the accounts of the Town and the Main Street BIA, we noted several instances where invoices were paid in advance for services covering the current fiscal year and beyond. These amounts were inappropriately expensed in the current fiscal year. It would appear that this accounting treatment has been used for several years.

Recommendation

We recommend the Town and the Main Street BIA review the transactions related to all multi-year service invoices to ensure that the expenditures are appropriately allocated to the correct period and that prepaid assets are recognized and amortized throughout the appropriate period.

Management Response

Management agrees with the recommendation. There is a process in place and transactions over a threshold amount are allocated by year. This threshold, which is on a consolidated basis, is not applicable to the BIA or the Library and will no longer be applied.

5. Recognition of revenue related to capital grants

Observation

During our testing of capital grants, we noted a number of misstatements related to revenue recognition of capital grants impacting both fiscal 2017 and fiscal 2018. The Town incurred eligible capital expenditures during fiscal 2017 that did not result in an associated recognition of grant revenue, and were instead funded through development charges. Grant revenue was then subsequently recognized during fiscal 2018 on a cash basis, once the grants were received by the Town and it was determined that the grant was related to expenditures incurred during fiscal 2017. The related development charges revenue was reversed during fiscal 2018. A similar issue was noted with the timing of revenue recognition of capital grants associated with eligible expenditures incurred during fiscal 2018.

In addition, we also noted instances where grant revenue was recognized for a capital project in the current fiscal year where no eligible expenditures were incurred, as the Town has recorded the grant revenue on a cash basis as they had received cash from the funder.

Recommendation

We recommend that the Town increase its review and scrutiny over its accounting related to grant revenue recognition and accounting for eligible expenditures. We also recommend that the Town record these transactions on an accrual basis, as required by Canadian public sector accounting standards.

Management Response

Management agrees with the recommendation. The creation of a grant coordinator position will now allow for greater review and scrutiny. The current practice of accounting for grants on a cash basis will be changed to an accrual basis.

6. Recognition of Tangible Capital Assets (TCA)

Observation

During our testing of TCA, including transfers from work-in-progress (WIP), we noted an instance where a capital project that was recorded as an addition to WIP during fiscal 2018 appears to have been capitalized in the incorrect year. The amounts capitalized were related to work performed on the Town's behalf during fiscal 2017. We understand that the delay in the recognition is due to the fact that another Town department did not inform Finance of the status of the capital project until August 2018, when a summary of outstanding payments for work performed was provided to that department by the contractor.

Recommendation

We recommend that communication be sent out to all Town departments involved in capital projects to confirm the requirement to inform Finance of all capital activities undertaken, regardless of their assessment on whether the work is "complete" from their perspective. This way, Finance can ensure that it has line of sight on all expenditures related to capital incurred during the year and appropriately account for them in the correct year. In addition, this will also provide Finance with a line of site to disputes with vendors on a timelier basis.

Management Response

Management agrees with the recommendation. Multiple emails are sent to all departments about year-end deadlines, the submission of invoices, and accruals. Modifications to the routing of invoices should help correct this and Finance will have more direct and indirect, via the Business Performance Specialist, communication with Public Works and Engineering Services about the status of capital activities. The Town is also considering a more robust reporting on the status of capital projects.

7. Cross-department communication

Observation

We noted communication issues between other departments and Finance during the audit. For example, in conjunction with our testing of capital grant revenue recognition, the root cause of the delayed recognition of certain capital transactions selected for testing on a sample basis appears to be the lack of communication between the Finance team and individuals in other Town departments. Based on discussions with management in the Finance area, it is common for Town staff outside of Finance to apply for grants and not inform Finance as to the status. In a number of cases, only after the fact, when the funding is paid out does the Town's finance staff recognize revenue for a capital grant has been awarded to the Town for capital projects that have been already funded from other sources.

Recommendation

We recommend that the Town establish formal centralized guidelines for the application of grants including informing the Finance department as to the status of the grant. In addition, the Town should draw on the new grant coordinator position to liaison between the different groups within the Town and ensure that the Town is appropriately aware of all grants applied for relating to current and future capital projects and the status of grant applications as at various financial reporting dates.

Management Response

Management agrees with the recommendation. Regular meetings will take place with the grant coordinator and a more formal tracking process has been implemented.

8. Related party transactions

Observation

Effective January 1, 2018 and for the fiscal year ending December 31, 2018 the Town was required to adopt Canadian Public Sector Accounting Standard Section 2200, Related Party Disclosures. As part of the implementation of this accounting standard, the Town was required to complete the following regardless of whether or not related party transactions have occurred:

- Identification of the Town's related parties
- Identification of whether transactions have occurred between the Town and its related parties
- Assessment of whether the identified related party transactions require disclosure in the Town's financial statements, and
- Provide the required disclosures

During 2018, as part of the Town's adoption of this new accounting standard, the Town became aware of a related party transaction involving the spouse of a Director of the Town. This contract had been ongoing for several years and the Town's finance department did not appear to be aware of the potential conflict of interest until inquiries around related party transactions were made during the 2018 audit.

Recommendation

We understand that the Town has a process for the declaration of conflicts of interest by the Mayor and members of Council with respect to matters before them. The Town may wish to consider implementing a more formal process to track the Town's related parties and transactions with its related parties in order to assess compliance conflict of interest requirements and the need for financial statement disclosures in accordance with this new disclosure standard. The current processes could be enhanced to include an annual compliance review and sign off process for the Town's senior management team, the Mayor and members of Council. We have provided examples of PS 2200 compliant checklists that the Town may wish to utilize.

Management Response

Management agrees with the recommendation. A more formal process will be implemented and include the audit checklist provided. Part of the process will include formal communication from Human Resources and Procurement to identify potential conflict of interest situations that could result in related party transactions, as well as a formal reporting process to the Mayor and the Chief Administrative Officer.

Matters related to information technology

9. Password authentication policy settings (carry forward from 2017)

Observation

Deloitte compared the management application/database expected settings against the database configuration and noted the following password settings do not align with best practices

- There is no limit to the number of times password can be reused
- The password lock out time is set for one day

Due the inadequate password security, the company may be exposed to the risk of unauthorized access resulting to unauthorized disclosure, update or deletion of corporate data.

Recommendation

The password policies for the database should be configured as per the documented standard policies. Management should review the password policies to ensure compliance on an annual basis

Management Response

Agreed. Management will review settings with staff for both the application and database level.

10.IT Production System - segregation of duties conflict (carry forward from 2017)

Observation

We noted that segregation of duties between developer and personnel with access to promote changes to production is not maintained. Lack of segregation of duties between developers and personnel with access to promote changes to production may result in unauthorized changes to production system.

Recommendation

We recommend that management consider, when possible, segregate the roles of developers and personnel with access to promote changes to production. Alternatively, management may also consider establishing some tracking monitoring procedures to ensure that all changes made were appropriately authorized.

Management Response

Management agrees with the recommendation. As a result of recommendations from an IT Organizational Review and Technical Assessment, the department has undergone significant changes to staffing. There is currently only one individual who performs both administrative support and development on the JDEdwards/Oracle platform. Until we can complete the recommended IT structure, fill vacancies and fully train new individuals we are unable to segregate duties appropriately.

11. User access review (carry forward from 2017)

Observation

We noted that evidence related to access reviews performed for JDE and Oracle are not maintained. For the testing period of 2019, there was no record of access review performed. Lack of documentation for the maintenance of access review may result in unaccountability for the performance of the review.

Recommendation

We recommend management consider outlining specific processes and procedures to follow for all user access reviews for JDE and Oracle.

Management Response

Management agrees with the recommendation. A process was outlined last year but due to the number of changes resulting from an IT Organizational Review and Technical Assessment, it requires further refinement to be successful. Once all key staff are in place, the process will be finalized and implemented.

12. Change Management

Observation

During the review of the change management process, it was observed that application changes and database changes lacked evidence retention for the following:

- Ticket/email communication for the change to be initiated/implemented
- Testing details
- Formal approval for the change to be approved before being promoted into production

If changes are not properly approved and tested, there is a potential that the risk of such changes are not appropriately considered and that testing is inappropriate and consequently issues occur that impact the availability of the financial systems.

Recommendation

Management should retain documentation of change testing and approval to ensure that the implemented changes are authorized and appropriate.

Management Response

Management agrees with the recommendation. There is an active project stemming from recommendations from the IT Review around IT Governance and formalizing policies/processes. Change Management will be an important part of this.

13. Privilege Access review

Observation

During the review of database (Oracle) privilege level access, it was noted that generic ID's and system accounts are used to perform privilege/elevated roles instead of an individual system account.

If an individual system account is not used, there is lack of traceability on the account activities and unauthorized changes can be performed.

Recommendation

We recommend that a review document for the access rights should be maintained and unique user ID's should be present in the system to perform elevated rights.

Management Response

Management agrees with the recommendation. However, there is only one DBA who uses these system accounts and any activity would be traced back to this individual.

Appendix 5 – Draft management representation letter

[CLIENT LETTERHEAD]

June 24, 2019

Private and confidential

Deloitte LLP
400 Applewood Cres
Suite 500
Vaughan ON L4K 0C3

Dear Ms. Colavecchia:

Subject: Consolidated financial statements of the Corporation of the Town of Newmarket for the year ended December 31, 2018

This representation letter is provided in connection with the audit by Deloitte LLP ("Deloitte" or "you") of the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town" or "we" or "us") as at, and for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information (the "Financial Statements") for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, changes in net financial assets and cash flows of the Town in accordance with Canadian Public Sector Accounting Standards ("PSAS").

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the Master Services Agreement for Professional Services between the Town and Deloitte dated November 14, 2017 and the confirmation of changes dated September 7, 2018 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Town as at December 31, 2018 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Town has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2018 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. The Town has identified all related parties in accordance with Section PS 2200, *Related Party Disclosures* ("PS 2200"). Management has made the appropriate disclosures with respect to its related party transactions in accordance with PS 2200. This assessment is based on all relevant factors, including those listed in paragraph 16 of PS 2200.
4. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected. The Financial Statements have been approved in accordance with our process to finalize financial statements.
5. We have completed our review of events after December 31, 2018 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
6. The Financial Statements are free of material errors and omissions.

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current period presented, are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

As a result of our evaluation process, we identified certain disclosures that, although required by PSAS, have been omitted from our Financial Statements. Those omitted disclosures that are more than inconsequential are attached as Appendix B. We believe the effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the Financial Statements as a whole.

Internal Controls

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
8. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

Information provided

9. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters.
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
10. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
11. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.

12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Financial Statements.
13. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting the Town.
14. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies financial reporting practices and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration.
16. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

17. Prior to the Town having any substantive employment conversations with a former or current Deloitte engagement team member, the Town has held discussions with Deloitte and obtained approval.
18. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by those charged with governance in accordance with its established approval policies and procedures.

Other matters

19. The Town has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.
20. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
21. We have disclosed to you, and the Town has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
22. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

Communications with taxation and regulatory agencies

23. We have disclosed to you all communications from:

- a. Taxation authorities concerning assessments or reassessments that could have a material effect on the Financial Statements; and
- b. Regulatory agencies concerning noncompliance with or potential deficiencies in, financial reporting requirements.

Deficiencies in internal control

24. We have communicated to you all deficiencies in internal control of which we are aware. We have disclosed to you any change in the Town's internal control over financial reporting that occurred during the current year that has materially affected, or is reasonably likely to materially affect, the Town's internal control over financial reporting.

Work of management's experts

25. We agree with the work of management's experts in evaluating the valuation of post-employment benefits liability and long-term disability benefits liability and have adequately considered the capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

Liabilities and contingencies

26. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

Loans and receivables

27. The Town is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

Employee future benefits

28. Employee future benefit costs, assets, and obligations have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Government transfers

29. We have disclosed to you all correspondence relating to government transfers that the Town has had with the funding body.
30. We have assessed the eligibility criteria and determined that the Town is an eligible recipient for the government transfers received.
31. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
32. All government transfers that have been recorded as deferred revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

Tax Revenues

33. We have appropriately recorded tax assets and revenues when they meet the definition of an asset in accordance with Section PS 1000, Financial Statement Concepts, when they are authorized and when the taxable event occurs. These amounts have been appropriately measured in accordance with PS 3510, Tax Revenue, and have not been grossed up for any amount of tax concessions.

Tangible capital assets

34. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, Tangible Capital Assets.
35. Contributed tangible capital assets have been appropriately recorded at fair value, unless fair value is not reasonably determinable, and in such case, have been recorded at an appropriate nominal value. All contributed tangible capital assets have been appropriately disclosed.
36. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to the Town's ability to provide goods and services and therefore do not require a write down.

Environmental liabilities/contingencies

37. We have considered the effect of environmental matters on the Town and have disclosed to you all liabilities, provisions or contingencies arising from environmental matters. All liabilities, provisions, contingencies and commitments arising from environmental matters, and the effect of environmental matters on the carrying values of the relevant assets are recognized, measured and disclosed, as appropriate, in the Financial Statements.

Government Business Enterprises and Government Partnerships

38. The Town has appropriately classified its investments in Newmarket Hydro Holdings Inc. as a Government Business Partnership.

With regard to the Town's investment in Newmarket Hydro Holdings Inc. we have disclosed to you any events that have occurred and facts that have been discovered with respect to such investment that would affect the investment's value as reported in the financial statements.

Liabilities for contaminated sites

39. We have evaluated all of our tangible capital assets that we have direct responsibility for or accept responsibility for, and have not identified any sites in which contamination exceeds an environmental standard.

Yours truly,

The Corporation of the Town of Newmarket

Mr. Mike Mayes
Director of Financial Services and Treasurer

Mr. Jag Sharma Chief Administrative Officer

Appendix A
Town of Newmarket
Summary of financial statement misstatements
Year ended December 31, 2018

Uncorrected misstatements - detected in the current year (Town):

1. To correct grant revenue received and earned in the current year to reflect matching of revenue and expense

a. Dr. Accounts Receivable	\$19,000
b. Dr. Reserve Funds	\$104,480
c. Cr. Obligatory Reserve Fund/Deferred Revenue	\$123,480

2. To adjust for grant revenue recorded for expenditures that were not incurred by the Town, and in which the Town has to repay the funds to LSRCA

a. Dr. Revenue	\$75,008
b. Cr. Expense	\$75,008

3. To correct for a year end accrual for uncollectible taxes receivable booked, but not in accordance with public sector accounting standards.

a. Dr. Taxes Receivable	\$175,000
b. Cr. Taxation Revenue	\$175,000

Uncorrected misstatements - detected in the current year (Library):

4. To record the factual and likely misstatement in prepaid assets discovered in F2018 impacting the current year prepaid and expense balances.

a. Dr. Prepaid Assets	\$2,846
b. Cr. Expense	\$2,846

Uncorrected misstatements - detected in the current year (BIA):

5. The full amount of HST (13%) was recorded in expenses, rather than only the non-refundable portion (1.76%).

a. Dr. Accounts Payable	\$266
b. Cr. Expense	\$266

Misstatements detected in the current year relating to the prior year (Town):

6. To correct for an over accrual of Central York Fire Services retro-pay

a. Dr. Payroll Accrual	\$392,672
b. Cr. Payroll Expense	\$392,672

7. To correct a WIP capital item related to work performed in 2017 that was only capitalized in 2018. This matter relates to the Viva Bus Transit project

a. Dr. TCA	\$162,816
b. Cr. Accounts Payable	\$162,816

Appendix A
Town of Newmarket
Summary of financial statement misstatements
Year ended December 31, 2018

8. To correct for a utilization of obligatory reserve funds that should have been recorded as a reduction from reserves. This entry was corrected in 2018 Financial Statements
- | | |
|----------------------------|-----------|
| a. Dr. Mulock Farm Reserve | \$377,485 |
| b. Cr. Parkland Reserve | \$377,485 |
9. To correct grant revenue received and earned in the current year to reflect matching of revenue and expense
- | | |
|----------------------------|------------|
| a. Dr. Accounts Receivable | \$276,374 |
| b. Cr. Revenue | \$ 276,374 |

Misstatement detected in the current year relating to the prior year (Library)

10. To record the factual and likely misstatement in prepaid assets discovered in F2018 impacting the prior year prepaid and expense balances.
- | | |
|----------------------------|---------|
| a. Dr. Prepaid | \$1,503 |
| b. Cr. Accumulated Surplus | \$1,503 |

Appendix B
Town of Newmarket
Summary of disclosure items passed
Year ended December 31, 2018

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference
Note 2	Budget Figures	The original council approved budget was adjusted for the March 5, 2018 council approved supplementary budget.	PS 1200 The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.
Note 10	Investment in Newmarket Hydro Holdings Inc.	The Town's consolidated financial statement note disclosure omits the disclosure of the contractual obligations and commitments of Newmarket Hydro Holdings Inc.	PS 3070.60 Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on: (d) contractual obligations and contingencies



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