



The Corporation of the Town of Newmarket 2019 Audit Service Plan

For the year ending December 31, 2019
To be presented to the Audit Committee on October 7, 2019

October 2, 2019

Private and Confidential

To the Members of the Audit Committee of
The Corporation of the Town of Newmarket
395 Mulock Drive, P.O. Box 328 STN Main
Newmarket ON L3Y 4X7

2019 Audit service plan

Dear Audit Committee members:

We are pleased to present our 2019 Audit service plan for The Corporation of the Town of Newmarket ("the Town"), which describes our audit scope and strategy, our audit approach and our planned communications with you.

Our audit will include:

- An audit of the Town of Newmarket's consolidated financial statements (the "Financial Statements") for the year ending December 31, 2019 prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS");
- An audit of the Town of Newmarket Public Library Board's financial statements for the year ending December 31, 2019 prepared in accordance with PSAS; and
- An audit of the Town of Newmarket Main Street District BIA's financial statements for the year ending December 31, 2019 prepared in accordance with PSAS.

We are providing this audit service plan to the Audit Committee ("the Committee") on a confidential basis. It is intended solely for the use of the Committee to assist you in discharging your responsibilities with respect to the Financial Statements and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We look forward to discussing our Audit service plan with you and to answering any questions that you may have.

Yours truly,



Chartered Professional Accountants
Licensed Public Accountants

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Our audit explained

Group audit

When designing our audit strategy, we consider:

- The financial significance or relative importance of the consolidated entities and the government business enterprises accounted for on a modified equity basis
- The complexity and nature of the operations, internal control and accounting issues on each consolidated entity, and
- The degree of centralization or decentralization of processes and controls.

We intend to use the work of Baker Tilly KDN LLP, the external auditor of Newmarket Hydro Holdings Inc. We will complete required communications with the Component auditor, ensure the accounting for the Town’s investment in Newmarket Hydro Holdings Inc. is appropriate and ensure the disclosures in the consolidated Financial Statements are adequate.

Audit scope and terms of engagement

We have been engaged to perform the audits of the Town’s, Library’s and Main Street District BIA’s Financial Statements as at, and for the year ending December 31, 2019 (collectively the “Financial Statements”).

Our audits will be conducted in accordance with Generally Accepted Auditing Standards (“GAAS”).

The terms and conditions of our engagement are described in the Master Services Agreement for Professional Services dated November 14, 2017 and the confirmation of changes letter dated September 7, 2018.



Materiality

We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement.

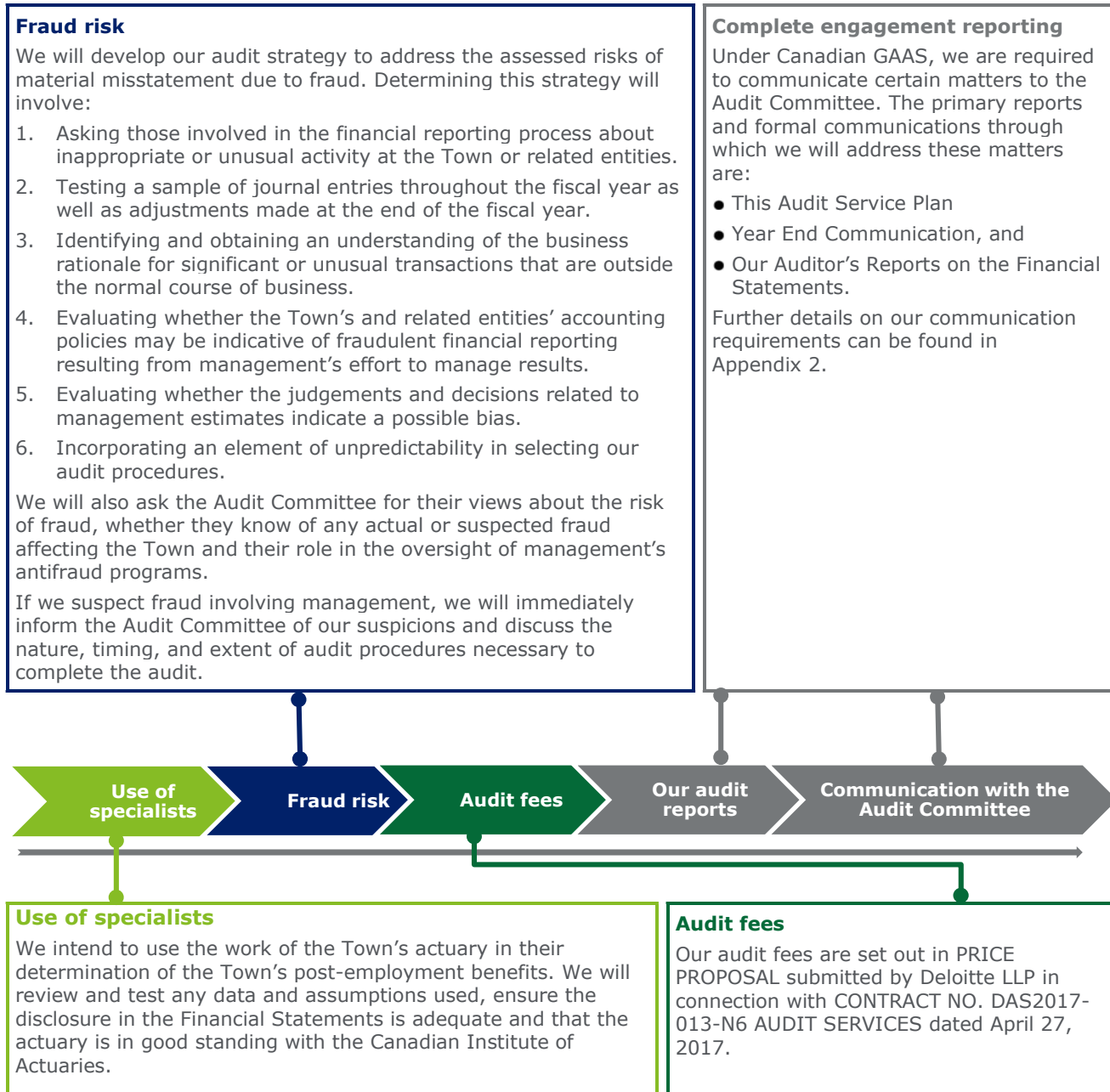
Our materiality levels are a matter of professional judgment and based on our preliminary planning we will assess materiality levels using professional judgement taking into account the following benchmarks:

- Consolidated Financial Statements for the Town – 2% of consolidated expenditures, estimated at approximately \$2,500,000
- Town of Newmarket Public Library Board – 2% of expenditures, estimated at approximately \$68,000
- Main street District BIA – 5% of expenditures, estimated at approximately \$1,500

We will inform the Audit Committee of all uncorrected misstatements greater than a clearly trivial amount (5% of materiality) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will ask that any misstatements be corrected.

Significant audit risks

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



Significant audit risks

The following tables set out the significant audit risks that we identified during our preliminary planning activities, including our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk's occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the Town.

Revenue recognition

Audit risk

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

Our proposed audit response

- Certain revenue streams are presumed areas of significant audit risk. We will test the design and implementation of controls in significant revenue streams and perform 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 have been recognized appropriately. (Revenue vs. deferred revenue).

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 proposed audit response

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

As we perform our audit procedures, we will inform you of any significant changes to the significant risks discussed above and the reasons for those changes.

Appendix 1 – Audit approach

Deloitte’s audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing the Town.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks

2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether the Town’s selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management’s effort to manage results.
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Audit Committee regarding:

- Its views about the risk of fraud
- Whether it has knowledge of any actual or suspected fraud affecting the Town, and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Audit Committee is aware of tips or complaints regarding the Town's financial reporting and, if so, the Audit Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit, and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the design and implementation of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and the relevant general computer controls.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and assessing the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Audit Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the clearly trivial threshold has been set at 5% of materiality), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

Use of the work of specialists

The Deloitte audit is distinguished by the use of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists augment the core engagement audit team in understanding business processes and related risks, and help the audit engagement team apply an appropriate level of professional skepticism to challenge significant management assumptions.

For the audit, we will use Deloitte computer assurance specialists to assist us in performing our audit procedures to test the design and implementation of general computer controls.

Our specialists are involved in the planning and risk assessment process, and will be available to the audit team and the Town management year-round to discuss ongoing risk assessments, industry developments and other matters of interest.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audits was sufficient to support our opinion, and
- The misstatements identified during the audits do not result in the financial statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to the Town.

We are independent of the Town and we will reconfirm our independence in our year end communication report to the Audit Committee.

Appendix 2 – Communication requirements

Required communication	Reference
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS ¹ 260.14
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, and c. Planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audits 	CAS 260.15
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27
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	CAS 240.20
5. Any known suspected or alleged fraud affecting the Town	CAS 240.21
6. Whether the Town is in compliance with laws and regulations	CAS 250.14
Year-end communication	
7. Fraud or possible fraud identified through the audit process	CAS 240.40-.42
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.
10. Matters related to going concern	CAS 570.25
11. Management judgments and accounting estimates	CAS 260.16 a.
12. Significant difficulties, if any, encountered during the audits	CAS 260.16 b.
13. Material written communications between management and us, including management representation letters	CAS 260.16 c.
14. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16e.
15. Modifications to our opinions	CAS 260.A21
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A22
17. Significant matters discussed with management	CAS 260.A22

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference
18. Matters involving non-compliance with laws and regulations that come to our attention	CAS 250.23
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audits of the financial statements	CAS 265
20. Uncorrected misstatements and disclosure items	CAS 450.12-13
21. Any significant matters arising during the audits in connection with the Town's related parties	CAS 550.27

Appendix 3 – New and revised Public Sector Accounting Standards

The following is a summary of certain new Public Sector Accounting Standards that will become effective in 2019 and beyond.

To review all recent amendments that will impact your organization in the foreseeable future, we invite you to review our [Standard-setting Activities Digest](#), included in our Centre for Financial Reporting (www.cfr.deloitte.ca).

Title	Description	Effective date
Section PS 3430 – Restructuring transactions	This Section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.	This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted. This is applicable for the Town’s December 31, 2019 year end.
Section PS 2601 – Foreign currency	This section establishes standards on how to account and report transactions that are denominated in a foreign currency.	This Section is effective for: (i) Government organizations – fiscal years beginning on or after April 1, 2012, and (ii) Governments – fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
Section PS 3450 – Financial instruments	This Section establishes standards on how to account for and report all types of financial instruments including derivatives.	This Section is effective for: (i) Government organizations – fiscal years beginning on or after April 1, 2012, and (ii) Governments – fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
Section PS 1201 – Financial statement presentation	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements.	This Section is effective for: (i) government organizations for fiscal years beginning on or after April 1, 2012, and (ii) governments for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
Section PS 3041- Portfolio Investments	This Section establishes standards on how to account for portfolio investments.	This Section applies in the period Financial Statement Presentation PS 1201, Foreign Currency Translation PS 2601 and Financial Instruments PS 3450 are adopted.
Section PS 3280 – Asset retirement obligations	This Section establishes standards for reporting legal obligations associated with the retirement of long lived tangible capital assets currently in productive use.	This Section is effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

Title	Description	Effective date
Section PS 3400 - Revenue	This Section establishes standards that apply to revenues of governments and government organizations other than government transfers and tax revenue. This standard addresses recognition, measurement and presentation.	This Section is effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.