



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

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November 11, 2013

JOINT CAO/CORPORATE SERVICES REPORT - FINANCIAL SERVICES-2013-50

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

SUBJECT: 2013 Audit

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATIONS

THAT Joint CAO/Corporate Services Report-Financial Services – 2013-50 dated November 11, 2013 regarding the 2013 Audit be received and the following recommendations be adopted:

1. THAT BDO Canada be appointed as the Town's auditors for 2013;
2. AND THAT the BDO audit plan, as attached, be received.

COMMENTS

Purpose

The purpose of this report is to appoint BDO as the Town's auditors for the 2013 fiscal period and to accept their proposed audit plan.

Budget Impact

The audit fees are a fixed amount for 2013 and 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.

Summary

The Audit Committee had a meeting scheduled for October 29. At this meeting they were to recommend the auditors for 2013 and review their audit plan. No formal meeting was held.

In lieu of trying to reschedule the meeting, staff is making the recommendations to Council.

Background

The 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.

Generally, the first two meetings are combined. At the October/November meeting it has been the general practice to recommend appointment of the auditors for the current year's financial statements.

For the last meeting on October 29, only three of the six members were able to attend and it was deemed that the requirements for quorum had not been met. An informal meeting was held at which no decisions or recommendations could be made. Our auditors, BDO, presented their audit plan at that time.

Analysis & Options

It was suggested that rather than reschedule the meeting, the Treasurer could write a report to Council to make the recommendations that the Audit Committee would have done. A draft of this report would be circulated to all members of the Audit Committee for their review. This approach was acceptable to the three members present and to the Chair who was contacted by telephone.

Given that BDO is already contracted for 2013 and that the Committee has no concerns with their work related to the 2012 audit, it would be appropriate to appoint them for 2013.

This appointment would be for the Town's consolidated financial statements, for the Newmarket Public Library, the Newmarket Downtown Business Improvement Area (BIA), the Trust Fund and the audit of the federal gas tax allocation.

The plan that they presented (copy attached) has been presented and reviewed. It does not differ significantly from the plan for 2012 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 approach was discussed and found acceptable by the Chair of the Committee and by the three members present on October 29.

A draft copy of this report has been circulated to all members of the Audit Committee for their review and comments.

BUDGET IMPACT

The audit fees for 2013 have already been set. The audit plan does not include any alterations to this pricing. Appointment of BDO Canada as the Town's auditors will have no affect on the 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, CGA
Director, Financial Services /Treasurer



Anita Moore, AMCT
Commissioner, Corporate Services



Robert N. Shelton
Chief Administrative Officer

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Attachment
(1) Audit plan



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Private & Confidential

October 29, 2013

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

Dear Sir/Madam:

Re: Audit of the Consolidated Financial Statements of The Corporation of the Town of
Newmarket
For the year ended December 31, 2013

The purpose of this report is to communicate to the Mayor and Council certain aspects of the audit that we believe would be of interest to you. The Mayor and Council can play an important part in the audit planning process and we look forward to discussing our proposed plan with you to determine whether there are additional areas of concern to the Mayor and Council which we should consider.

Our communication with you at the end of our audit will be in the form of a final letter to you. For certain matters, depending on the significance of the items, we may decide to communicate these orally. Note, that Michael Jones will be primarily responsible to communicate this information to you.

Our expectation is that communication will be two-way, and that you communicate with us matters you consider relevant to the audit to the extent you consider relevant and/or changed from past years. In particular, we would like your views and input on the following:

- The appropriate person(s) in the entity's governance structure with whom to communicate.
- The allocation of responsibilities between those charged with governance and management.
- The entity's objectives and strategies, and the related business risks that may result in material misstatements.
- Matters that warrant particular attention during the audit, and any areas where you request additional procedures to be undertaken.
- Significant communications with regulators.
- Other matters that may influence the audit of the financial statements.
- How you oversee the effectiveness of internal control, and the detection or possibility of fraud.
- What actions you take in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.
- How you have responded to previous communications with the auditor.

Our proposed process for taking action and reporting back on matters that you communicate to us will be:

- Reflected by the audit team in the audit planning and procedures executed; and
- Through our final letter to you or verbally depending on the nature of the items brought to our attention.

For matters that we communicate to you, please report back your process on how you will deal with these items along with your views and input on the particular matters discussed above if different than last year.

This report should not be distributed without our prior consent. We accept no responsibility to a third party who uses this communication.

Current Developments in the Profession

There have been significant developments in the area of financial reporting, corporate governance and auditing this year.

Accounting Standards

The municipality applies Public Sector Accounting Standards. We have attached our PSAB Update publication which will provide you with details on recent changes to Public Sector Standards. In addition we believe the following publications are very relevant to the municipality and have attached them for your reference:

- *A New Government Transfers Standard*
- *A Guide to Accounting for Financial Instruments in the Public Sector*
- *Taxation Revenue*

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.

We hereby confirm that we are independent with respect to The Corporation of the Town of Newmarket within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of October 29, 2013.

Responsibilities of the Auditor

It is important for the Mayor and Council to understand the responsibilities that rest with the municipality and its management and those that belong to the auditor. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities outlined below:

- Management is responsible for the preparation of the consolidated financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.
- The auditor's responsibility is to express an opinion on the consolidated financial statements based on an audit thereof.
- An audit is performed to obtain reasonable, but not absolute, assurance as to whether the consolidated financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.
- The audit includes:
 - (i) assessing the risks of material misstatement of the financial statements, whether due to fraud or error;
 - (ii) obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the consolidated financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
 - (iii) examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
 - (iv) assessing the accounting principles used and their application; and
 - (v) assessing the significant estimates made by management.
- When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls.

- The auditor will express an opinion as to whether the consolidated financial statements present fairly in all material respects, in accordance with Canadian public sector accounting standards, the financial position, results of operations and cash flows of the entity.

Further details regarding our responsibilities are outlined in our engagement letter.

Audit Approach

We have been engaged to perform the audit of the consolidated financial statements of The Corporation of the Town of Newmarket for the year ended December 31, 2013. We will adopt an audit approach that allows us to issue an audit opinion on the consolidated financial statements of the municipality in the most cost effective manner, while still obtaining the assurance necessary to support our audit opinion.

Under the BDO Audit Approach, we use risk and assurance models to determine the evidence to collect and evaluate whether sufficient appropriate evidence was obtained to be able to draw reasonable conclusions to allow us to form an opinion. This approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit effort in areas that we believe have a higher risk of being materially misstated and do less audit work in areas that are only low risk.

To assess risk accurately, we need to have a clear understanding of the municipality's business and the environment it operates in. Much of our understanding is obtained through discussions with management and their staff. We would appreciate any information that you could provide to us about your business, industry, competitive marketplace, internal controls, oversight of management's processes relating to fraud and error, or anything else that you feel is important to the audit as it may corroborate what we have already learned from management and other sources, or it may be new information to us. We would also appreciate any insights that you could provide to us on what you perceive to be risky in your municipality as that will make our audit more effective and efficient, which will benefit all concerned. In particular we are interested in any knowledge you have regarding actual, suspected or alleged fraud affecting the entity.

The following sections provide more detail on our audit approach for The Corporation of the Town of Newmarket for the current year.

Audit Scope

We anticipate the scope of our audit of the consolidated financial statements of The Corporation of the Town of Newmarket for the year ended December 31, 2013 to include the following:

- An audit opinion on the consolidated entity
- Federal Gas Tax Audit
- Newmarket Public Library audit
- Trust Fund Audit
- Main Street District Business Improvement Area audit

Overall Audit Strategy

The general audit strategies available to us are a "combined" audit approach or a "substantive" audit approach.

In a combined audit approach, we would obtain our assurance from a combination of tests of controls (compliance procedures) and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items). The combined strategy is more appropriate when there is a large number of transactions and when controls in the municipality are strong. By obtaining some of our assurance from tests of controls, we can reduce the substantive procedures that need to be done. Under a substantive audit approach, all of our audit evidence is obtained through substantive procedures like analysis, confirmation, examination of documentary or electronic evidence, etc.

Based on our knowledge and experience with your municipality and a preliminary review of your internal controls, we anticipate using a combined approach.

We plan to test the operating effectiveness of controls in the following transaction streams:

- Purchases
- Payroll

Assuming these controls are operating effectively, we will reduce our substantive procedures in these transaction streams and related financial statement areas.

Financial Statement Areas With Significant Risks

Based on our knowledge of the municipality's business, our past experience, and knowledge gained from management and you, we have identified the following financial statements areas with significant risks of material misstatement.

These 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 have also provided a brief summary of how we plan to audit these significant risks.

Financial Statement Areas With Significant Risks	Proposed Audit Procedures
• Employee future benefits	• Actuarial valuation for employee future benefits - audit information given to actuary and actuarial assumptions
• Expenses to Councillors and Employees	• Review expenses for reasonableness

Materiality

Materiality can be defined as follows:

"A misstatement or the aggregate of all misstatements in financial statements is considered to

be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities (the user), would be changed or influenced by such misstatement or the aggregate of all misstatements. Misstatements in financial statements arise from departures from generally accepted accounting principles and include departures from fact, inappropriate determination of accounting estimates, and omissions of necessary information. Misstatements may arise from error or fraud, or from the consequences of an illegal act."

Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Although we are required to determine materiality based on our perception of the needs of users, it is extremely difficult to predict with certainty who those users will be or, indeed, the specific needs of known users. Consequently, the materiality decision ultimately becomes a matter for the auditor's professional judgment. We have identified Mayor and Council as the most important users of the municipality's financial statements.

Canadian generally accepted auditing standards require the use of both quantitative and qualitative factors in determining materiality. For the audit of The Corporation of the Town of Newmarket for the year ended December 31, 2013, we have concluded that a materiality level of \$1,000,000, based on 1% of revenue, is appropriate for the purposes of planning the audit.

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 consolidated 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 consolidated financial statements.
- We need written representation that Collins, Barrow is independent of the municipality as required under the Canadian rules of independence.

Timing of the Audit

We anticipate the following schedule for the conduct of the audit:

• Audit Committee planning meeting	• October 29, 2013
• Interim audit fieldwork	• November 25, 2013
• Year-end audit fieldwork	• March 24, 2014
• Review of draft financial statements with the Audit Committee	• May 31, 2014

Communication of Results

At the completion of our audit, just prior to issuing our Independent Auditor's Report, or earlier if considered necessary, we will communicate to you matters arising from the financial statement audit. Our communication will include the following:

- matters required to be communicated to the Mayor and Council under Canadian generally accepted auditing standards including possible fraudulent activities, possible illegal acts, significant weaknesses in internal control and certain related party transactions;
- matters that have a significant effect on the qualitative aspects of accounting principles used in the municipality's financial reporting;
- whether or not there were significant difficulties encountered during the audit;
- significant matters discussed, or those subject to correspondence with management;
- other matters arising from the audit that, in our professional judgment, are important and relevant to the Mayor and Council; and
- matters previously agreed with you to be communicated to the Mayor and Council.

Conclusion

We hope that this letter will provide you with an update on the current developments within the accounting profession, as well as clarify our independence, responsibility and audit approach.

We look forward to discussing these issues with you. Please do not hesitate to contact us about any of the above items or other matters of concern to the Mayor and Council.

Yours truly,

Michael Jones

Michael Jones

Partner

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants