



The Corporation of the Town of Newmarket
Report to the Audit Committee on the results of the
December 31, 2019 financial statement audits

To be presented to the Audit Committee on July 14, 2020



Deloitte LLP
400 Applewood Crescent
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Canada

July 7, 2020

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, 2019 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 year ended December 31, 2019. 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"), and the Town of Newmarket Main Street District BIA (the "Main Street District BIA"), upon approval of the financial statements. Our audits were conducted in accordance with the Audit service plan presented to the Audit Committee on October 7, 2019.

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 cursive script 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 and Main Street District BIA's Financial Statements as at, and for the year ended, December 31, 2019 (the "Financial Statements") prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS"). 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

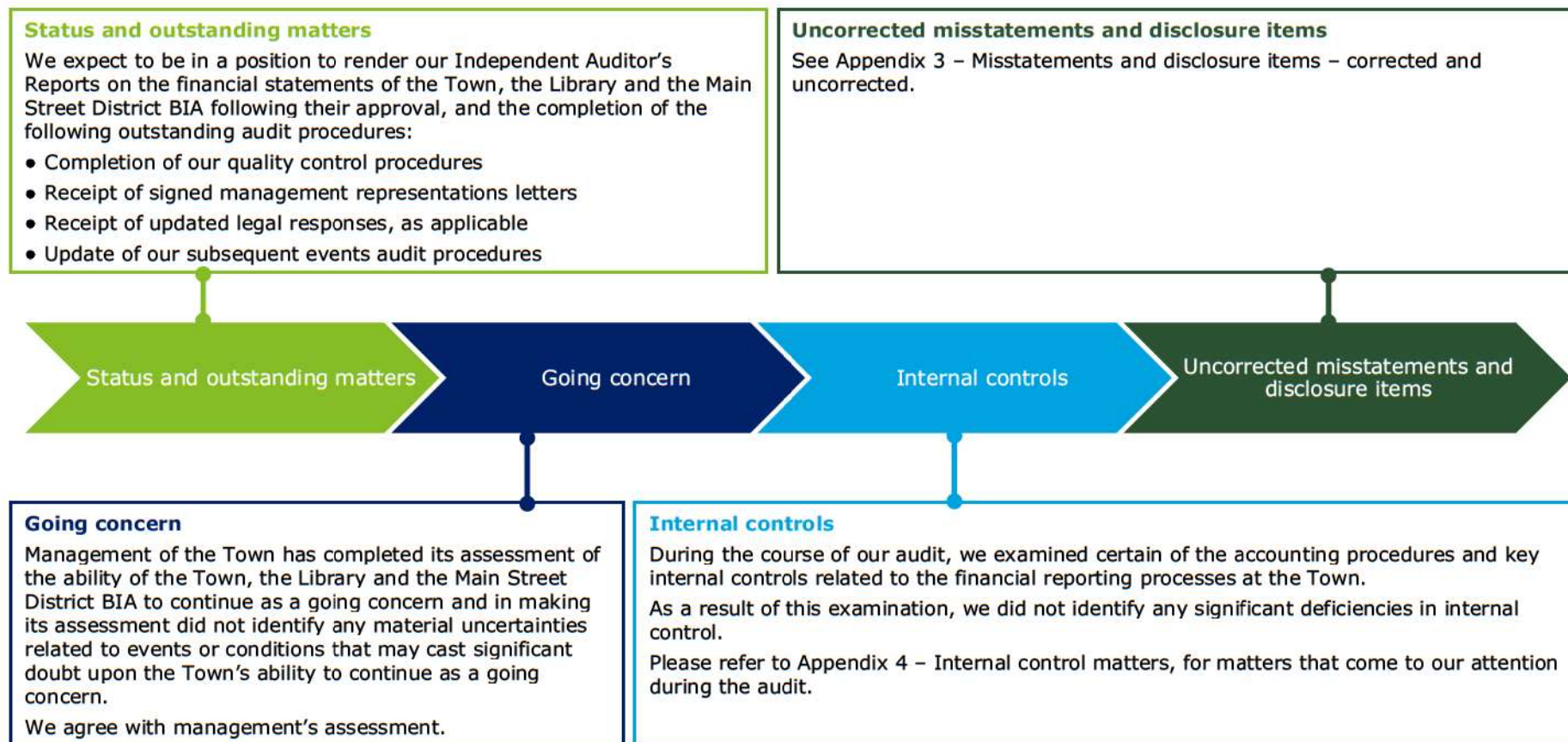
Materiality

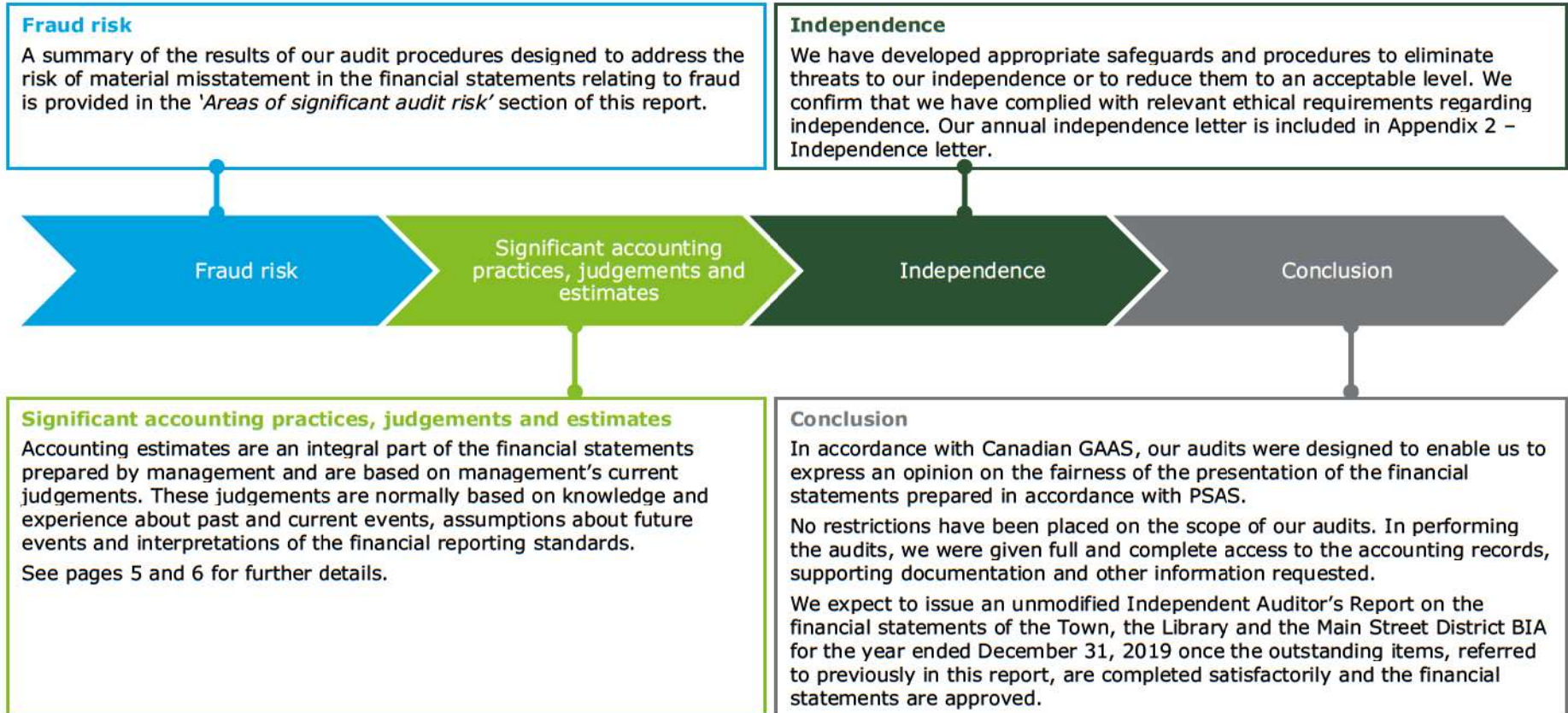
We are responsible for providing reasonable assurance that the financial statements as a whole are free from material misstatement.

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

- Consolidated Financial Statements for the Town – \$2,500,000; clearly trivial amount of \$125,000
- Town of Newmarket Public Library Board – \$68,000; clearly trivial amount of \$3,4000
- Main street District BIA – \$900; clearly trivial amount of \$45

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 – corrected and uncorrected.





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 – corrected and uncorrected.

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 policies, judgements and estimates

The accounting policies of the Town, the Library, and the Main Street District BIA 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 and the Main Street District BIA.

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 are appropriate to the particular circumstances of the Town, the Library and the Main Street District BIA.

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, 2019, 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	2019 \$	2018 \$
Employee future benefits liability	Note 12	7,457,790	6,128,206
Long-term disability benefits liability	Note 13	4,502,355	4,461,290
Allowance for doubtful accounts – taxes receivable	Note 6(a)	915,743	1,115,743
Allowance for doubtful accounts – accounts receivable	Note 6(b)	92,072	170,780

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	<p>The audits were conducted in accordance with our Audit service plan, which was presented to the Audit Committee on October 7, 2019; except for the extended audit testing as a result of the various misstatements.</p> <p>Our audit testing on the Main Street District BIA noted material errors in both fiscal 2018 and 2019 balances. As such, our audit sampling was extended and additional audit procedures were performed to quantify and isolate the misstatements. See Appendix 3 –Misstatements and disclosure items – corrected and uncorrected for a listing of misstatements that were corrected relating to the Main Street District BIA including a restatement of the 2018 corresponding figures.</p> <p>In addition, as a result of the various misstatements detected in the audit testing done on a sample basis, our audit sampling was extended for both the Town and Library. See Appendix 3 –Misstatements and disclosure items – corrected and uncorrected.</p>
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 COVID-19 social distancing measures, the year-end audit evidence was provided electronically as the audit team performed the financial statement audits remotely.</p>
Related party transactions	<p>Related party transactions or balances have been disclosed in Note 29 to the Town's financial statements.</p>
Disagreements with management	<p>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.</p>
Consultation with other accountants	<p>Management has informed us that the Town, the Library and the Main Street District BIA have not consulted with other accountants about auditing or accounting matters.</p>

	Comment
Group audit	<p>We use the work of Baker Tilly KDN LLP, the external auditor of Newmarket Hydro Holdings Inc. (NHHI) with respect to the accounting for the Town's investment in NHHI.</p> <p>We received the component auditor reporting requested from Baker Tilly KDN LLP. The component auditor reporting indicated that during 2019, NHHI made an investment in Ecobility Inc. This investment is accounted for by NHHI using the equity method of accounting, as disclosed in Note 10 to the Town's financial statements.</p> <p>The report to the Board of Directors of Newmarket Hydro Holdings Inc. dated May 20, 2020 reported a Significant Matter discussed with NHHI Management relating to NHHI's proportionate share of Ecobility's income that was based on their unaudited internal financial statements.</p>
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 and the Main Street District BIA.</p>
Subsequent event	<p>Note 28 to the Town's financial statements provides subsequent events disclosure related to the following:</p> <p><i>COVID -19 Pandemic</i></p> <p><i>Subsequent to the year-end, on March 11 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Town in future periods</i></p> <p>At the date of finalizing this report, other than the matter noted above, we are not aware of any significant subsequent events that would require adjustment or disclosure in the December 31, 2019 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 October 7, 2019 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	Related party transactions have been properly disclosed in Note 29 to the Town's financial statements
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 in draft 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

July 7, 2020

Private and confidential

To the Members of the Audit Committee of
The Town of Newmarket
395 Mulock Dr
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, 2019.

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 June 11, 2019, 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 June 11, 2019 to July 7, 2020. These services were commenced prior to our appointment as external auditors, have been discussed with the Audit Committee and are permissible non-audit 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 June 11, 2019 to July 7, 2020.

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 July 7, 2020.

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 July 14, 2020.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants
Licensed Public Accountants

Appendix 3 – Misstatements and disclosure items – corrected and uncorrected

Corrected misstatements – Town

1. To correct for the variance in the foreign exchange current cash balance between the spot rate per Bank of Canada and the exchange rate used by Town as at December 31, 2019.

a. Dr. Foreign exchange loss	\$148,665
b. Cr. Cash	\$148,665

2. To correct for the over accrual of approximately \$500,000 related to certain post retirement benefits (calculated once in the actuary report and separately by another party). However, the over accrual of \$500,000 was corrected to the General Government cost centre, rather than the cost centre where approximately \$500,000 of expenses are recognized.

a. Dr. Accrued liabilities	\$500,000
b. Cr. Expenses	\$500,000

3. To reclassify approximately \$8.4M between reserve balances in fiscal 2019.

a. Dr. Water and Wastewater Reserve	\$8,356,530
b. Cr. Parks and Other ARF	\$8,356,530

Corrected misstatements – Library

4. To correct for the overstatement of the partnership liability related to Cinemania.

a. Dr. Due to Partnerships Liability	\$6,393
b. Cr. Due from Town of Newmarket	\$6,393

5. To correct for the understatement of the vacation accrual.

a. Dr. Expenses	\$9,631
b. Cr. Accounts payable and accrued liabilities	\$9,631

6. To correct the timing of the recognition of expenditures and associated revenue recognition for fire door installation that was not performed until fiscal 2020 and therefore should not have been recognized in 2019.
- | | | |
|--------------------------------------------------------------------------|----------|----------|
| a. Dr. Municipal contributions towards tangible capital assets - revenue | \$18,360 | |
| b. Dr. Accounts payable and accrued liabilities | \$18,360 | |
| c. Cr. Due from Town of Newmarket | | \$18,360 |
| d. Cr. Building and property maintenance - expense | | \$18,360 |

Corrected misstatement – BIA

7. To correct for expenses related to BIA events that occurred during 2019 and services received by the BIA during fiscal 2019. These transactions were not captured in the fiscal 2019 year end close.
- | | | |
|-----------------------------------|---------|---------|
| a. Dr. Expenses | \$4,278 | |
| b. Cr. Due from Town of Newmarket | | \$4,278 |

Corrected misstatement – detected in the current year relating to the prior year and corrected through a restatement of 2018 comparative balances in the 2019 financial statements - BIA

8. To restate the 2018 comparative figures for fiscal 2018 revenues and expenses recognized during fiscal 2019. The following correction has been made to the 2018 comparative amounts to correct this error.
- | | | |
|-------------------------------------|---------|---------|
| a. Dr. Promotion and events expense | \$1,614 | |
| b. Cr. Events revenue | | \$358 |
| c. Cr. Due from Town of Newmarket | | \$1,256 |

Uncorrected misstatements - Town

9. A WIP addition was incorrectly capitalized in 2018 when it related to non-capital expenditures that occurred in 2017. The amount capitalized in 2018 was written off in 2019, overstating expenditures in 2019 and understating TCA. The prior year impact is noted in item 11 below.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Accumulated Surplus | \$162,816 | |
| b. CR. Expense | | \$162,816 |
10. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2019.
- | | | |
|----------------------------|-----------|-----------|
| a. Dr. Investment | \$226,560 | |
| b. Dr. Investment Income | \$28,013 | |
| c. CR. Interest Receivable | | \$254,573 |

Uncorrected misstatements - detected in the current year relating to the prior year - Town

11. A WIP addition was incorrectly capitalized during 2018 as it related to non-capital expenditures that occurred during 2017. The amount capitalized in 2018 was also for the incorrect balance, and only \$107,042 of the \$162,816 should have been recognized. The current year impact is noted in item 9 above.

a. Dr. Expense	\$107,042
b. Dr. Accrued Liabilities	\$55,774
c. CR. TCA - WIP	\$162,816

12. Upon performing lookback testing on the Retro Pay Accrual for the fire fighters, Deloitte noted that there was an over accrual in the 2018 accrual booked that was reversed in year in accounts payable and expenditures. The 2018 accrual was based on the best information that the Town had at the time, however after the settlement was reached in 2019 it was determined that the accrual was more conservative than required.

a. Dr. Accrued Liabilities	\$439,473
b. Cr. Expenditures	\$439,473

13. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2018.

a. Dr. Investment	\$90,093
b. Dr. Investment Income	\$244,377
c. CR. Interest Receivable	\$334,410

Uncorrected misstatements - Library

None identified

Uncorrected misstatements - BIA

None identified

Disclosure misstatements – Town of Newmarket

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference
Note 5	Temporary Investments	Interest earned on investments where the interest is reinvested has not been incorporated into the book value of the investment balance in Note 5.	The book value disclosed in Note 5 differs from the statements provided by the financial institution by the amounts indicated above in misstatement # 10 and misstatement #13.
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

Disclosure misstatements – Library

None identified

Disclosure misstatements – BIA

None identified

Appendix 4 – Internal control matters

July 7, 2020

Private and confidential

To the Members of the Audit Committee of
The Corporation of the Town of Newmarket
395 Mulock Dr
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, 2019.

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, 2019

1. Timeliness of Cash Deposits - Library

Observation

During our audit testing of the Library's cash balances, we noted a cash deposit relating to amounts collected from December 9 to 15, 2019 did not clear the bank until January 2, 2020.

Recommendation

We recommend that cash be deposited in the bank on a timely manner to ensure balances are recorded in the correct period and minimize risks associated with misappropriation of assets.

Management Response

Management agrees that cash should be deposited on a timely basis. Such is normally the case and this incident appears to be an anomaly (the amount was \$1,064.11). Staff will work with the Library to implement a pre-close checklist. This would be an opportunity to ensure that all transactions are current and review cut-off procedures.

2. Recognition of transactions in the appropriate fiscal year - BIA

Observation

During our audit testing of the revenues and expenses of the Main Street BIA for the year ended December 31, 2019; performed on a sample basis, we noted several instances of 2018 transactions inappropriately recognized as fiscal 2019 transactions. The amounts are material with respect to the BIA's stand-alone financial statements. Accordingly, the 2018 comparative figures in the BIA's 2019 draft financial statements have been restated.

In addition, our audit testing of expense cut-off between 2019 and 2020, performed on a sample basis, further detected a number of invoices recorded as fiscal 2020 expenses that relate to fiscal 2019. Accordingly, material corrected misstatements have been recognized in the BIA's 2019 draft financial statements.

We understand from the Town's finance team, who provides financial reporting services to the BIA, that certain invoices and support for revenue receipts are not provided by the BIA to the Town in a timely manner.

Recommendation

We recommend that the Town finance team work more closely with the BIA to review financial transactions and ensure appropriate recognition in the correct financial reporting period. We recommend that financial reporting for the BIA be performed on a timely basis throughout the fiscal year and that issues be addressed on a more timely basis. Finally, we recommend that the Town implement a more thorough process to review and assess subsequent events to the date of the Independent Auditor's Report.

Management Response

Management agrees with the recommendations. We have been working with the new Chair to strengthen internal controls. Formal written procedures are being developed. In addition, we will be setting up quarterly meetings to review results and discuss issues.

3. Recognition of revenue related to grants (includes certain carry forward items from 2018)

Observation

During our testing of capital grants during the fiscal 2018 audit, we noted a number of misstatements related to revenue recognition of capital grants impacting both fiscal 2017 and fiscal 2018. We are pleased to report that no misstatements related to capital grant revenue recognition were detected during the fiscal 2019 audit.

However, during our audit testing of grants in the current year, we noted an instance of a grant with associated milestones where revenue was fully recognized before a specific milestone was reached in accordance with the funding agreement. The amount is below our clearly trivial threshold.

Recommendation

We recommend that the Town continue to increase its review and scrutiny over the grant agreements provided by funders to ensure that revenue recognition is consistent with grant stipulations and milestones.

Management Response

Management will continue to review and scrutinize grant agreements and transactions. The position of grant coordinator has been created and works closely with Finance.

4. Recognition of Tangible Capital Assets (TCA) (includes certain carry forward items from 2018)

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 fiscal 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.

During our fiscal 2019 audit testing, we noted that this same capital project was further reviewed by the Town on receipt of detailed invoicing and it was determined by the Town that the nature of the work performed in 2017 was not capital in nature. As such, this capital project was derecognized and expensed during fiscal 2019.

Recommendation

We recommend that communication be sent out to all Town departments involved in capital projects to communicate up front the type of work being performed on their capital projects to ensure that the Finance department has the information to accurately recognize the components of the capital project, ensure it is recorded in the appropriate period and to ensure it is appropriately classified as either a capital cost or an expenditure in the correct fiscal year.

Management Response

Management agrees with the recommendations. Two initiatives started in 2020 will address this.

Monthly capital expenditure meetings are now being held. These meetings include all of the stakeholders and review the projected delivery of the capital program. This platform will ensure that there is proper communication. Also, starting with the 2020 budget, capital carryovers have been eliminated. Work-in-process now must be reviewed in detail for inclusion in the following year's approved expenditures.

5. Transfers from capital work-in-progress (WIP) to expenses

Observation

During our audit testing on a sample basis of transfers from capital WIP to operating expenses, we noted that the Town does not have a formal policy in place to address the review, authorization and approval related to the expensing of amounts from capital WIP to expense.

Recommendation

We recommend that Town management formalize a policy and related accounting procedures to address the consistent and timely assessment of capital projects recorded in capital WIP, the impairment indicators to be considered to request the expensing of a capital project component; and finally the level of authorization and approval required for the expensing of amounts from capital WIP to expense.

Management Response

Management agrees with his recommendation. A formal budget policy, which would include this item, is on the work plan for later this year.

6. Review and Approval of Journal Entries

Observation

During the audit testing of journal entries including in the same a journal entry related to reserves, we noted that Council approved a \$4.2M transfer from Water/Waste Water ARF Reserves to the Parks and Other ARF Reserves in August 2019. The journal entry to record this transfer was recorded backwards. Accordingly, a material corrected misstatement has been recognized in the Town's 2019 draft financial statements to correct the journal entry.

Recommendation

We recommend that a detailed review be performed on journal entries, particularly those of a material amount.

Management Response:

Management agrees that the journal entry was booked in error and has agreed to reverse it. The error would have been caught and corrected earlier but operations have been disrupted by the pandemic.

7. Liability balances (carry forward from 2017 and 2018)

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, we understand that it is the Town's view that 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 formal and regular reviews 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 performed on 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. The challenge has been resources and priorities. Some work has started on this in 2020 and will be continued.

Matters related to information technology

8. Change Management – Segregation of Duties

Observation

Deloitte noted all users have access to both development and production environments regardless of their job responsibilities. Actions by users with no functional or fiscal responsibility raises the risk of invalid changes in system and adversely affect the financial reports. Developers' access to code change in production can render the system unstable and may cause data integrity issues and impact usability

Recommendation

We recommend that the conflicting functions be segregated and developer access be removed from production instances.

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 JD Edwards/Oracle platform. Until the IT team can complete the recommended IT structure, fill vacancies and fully train new individuals, the team are unable to segregate duties appropriately.

9. Privilege Access review

Observation

Deloitte noted that four Accounting/Finance users have administrative level access to Oracle database which grants them access beyond their job responsibilities.

There is a risk that the level of security is inappropriate as Accounting/Finance users having administrative access within the database. These Accounting/Finance users have authority to make changes in database given their nature of privilege access leading to unauthorized changes.

If access privileges are not established effectively, data integrity, confidentiality, and availability may be compromised through intentional or unintentional errors.

Recommendation

Administrative access to Database should be restricted to IT users only to ensure that access changes are limited to authorized individuals only.

Management Response

Management indicated that the four Accounting/Finance users were granted temporary access to Oracle database for testing purpose. It is agreed that these four Accounting/Finance users should not have access to Database in the normal course of operations. Management has confirmed that the access for these four Accounting/Finance users has been removed from Oracle Database.

Appendix 5 – Draft management representation letter

[CLIENT LETTERHEAD]

July 27, 2020

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, 2019

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, 2019, 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").

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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, 2019 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, 2019 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. 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.
4. We have completed our review of events after December 31, 2019 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.
5. 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

6. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
7. 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

8. 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.
9. 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.

10. 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.
11. 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.
12. There have been no communications with regulatory agencies concerning actual or potential noncompliance with or deficiencies in financial reporting practices. There are also no known or possible instances of non-compliance with the requirements of regulatory or governmental authorities.
13. 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.

Independence matters

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

14. 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.
15. 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

Except where otherwise stated below, immaterial matters less than \$125,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the Financial Statements.

16. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
17. 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.
18. There are no instances of identified or suspected noncompliance with laws and regulations.
19. 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.
20. 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.

21. 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.
22. 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.
23. 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.

Communications with taxation and regulatory agencies

24. 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

25. 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

26. 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

27. 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

28. 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

29. 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

- 30. We have disclosed to you all correspondence relating to government transfers that the Town has had with the funding body.
- 31. We have assessed the eligibility criteria and determined that the Town is an eligible recipient for the government transfers received.
- 32. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
- 33. 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

- 34. 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

- 35. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, Tangible Capital Assets.
- 36. 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.
- 37. 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

- 38. 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

- 39. 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 corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Corrected misstatements – Town

1. To correct for the variance in the foreign exchange current cash balance between the spot rate per Bank of Canada and the exchange rate used by Town as at December 31, 2019.
 - a. Dr. Foreign exchange loss \$148,665
 - b. Cr. Cash \$148,665
2. To correct for the over accrual of approximately \$500,000 related to certain post retirement benefits (calculated once in the actuary report and separately by another party). However, the over accrual of \$500,000 was corrected to the General Government cost centre, rather than the cost centre where approximately \$500,000 of expenses are recognized.
 - a. Dr. Accrued liabilities \$500,000
 - b. Cr. Expenses \$500,000
3. To reclassify approximately \$8.4M between reserve balances in fiscal 2019.
 - a. Dr. Water and Wastewater Reserve \$8,356,530
 - b. Cr. Parks and Other ARF \$8,356,530

Corrected misstatements – Library

4. To correct for the overstatement of the partnership liability related to Cinemania.
 - a. Dr. Due to Partnerships Liability \$6,393
 - b. Cr. Due from Town of Newmarket \$6,393
5. To correct for the understatement of the vacation accrual.
 - a. Dr. Expenses \$9,631
 - b. Cr. Accounts payable and accrued liabilities \$9,631
6. To correct the timing of the recognition of expenditures and associated revenue recognition for fire door installation that was not performed until fiscal 2020 and therefore should not have been recognized in 2019.
 - a. Dr. Municipal contributions towards tangible capital assets - revenue \$18,360
 - b. Dr. Accounts payable and accrued liabilities \$18,360
 - c. Cr. Due from Town of Newmarket \$18,360
 - d. Cr. Building and property maintenance - expense \$18,360

Corrected misstatement – BIA

7. To correct for expenses related to BIA events that occurred during 2019 and services received by the BIA during fiscal 2019. These transactions were not captured in the fiscal 2019 year end close.
 - a. Dr. Expenses \$4,278
 - b. Cr. Due from Town of Newmarket \$4,278

Appendix A
Town of Newmarket
Summary of corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Corrected misstatement – detected in the current year relating to the prior year and corrected through a restatement of 2018 comparative balances in the 2019 financial statements - BIA

8. To restate the 2018 comparative figures for fiscal 2018 revenues and expenses recognized during fiscal 2019. The following correction has been made to the 2018 comparative amounts to correct this error.

a. Dr. Promotion and events expense	\$1,614	
b. Cr. Events revenue		\$358
c. Cr. Due from Town of Newmarket		\$1,256

Uncorrected misstatements - Town

9. A WIP addition was incorrectly capitalized in 2018 when it related to non-capital expenditures that occurred in 2017. The amount capitalized in 2018 was written off in 2019, overstating expenditures in 2019 and understating TCA. The prior year impact is noted in item 11 below.

a. Dr. Accumulated Surplus	\$162,816	
b. CR. Expense		\$162,816

10. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2019.

a. Dr. Investment	\$226,560	
b. Dr. Investment Income	\$28,013	
c. CR. Interest Receivable		\$254,573

Uncorrected misstatements - detected in the current year relating to the prior year - Town

11. A WIP addition was incorrectly capitalized during 2018 as it related to non-capital expenditures that occurred during 2017. The amount capitalized in 2018 was also for the incorrect balance, and only \$107,042 of the \$162,816 should have been recognized. The current year impact is noted in item 9 above.

a. Dr. Expense	\$107,042	
b. Dr. Accrued Liabilities	\$55,774	
c. CR. TCA - WIP		\$162,816

12. Upon performing lookback testing on the Retro Pay Accrual for the fire fighters, Deloitte noted that there was an over accrual in the 2018 accrual booked that was reversed in year in accounts payable and expenditures. The 2018 accrual was based on the best information that the Town had at the time, however after the settlement was reached in 2019 it was determined that the accrual was more conservative than required.

a. Dr. Accrued Liabilities	\$439,473	
b. Cr. Expenditures		\$439,473

13. Interest earned on investments and reinvested was not incorporated into the book value of the investment resulting in errors to the interest receivable, investment income and investment balance for F2018.

a. Dr. Investment	\$90,093	
b. Dr. Investment Income	\$244,377	
c. CR. Interest Receivable		\$334,410

Appendix A
Town of Newmarket
Summary of corrected and uncorrected financial statement misstatements
Year ended December 31, 2019

Uncorrected misstatements - Library

None identified

Uncorrected misstatements - BIA

None identified

DRAFT

Appendix B
Town of Newmarket
Summary of disclosure items passed
Year ended December 31, 2019

<i>Footnote number</i>	<i>Footnote title</i>	<i>Description of omitted or unclear disclosure</i>	<i>Authoritative literature reference</i>
Note 5	Temporary Investments	Interest earned on investments where the interest is reinvested has not been incorporated into the book value of the investment balance in Note 5.	The book value disclosed in Note 5 differs from the statements provided by the financial institution by the amounts indicated above in misstatement # 10 and misstatement #13.
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

Disclosure misstatements – Library

None identified

Disclosure misstatements – BIA

None identified



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