



The Corporation of the Town of Newmarket
Report to the Audit Committee on the results of the
December 31, 2020 financial statement audits

To be presented to the Audit Committee on June 15th, 2021



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May 26, 2021

To the Members of the
Audit Committee of
The Corporation of the Town of Newmarket
395 Mulock Dr
Newmarket ON L3Y 4X7

Report on the results of the audits for the year ended December 31, 2020

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") and the audits of the financial statements of the Town of Newmarket Library Board (the "Library") and the Town of Newmarket Main Street District BIA (the "Main Street District BIA") for the year ended December 31, 2020. 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 Library, and the Main Street District BIA upon approval of the financial statements. Our audits were conducted in accordance with the 2020 Audit service plan presented to the Audit Committee on October 19, 2020.

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,

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 (collectively the "Financial Statements") prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") as at and for the year ended, December 31, 2020. 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 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 – \$3,600,000; clearly trivial amount of \$180,000
- Town of Newmarket Public Library Board – \$100,000; clearly trivial amount of \$ 5,000
- Main street District BIA – \$590; clearly trivial amount of \$30

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.

Status and outstanding matters

We expect to be in a position to render our Independent Auditor's Reports on the financial statements of the Town, the Library and the Main Street District BIA following their approval, and the completion of the following outstanding audit procedures:

- Completion of our quality control procedures
- Receipt of signed management representations letters
- Receipt of updated legal responses, as applicable
- Update of our subsequent events audit procedures

Uncorrected misstatements and disclosure items

See Appendix 3 – Misstatements and disclosure items – corrected and uncorrected.

Status and outstanding matters

Going concern

Internal controls

Uncorrected misstatements and disclosure items

Going concern

Management of the Town has completed its assessment of the ability of the Town, the Library and the Main Street District BIA to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon the Town's ability to continue as a going concern.

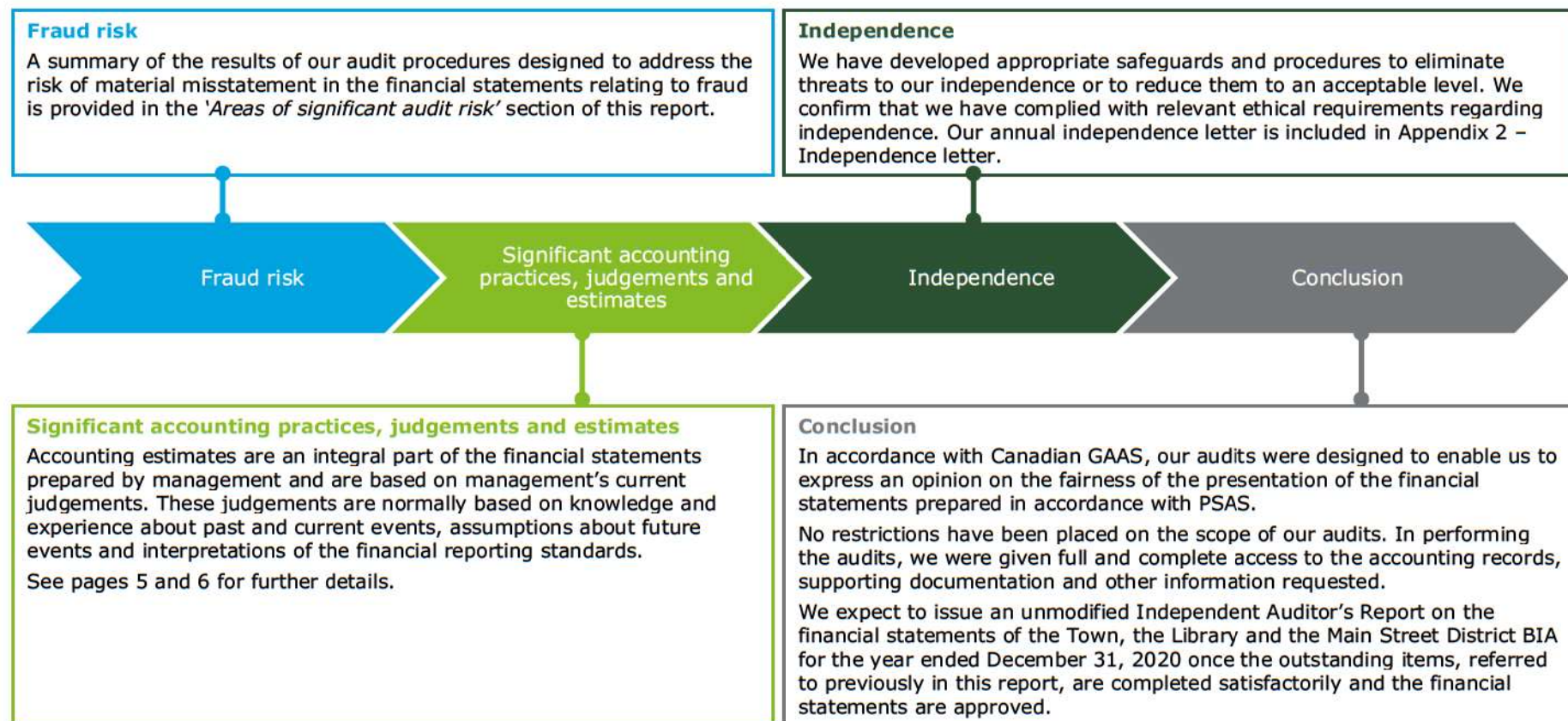
We agree with management's assessment.

Internal controls

During the course of our audit, we examined certain of the accounting procedures and key internal controls related to the financial reporting processes at the Town.

As a result of this examination, we did not identify any significant deficiencies in internal control.

Please refer to Appendix 4 – Internal control matters, for matters that come to our attention in performing audits of the financial statements.



Areas of significant audit risk

Revenue recognition

Audit risk

Canadian GAAS include the presumption of a fraud risk involving improper revenue recognition.

Our audit response

- Certain revenue streams are presumed areas of significant audit risk. We will test the design and implementation of key controls in significant revenue streams and perform substantive analytic procedures and/or detailed testing of revenues.
- Substantive testing to determine if restricted contributions (i.e., development charges), and government transfers/grants have been recognized appropriately. (Revenue vs. deferred revenue), particular in light of the impacts of COVID-19.

Audit results

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.

The risk of 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

- 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.

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, 2020, 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	2020 \$	2019 \$
Employee future benefits liability	Note 12	7,786,852	7,457,790
Long-term disability benefits liability	Note 13	4,539,602	4,502,355
Allowance for doubtful accounts – taxes receivable	Note 6(a)	1,215,743	915,743
Allowance for doubtful accounts – accounts receivable	Note 6(b)	100,480	92,072

Other reportable matters

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

	Comment
Changes to the audit service plan	The audits were conducted in accordance with our Audit service plan, which was presented to the Audit Committee on October 19, 2020 except for change in scope of the Town's audit due to the modification of audit procedures related to the audit testing of taxes receivable balances (refer to Appendix 4 – internal control matters) and consultation related to misstatements in the financial statements of NHHI (refer to Appendix 3 – Misstatements and disclosure items).
Significant difficulties encountered in performing the audit	We did not encounter any significant difficulties while performing the audits. 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. Due to COVID-19 social distancing measures, the audit evidence was provided electronically as the audit team performed the financial statement audits remotely.
Related party transactions	Related party transactions or balances have been disclosed in the Town's financial statements.
Disagreements with management	During the course of our audits, we did not have any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.
Consultation with other accountants	Management has informed us that the Town, the Library and the Main Street District BIA have not consulted with other accountants about auditing or accounting matters.

	Comment
Group audit	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. On May 19, 2021 we received the component auditor reporting requested from Baker Tilly KDN LLP. The component auditor reporting indicated that during 2020, a \$2,995,531 misstatement in the financial statements of NHHI was detected relating to deferred income taxes impacting both the current fiscal year and prior fiscal year. In accordance with PSAS, NHHI is accounted for on a modified equity basis, accordingly this misstatement impacts the Town's consolidated financial statements. Please refer to Appendix 3 –Misstatements and disclosure items.
Legal and regulatory compliance	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 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.
Significant event during the year	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.
Subsequent event	At the date of finalizing this report, we are not aware of any significant subsequent events that would require adjustment or disclosure in the December 31, 2020 financial statements.

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: 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 19, 2020 On May 19, 2021 we received all of the component auditor 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 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	Audit service plan on October 19, 2020
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. Modification to our audit plan and strategy	The audits were conducted in accordance with our Audit service plan, which was presented to the Audit Committee on October 19, 2020 except for: • change in scope of the Town's audit due to the modification of audit procedures related to the audit testing of taxes receivable balances (refer to Appendix 4 – internal control matters); and • consultation related to misstatements in the financial statements of NHHI (refer to Appendix 3 –Misstatements and disclosure items).
8. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events
9. Significant accounting policies, practices, unusual transactions, and our related conclusions	Refer to 'Significant accounting practices, judgements and estimates' section of this report

Year-end communication	
10. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	None
11. Matters related to going concern	None
12. Management judgements and accounting estimates	Refer to <i>Significant accounting practices, judgements and estimates</i> section of this report
13. Significant difficulties, if any, encountered during the audits	None
14. Material written communications between management and us, including management representation letters	Management representation letter in draft is included in Appendix 5
15. Other matters that are significant to the oversight of the financial reporting process	None
16. Modifications to our Independent Auditor's Reports	None
17. 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
18. Significant matters discussed with management	None
19. Matters involving non-compliance with laws and regulations that come to our attention	None noted
20. 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
21. Uncorrected misstatements and disclosure items	Refer to Appendix 3 – Misstatements and disclosure items
22. Any significant matters arising during the audit in connection with the Town's related parties	Related party transactions have been properly disclosed in the Town's financial statements

Appendix 2 – Independence letter

May 26, 2021

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, 2020.

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 July 7, 2020, 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 July 7, 2020 to May 26, 2021. 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 7, 2020 to May 26, 2021.

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 May 26, 2021.

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 May 31, 2021.

Yours truly,

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Appendix 3 – Misstatements and disclosure items – corrected and uncorrected

Corrected misstatements – Town of Newmarket

None identified

Corrected misstatements – Library

None identified

Corrected misstatements – BIA

None identified

Uncorrected misstatement – Town of Newmarket

1. The external auditors of Newmarket Hydro Holdings Inc. (NHHI), in their capacity as component auditors to the Town, reported an uncorrected misstatement of \$2,995,531 related to the provision for future income taxes and income tax expense. The \$2,995,531 misstatement arises from the 2018 fiscal year, remained undetected in 2019, and was discovered and corrected in year during fiscal 2020. The 2019 corresponding figures, including opening balances presented in the 2020 financial statements of NHHI were not restated. As at December 31, 2020 the closing balances in both NHHI and the Town of Newmarket are corrected.

In accordance with PSAS, the Town's investment in NHHI is accounted for on a modified equity basis, accordingly the uncorrected misstatement in the Town's 2020 financial statements is as follows:

a. Dr. Income from NHHI	\$2,995,531	
b. Cr. Investment in NHHI		\$2,995,531

Uncorrected misstatement- detected in the current year relating to the prior year – Town of Newmarket

2. As described in 1 above, the 2019 corresponding figures, including January 1, 2019 opening balances presented in financial statements of NHHI were not restated as this misstatement was corrected prospectively in NHHI's fiscal 2020 financial statements.

In accordance with PSAS, the Town's investment in NHHI is accounted for on a modified equity basis, accordingly the uncorrected misstatement in the Town's 2019 financial statements is as follows:

a. Dr. Investment in NHHI	\$2,995,531	
b. Cr. Accumulated Surplus, Beginning of year		\$2,995,531

Uncorrected misstatements –Library

None identified above the clearly trivial amount of \$5,000.

Uncorrected misstatement – BIA

3. Deloitte notes that domain registration fee totaling \$35 was paid for the period from 12/16/2020 to 12/16/2021 indicating that only 0.5 months should have been expensed in 2020. The remaining should have been recorded as a prepaid.

- | | | |
|---------------------------|------|------|
| a. Dr. Prepays | \$33 | |
| b. Cr. Operating Expenses | | \$33 |

Disclosure misstatement – Town of Newmarket

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference
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

May 26, 2021

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 audit procedures related to the consolidated financial statements of the Corporation of the Town of Newmarket (the "Town") for the year ended December 31, 2020.

In addition to our Independent Auditor's Report on the consolidated financial statements (the "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 key 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 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,

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Management letter

The Corporation of the Town of Newmarket

December 31, 2020

1. Liability balances (carry forward from 2017, 2018 and 2019)

Observation

During our testing of accounts payable and accrued liabilities, we identified a *letter of credit* general ledger account with a balance of approximately \$270,000 (2019- \$350,000) described as representing liabilities to developers for various projects. This balance in this account comprised primarily 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 recommended 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. This analysis should be performed on a regular basis. 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 has reviewed this balance in more detail during the fiscal year ended December 31, 2020 which has resulted in a reduction of the balance by approximately \$85,000. Management will continue to review the remaining balance by evaluating previous agreements during fiscal 2021.

2. Property taxes receivable

Observation

During the fiscal year ended December 31, 2020, the Town of Newmarket converted its property tax application system from Vailtech to the TXM property tax system. The reporting functionality in TXM, as designed and implemented by the Town at the time of audit testing, made it difficult for users to produce detailed legacy reporting.

Accordingly, the Town was unable to provide for external audit purposes a detailed tax receivable subledger by tax account as at December 31, 2020. As a result, the audit procedures on the taxes receivable balance, performed on a sample basis, were modified by obtaining a breakdown of the detailed listing as at date of audit testing and then performing roll back audit testing to the December 31, 2020 balance.

Recommendation

We recommend that the year-end financial close process be amended to include generating from the TXM system a detailed taxes receivable listing as at December 31 of each year. This listing should be retained and reconciled to the general ledger.

Management Response

A detailed tax receivable subledger as at December 31, 2020 was not readily available at the time of the audit testing which resulted in a modified audit testing approach. A subledger was subsequently retrieved and provided after completion of the audit testing.

Matters related to information technology

3. Privileged access and change management (includes carry forward from 2019)

Observation

In performing our audit testing related to information technology controls including a review of privileged access we noted the following for the JD Edwards application:

1. An Application Specialist, who was on a leave of absence, continued to have system administrator access to the JD Edwards application.
2. Users have been granted access to the development and production environment within JD Edwards allowing them to develop and promote changes, thereby resulting in a segregation of duties conflict.
3. A generic account with system administrator access to the JD Edwards application is being used by the current Application Specialist rather than a uniquely named account. In addition, the password for this account is configured to not expire (set to 0 days) rather than expire every 45 days as required by the Town of Newmarket's IT Policy.

Recommendation

We recommend that Town management review its current logical access configurations to ensure that access to system administrative privileges is limited to appropriate personnel such that access is aligned with an individual's job responsibilities and enforcing segregation of duties.

It is further recommended that the Town design and implement logging at the application and database levels that would allow the Town to identify unauthorized and/or untested changes being promoted into the production environment. These logs should be stored in a read-only mode on a separate server; monitored on an on-going basis; and reconciled with the changes promoted into the production environment (by comparing the use of system administrative privileges to tickets logged for managing user access and system changes).

Management Response

The Town of Newmarket has hired a new Director of Information Technology who will be reviewing the suggested observations. There will be a review of the overall IT security procedures that will include access control parameters as specified.

1. This item (Application Specialist) has been reviewed, and will be rectified in the future through the implementation of an improved Closeout / Staff departure process in collaboration with Human Resources. The IT department plans to have these changes implemented by the 4th quarter of 2021.
2. The Town of Newmarket will review the segregation and separation of duties as it relates to the IT department and JD Edwards. The review will be concluded by July 30, 2021.
3. The JDE generic account and password expiration note will be reviewed. The IT department plans to have these changes implemented by the 4th quarter of 2021.

4. Authentication

Observation

The password parameters on the JD Edwards application and Windows network are not aligned with the existing Town of Newmarket's IT Policy, including the following:

JD Edwards

- Maximum password age has been configured to 60 days vs. 45 days as defined within the IT policy.

Windows network

- Maximum password age has been configured to 90 days vs. 45 days as defined within the IT policy.
- Minimum password age has been configured to 30 days vs. 15 days as defined within the IT policy.

Passwords are used in many ways to protect the Town's data and systems as well as authenticating users of the network, operating systems, applications, hardware and remote access privileges. The lack of strong password parameter configurations, based on leading security practices, may result in unauthorized users gaining access to the Town's data and systems.

Recommendation

Deloitte recommends that the Town review its password parameter configurations to ensure that they are aligned with leading security practices. In addition, the Town of Newmarket's IT Policy should be updated on a timely basis to align with leading security practices.

We also recommend that management review its existing information technology processes and procedures for awareness and education related to information security (e.g., password management, phishing attacks, spam, etc.) and continue its efforts to provide increased awareness training to Town personnel.

Management Response

A recent IT Security audit was performed by a third party (Digital Boundary Group). Specific changes were made to the password policy that govern password age, expiry and format. Additionally, there is an add-on application validating passwords to ensure validity and provide additional layers of security.

All password parameters identified will be reviewed and consolidated to align to the updated IT Policy by the new Director and the specific departments involved. This work should be completed by July 30, 2021.

5. Cyber Security Maturity Self-Assessment

Observation

The Town participated in Deloitte's Cyber Security Maturity Assessment survey for Ontario municipalities. The results of this [confidential] assessment outlined the current cyber security maturity for the Town, benchmarked against Ontario municipalities and leading cyber security practices.

This assessment identified key cybersecurity threat risks and provided certain recommendations to reduce risk and uplift cyber security capabilities, including identifying existing relevant cyber security practices, cyber security practices that require improvement, and areas where cyber security controls may not be in place.

Recommendation

We encourage the Town of Newmarket to perform a validation process to ensure that policies, procedures and processes reflected in the responses are supported by controls that are designed and operating effectively to support the cyber security maturity assessment.

Appendix 5 – Draft management representation letter

[CLIENT LETTERHEAD]

June 21, 2021

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, 2020**

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, 2020, 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, 2020 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 Town. No events have occurred subsequent to December 31, 2020 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, 2020 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 Town from whom you determined it necessary to obtain audit evidence; and,
 - d. All minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
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 Town 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 non-compliance 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 Town'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 \$180,000 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 non-compliance 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 non-compliance 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, 2020

Corrected misstatements – Town of Newmarket

None identified

Corrected misstatements – Library

None identified

Corrected misstatements – BIA

None identified

Uncorrected misstatement – Town of Newmarket

1. The external auditors of Newmarket Hydro Holdings Inc. (NHHI), in their capacity as component auditors to the Town, reported an uncorrected misstatement of \$2,995,531 related to the provision for future income taxes and income tax expense. The \$2,995,531 misstatement arises from the 2018 fiscal year, remained undetected in 2019, and was discovered and corrected in year during fiscal 2020. The 2019 corresponding figures, including opening balances presented in the 2020 financial statements of NHHI were not restated. As at December 31, 2020 the closing balances in both NHHI and the Town of Newmarket are corrected.

In accordance with PSAS, the Town's investment in NHHI is accounted for on a modified equity basis, accordingly the uncorrected misstatement in the Town's 2020 financial statements is as follows:

a. Dr. Income from NHHI	\$2,995,531	
b. Cr. Investment in NHHI		\$2,995,531

Uncorrected misstatement- detected in the current year relating to the prior year – Town of Newmarket

2. As described in 1 above, the 2019 corresponding figures, including January 1, 2019 opening balances presented in financial statements of NHHI were not restated as this misstatement was corrected prospectively in NHHI's fiscal 2020 financial statements.

In accordance with PSAS, the Town's investment in NHHI is accounted for on a modified equity basis, accordingly the uncorrected misstatement in the Town's 2019 financial statements is as follows:

a. Dr. Investment in NHHI	\$2,995,531	
b. Cr. Accumulated Surplus, Beginning of year		\$2,995,531

Uncorrected misstatements –Library

None identified above the clearly trivial amount of \$5,000.

Uncorrected misstatement – BIA

3. Deloitte notes that domain registration fee totaling \$35 was paid for the period from 12/16/2020 to 12/16/2021 indicating that only 0.5 months should have been expensed in 2020. The remaining should have been recorded as a prepaid.

Dr. Prepays	\$33	
Cr. Operating Expenses		\$33

Appendix B
Town of Newmarket
Summary of disclosure items passed
Year ended December 31, 2020

Disclosure misstatement – Town of Newmarket

<i>Footnote number</i>	<i>Footnote title</i>	<i>Description of omitted or unclear disclosure</i>	<i>Authoritative literature reference</i>
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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