

**City of Maple Ridge
Audit & Finance Committee**

**February 2, 2015
9:00 AM
Blaney Room**

Chairperson (Acting): Mayor Read

Committee Members: Councillors: C. Bell; R. Masse; T. Shymkiw

Staff:	Chief Administrative Officer:	J. Rule
	GM – Corporate & Financial Svc:	P. Gill
	GM – Public Works & Development	F. Quinn
	GM – Community Dev. Park & Rec	K. Swift
	Manager of Accounting:	C. Nolan
	Manager of Financial Planning	T. Thompson
	Manager Sustainability & Corporate Planning	L. Benson

Guest:	External Auditor (BDO Canada LLP)	B. Cox
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Recording Secretary: Amanda Gaunt

AGENDA

- 1. Approval of agenda**
- 2. Approval of minutes of January 19, 2015**
- 3. Adopt Amended Terms of Reference**
- 4. 2014 Audit Update**
 - Overview of 2014 audit by external auditor
- 5. Other business**
- 6. Next Meeting**
 - March 16, 2015

“original signed by Catherine Nolan”

Agenda submitted by: C. Nolan, CPA, CGA
Manager of Accounting

City of Maple Ridge

Audit & Finance Committee Meeting Minutes

January 19, 2015

The Minutes of the Audit and Finance Committee Meeting held in the Blaney Room of the Municipal Hall, 11995 Haney Place, Maple Ridge, BC on Monday, January 19, 2015 at 9:00 a.m.

PRESENT

Committee Members

Mayor Read
Councillor Bell
Councillor Masse, Chair
Councillor Shymkiw

GUESTS

Councillor Speirs

Municipal Staff

J. Rule, Chief Administrative Officer
P. Gill, General Manager, Corporate & Financial Services
F. Quinn, General Manager of Public Works and Development
K. Swift, General Manager of Community Development, Parks and Recreation Services
C. Nolan, Manager of Accounting
T. Thompson, Manager of Financial Planning
L. Benson, Manager of Sustainability and Corporate Planning
A. Gaunt, Confidential Secretary

The meeting was called to order at 9:00 a.m.

1. Introduction

The General Manager of Corporate and Financial Services introduced the Manager of Accounting and the Manager of Financial Planning.

2. Appointment of Chairperson

Mayor Read nominated Councillor Masse to be elected as Chair of the Audit and Finance Committee.

MOVED by Mayor Read and **SECONDED** by Councillor Bell that Councillor Masse be elected as Chair of the Audit and Finance Committee.

CARRIED

3. ***Approval of agenda***

MOVED by Councillor Shymkiw and **SECONDED** by Mayor Read that the agenda be approved as circulated

CARRIED

4 ***Approval of minutes of May 12, 2014***

MOVED by Mayor Read and **SECONDED** by Councillor Shymkiw that the minutes of May 12, 2014 be revised to replace the text “Ernie” in Item No. 2 with the text “Mayor Daykin” and that the minutes of May 12, 2014 be approved as amended.

CARRIED

5. ***Background Materials – Audit & Finance Committee***

The General Manager of Corporate and Financial Services outlined the key roles and responsibilities of the Audit and Finance Committee.

The Manager of Accounting reviewed the background materials included as part of the agenda package.

6. ***Adopt Terms of Reference***

The General Manager of Corporate and Financial Services reviewed the terms of reference provided.

The Chief Administrative Officer advised on the composition of the committee.

MOVED by Mayor Read and **SECONDED** by Councillor Bell that the Audit and Finance Committee Terms of Reference be amended to revise the text in the third bullet under the heading “Composition” from “The Mayor, or his designate will be appointed Committee Chair” to “The Committee Chair will be elected by the Committee Members” and that the Audit and Finance Committee Terms of Reference be adopted at a future Committee meeting.

CARRIED

7. ***Investments***

The Manager of Financial Planning reviewed the staff report and outlined the City of Maple Ridge’s investment policy.

8. ***Other business***

Councillor Masse introduced a fiscal impact analysis model as a future task for the committee.

The General Manager of Corporate and Financial Services provided details of a potential fiscal impact model for future developments. He requested direction from the committee in terms of pursuing this type of model further.

It was the consensus of the committee that the potential implementation of a fiscal impact model be pursued.

9. ***Next Meeting***

- *February 2, 2015*

Adjournment – 9:47 a.m.

B. Masse, Chair

Audit and Finance Committee Terms of Reference

Composition

- The Audit and Finance Committee will be comprised of the Mayor and three Councillors; a quorum will be two members.
- Members will be appointed annually by the Mayor at the inaugural meeting or special meeting of Council.
- The Committee Chair will be elected by the Committee Members.
- The Chief Administrative Officer, or designate, and the Chief Financial Officer will attend meetings to provide input and answer questions.

Authority

- The Committee has the authority to investigate any activity of the Municipality.
- The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.

Meetings

- The Committee meets at least twice per year. The meetings are scheduled to permit timely review of the annual financial statements and reports. Additional meetings may be held as deemed necessary by the Chair of the Committee or as requested by the external auditors.
- The Chair of the Committee will constitute a meeting as per the requirements of the Community Charter.
- The person designated by the Committee to act as Secretary will prepare minutes for all meetings.

Reporting

- Minutes of the meetings of the Committee will be signed by the Chair, submitted to Council and open for public inspection.
- Supporting schedules and information reviewed by the Committee will be available for examination by any Council member.

Responsibilities

- To meet with the external auditors appointed by Council and with the Finance Department Staff to satisfy itself, on behalf of the Council, that:
 - the Municipality has implemented appropriate systems to identify, monitor and mitigate significant business risks;
 - the Municipality has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively;
 - the Municipality has implemented appropriate systems of internal control to ensure compliance with its policies and procedures and these systems are operating effectively;
 - the Municipality has implemented appropriate systems of internal control over financial reporting and that these systems are operating effectively;
 - the Municipality's annual financial statements are fully presented in all material respects in accordance with generally accepted accounting principles, the selection

- of accounting policies is appropriate and the annual financial statements should be approved by Council;
- the information contained in the Municipality's annual report and other disclosures is accurate, complete and fairly presents the financial position and the risks of the organization; and
 - the external audit function has been effectively carried out and any matter that the external auditors wish to bring to the attention of Council has been given adequate attention.
- To review interim financial reports as deemed appropriate by the Chair of the Committee.
 - To recommend to Council the reappointment or appointment of external auditors.
 - To inquire into any matters referred to it by Council.



City of Maple Ridge

Planning Report to the Audit Committee and Council

January 21, 2015



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925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Direct Line: 604-443-4716

E-mail: bcox@bdo.ca

January 21, 2015

Audit Committee and Council
City of Maple Ridge
11995 Haney Place
Maple Ridge, BC V2X 6A9

Dear Audit Committee Members:

We are pleased to present our audit plan for the audit of the consolidated financial statements of the City of Maple Ridge ("the City") for the year ended December 31, 2014.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit including audit risks, the nature, extent and timing of our audit work and the terms of our engagement. The audit planning report forms a significant part of our overall communication strategy with the Audit Committee and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the Audit Committee throughout the entire audit process so that we may both share timely information. The audit process will conclude with an Audit Committee meeting and the preparation of our final report to the Council.

This report has been prepared solely for the use of the Audit Committee and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

The Audit Committee play an important part in the audit planning process and we look forward to meeting with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

Bill Cox, CPA, FCA
Partner through a corporation
BDO Canada LLP
Chartered Accountants

BC/mkn



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EXECUTIVE SUMMARY

ENGAGEMENT LETTER

The terms and conditions of our engagement are included in the most recent engagement letter, dated December 2, 2014.

RESPONSIBILITIES

It is important for Council to understand the responsibilities that rest with the external auditor and the responsibilities of those charged with governance. BDO's responsibilities are outlined within the annual engagement letter. The oversight and financial reporting responsibilities of Council as they pertain to the annual audit are summarized below.

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Report on all non-audit services to be provided to the City by the external auditor.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters, if any.
- Refer to Appendix E for full details on the responsibilities of Council.

ENGAGEMENT OBJECTIVES

- Express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in its net debt, and cash flows of the City in accordance with Public Sector Accounting Standards ("PSAS").
- Present significant findings to the Audit Committee including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide opinions on the C2 - Home Owner Grant/Treasure/Audit Certificate and the compliance with the agreement relating to Part 8 of the School Act (British Columbia).
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit. (See Appendix K for prior year's management letter.)
- Consult regarding accounting, indirect taxes and reporting matters as requested throughout the year.
- Read the other information included in the City's Annual Report to identify material inconsistencies, if any, with the audited financial statements.



AUDIT STRATEGY

Changes in auditing standards now require auditors to document all significant manual and computer systems. Building on this, we plan to focus much of our review of transaction streams using “tests of controls” (compliance procedures) in combination with analytical review and testing. Balances will be tested using a combination of compliance procedures and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items).

Refer to Appendix B for a high level overview of our audit strategy.

MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at \$2,200,000 for the City and a preliminary performance materiality at \$1,650,000.

Our materiality calculation is based on the City’s prior year results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to Council as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Council, other than those which we determine to be “clearly trivial”. Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encourage management to correct any misstatements identified throughout the audit process.

RISKS AND PLANNED AUDIT RESPONSES

Based on our knowledge of the City’s operations, our past experience, and knowledge gained from management and Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following key risks and whether there are any other areas of concern that the Council have identified.



RISKS AND PLANNED AUDIT RESPONSES (CONTINUED)

	Audit Risk	Proposed Audit Approach
Management Override of Internal Controls	The City's current internal control systems could be subject to an override of existing controls by management resulting in unauthorized transactions or unauthorized adjustments to the accounting records.	Review of significant transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.

Other areas that may be considered higher risk are as follows:

	Audit Risk	Proposed Audit Approach
Cash and Investments	Cash planning and investment management are important aspects of good financial controls. Due to its nature, cash and investments are almost always considered to be a risk area in any audit.	Our planned audit procedures include review of reconciliations, substantive testing of transactions and confirmations of end of period balances. We will also review reports on return and investment strategies.
Staff Salaries	A significant single type of expenditure that covers many employees and departments. As a municipality, this figure is often of particular interest to financial statement users (taxpayers).	Application of computer audit testing to analyze all payroll transactions in the year is a key step to identify unusual payroll relationships for testing. We will also perform systems testing, tests of controls and analytical review of staff salaries.
Tangible Capital Assets and Accumulated Amortization	Almost 5 years have passed since original estimates were made of the useful lives of tangible capital assets owned by the City and estimates will need to be re-evaluated to determine if they are still accurate. This involves a high level of estimation and coordination of the finance department with other departments.	We will perform tests of controls for appropriate authorization of purchases combined with substantive testing of additions and disposals in the year and amortization calculations. Useful lives of existing assets will be reviewed for changes in estimates, if applicable. Repairs and maintenance ledgers will also be reviewed for possible capital items that have been expensed.

EXPERTS

In order for us to perform adequate audit procedures on certain financial statement areas, we will be relying on the work of, and the report prepared by, Mercer Health & Benefits. Canadian generally accepted auditing standards require us to communicate with the expert. We propose to discuss the following with Mercer Health & Benefits:

- The objective and nature of our audit engagement and how we intend to use the expert's findings and report.
- Our assessment of the significance and risk aspects of the engagement that will affect the expert's work.
- The requirement to advise us if they have any relationship with the organization which could impair their judgment or objectivity in the conduct of their engagement.
- The nature, timing and extent of the expert's work and our planned review of it, possibly including review of their working papers.
- Confirmation that the assumptions used in their calculations are consistent with those used in the prior periods and with industry standards.
- Their obligation to advise BDO Canada LLP of any matters up to the estimated audit report date that may affect their calculations and their report.

We ask that the appropriate level of management review the data provided to Mercer Health & Benefits and that they also review the assumptions used and results reported by the expert for reasonableness.



FRAUD RISK

Canadian generally accepted auditing standards require us to discuss fraud risk with Council on an annual basis. We have prepared the following comments to facilitate this discussion.

Required Discussion	BDO Response	Question to Council
Details of existing oversight processes with regards to fraud.	Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including: <ul style="list-style-type: none">• Annual Audit and Finance Committee meeting with management to discuss fraud• Discussions at regular Council meetings and our attendance at some of those meetings;• Review of related party transactions; and• Consideration of tone at the top.	Are there any new processes or changes in existing processes relating to fraud that we should be aware of?
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the City?

Refer to Appendix F for our considerations of possible fraud and illegal activities during the performance of our audit.

FINAL ENGAGEMENT REPORTING

As part of our final reporting to Council, we will provide a communications package to support Council in discharging their responsibilities. This communication will include any identified significant deficiencies in internal controls. See Appendix H for a comprehensive list of communication requirements throughout the audit.



OTHER MATTERS

Timing	<p>The following schedule has been agreed to with management:</p> <ul style="list-style-type: none">• Interim audit fieldwork - December 1 - 4, 2014• Year end audit fieldwork - March 9 - 20, 2015• Review of draft financial statements with Council or delegates - to be determined (April 2015)• Finalization of financial statements - Immediately subsequent to approval by the Audit Committee
Independence	<p>Our annual independence letter has been included as Appendix G.</p>
Management Representations	<p>As part of our audit finalization we will obtain written representation from management, a copy of these representations will be included as part of our final report.</p>
New Accounting Standards	<p>Refer to Appendix J for changes in standards. The most significant standards on the horizon include "Contaminated Sites" (effective for 2015) and "Financial Instruments" (effective for 2017).</p>



APPENDIX A - Your BDO Engagement Team

Name	Title	Email	Phone
Bill Cox, CPA, FCA	Engagement Partner	bcox@bdo.ca	604.443.4716
Kristy Kwan, CPA, CA	Audit Senior Manager	kkwan@bdo.ca	604.443.4721
Ming Hu, CPA, CA	Audit Manager	mhu@bdo.ca	604.443.4415
Otto Sun	Audit Senior	osun@bdo.ca	604.688.5421

APPENDIX B - Audit Strategy

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the City.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Council.

To assess risk accurately, we need to gain a detailed understanding of the City's operations and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements. We then determine whether adequate accounting records have been maintained and assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.



Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptably low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

APPENDIX C- Management Responsibilities

All facets of the City's internal controls including those governing the accounting records, systems and financial statements will be impacted by the organization's complexity, the nature of risks, and the related laws, regulations, or stakeholder requirements. It is management's responsibility to determine the level of internal control required to respond reasonably to the City's risks.

The preparation of the City's financial statements including all disclosures in accordance with Canadian public sector accounting standards is the responsibility of management. Among other things, management is responsible for:

1. Designing and implementing internal controls over financial reporting to enable the preparation of financial statements that are free of material misstatements;
2. Informing the City's auditors of any deficiencies in design or operation of internal controls;
3. Updating the City's auditors for any material change in the City's internal controls including if the individuals responsible for the controls that have changed;
4. Identifying and complying with any laws, regulations, and/or agreements which apply to the City;
5. Recording any adjustments required to the financial statements to correct material misstatements;
6. Safeguarding of assets;
7. Providing the auditor with all financial records, and related data which may be related to the recognition, measurement and or disclosure of transactions in the financial statements;
8. Providing accurate copies of all minutes of the regular and closed meetings of Council;
9. Providing timely, accurate information as requested for the completion of the audit;
10. Allowing unrestricted access to persons or information as requested as part of the audit;
11. Notifying the auditor of any circumstances which arise between the date the audit work is completed and the approval date of the financial statements.

Representation Letter

We will make specific inquiries of the City's management about the representations embodied in the financial statements and internal control over financial reporting. During the completion of our audit documentation, we will require management to confirm in writing certain representations in accordance with Canadian generally accepted auditing standards. These representations are to be provided to us in the form of a representations letter which will be provided as near as practicable to, but not after the date of our auditor's report on the financial statements.

APPENDIX D - Circumstances Affecting Timing and Fees

Our professional fee for the audit is based on careful consideration of the time required to complete the required work. Circumstances may arise during the engagement which could significantly impact the targeted completion dates and or the extent of work required to complete the audit. As a result, additional fees may be necessary. Such circumstances include, but are not limited to, the following:

Significant Issues

1. Changes in the design or function of internal controls can impact the audit and result in additional substantive testing;
2. Significant number of proposed adjustments which are identified during the audit work;
3. Significant changes are required to the format or information contained in the financial statements;
4. New issues resulting from changes to:
 - a. Accounting standards, policies or practices
 - b. Special events or transactions which were not contemplated in the original budget
 - c. The financial reporting process or systems involved
 - d. Accounting personnel or availability of accounting personnel
 - e. The requirement to include specialists in the audit work
5. Changes to the scope of the audit.

Audit Execution

1. Audit schedules are not provided in a timely manner, are not mathematically correct, or do not agree to the underlying accounting records.
2. There are significant delays in responding to our requests for information or responses require significant further investigation.
3. The quality of the supporting information for the audit work has deteriorated from our previous experience.
4. A complete working paper package is not provided on the agreed upon date.
5. There is a limitation of access to the financial staff required to complete the audit.

APPENDIX E - Council Responsibilities

General Responsibilities

It is Council's responsibility to provide oversight of the financial reporting process. This includes management's preparation of the financial statements, monitoring of the City's internal controls, overseeing the work of the external auditor, facilitating the resolution of disagreements between management and the auditor, as well as the final review of the financial statements and other annual reporting.

Significant Audit Findings

Based on the work we perform, any significant identified deficiencies in internal control will be reported to you in writing. The purpose of our audit is to express an opinion on the financial statements. While our audit includes a consideration of the internal control structure of the City, our work is focused on those controls relevant to financial reporting. As such, our work was not designed to provide an opinion on the effectiveness of the internal controls.

We will communicate our views regarding any significant qualitative aspects of the City's accounting practices. This would include the selection and application of accounting policies, estimates and financial statement disclosure. If during our audit we feel that the selected policies, estimates or disclosures are not appropriate for the City under its reporting framework, we will communicate these matters to Council.

In addition, we will communicate:

- Any significant difficulties which arose during the audit;
- Any reasons identified which may cause doubt as to the City's ability to continue as a going concern;
- The written representations we will request from management;
- Any identified unadjusted misstatements;
- Any identified or suspected fraudulent activities.

APPENDIX F - Auditor's Considerations of Possible Fraud and Illegal Activities

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- Identifying and assessing the risks of material misstatement due to fraud;
- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion, as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the City's internal control system, to obtain information for use in identifying the risks of material misstatement due to fraud and make inquiries of management regarding:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud in the City, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the City; and
- Management's communication, if any, to employees regarding its view on business practices and ethical behavior.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

- Inquiring of management, members of Council and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Performing disaggregated analytical procedures and considering unusual or unexpected relationships identified in the planning of our audit;
- Incorporating an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and

- Performing additional required procedures to address the risk of management's override of controls including:
 - Testing internal controls designed to prevent and detect fraud;
 - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
 - Evaluating the business rationale for significant unusual transactions.

APPENDIX G - Independence Letter

January 21, 2015

Audit Committee and Council
City of Maple Ridge
11995 Haney Place
Maple Ridge, BC V2X 6A9

Dear Audit Committee Members:

We have been engaged to audit the financial statements of the City of Maple Ridge (the “City”) for the year ended December 31, 2014.

Canadian generally accepted auditing standards (GAAS) no longer require that we communicate formally to you in regard to Independence Matters, however we consider it to be a good practice. As such, we are reporting to you regarding all relationships between the City (and its related entities) and our firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of British Columbia and applicable legislation, covering such matters as:

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We are not aware of any relationships between the City and our firm that, in our professional judgment, may reasonably be through to bear on our independence.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of the date of this letter.



This letter is intended solely for the use of Audit Committee and management and should not be used for any other purposes.

Yours truly,

A handwritten signature in black ink that reads "Bill Cox". The signature is written in a cursive, flowing style.

Bill Cox, CPA, FCA
Partner through a corporation of
BDO Canada LLP
Chartered Accountants

BC/mkn

APPENDIX H - Communication Requirements

Required Communication	Audit Planning Letter	Audit Results Letter	Communication Completed
1. Our responsibilities under Canadian GAAS	✓		Y
2. Our audit strategy and audit scope	✓		Y
3. Fraud risk factors	✓		Y
4. Going concern matters		✓	N
5. Significant estimates or judgments		✓	N
6. Audit adjustments		✓	N
7. Unadjusted misstatements		✓	N
8. Omitted disclosures		✓	N
9. Disagreements with Management		✓	N
10. Consultations with other accountants or experts		✓	N
11. Major issues discussed with management in regards to retention		✓	N
12. Significant difficulties encountered during the audit		✓	N
13. Significant deficiencies in internal control		✓	N
14. Material written communication between BDO and Management		✓	N
15. Any relationships which may affect our independence	✓		Y
16. Any illegal acts identified during the audit		✓	N
17. Any fraud or possible fraudulent acts identified during the audit		✓	N
18. Significant transactions with related parties not consistent with ordinary business		✓	N
19. Non-compliance with laws or regulations identified during the audit		✓	N
20. Limitations of scope over our audit, if any		✓	N
21. Written representations made by Management		✓	N
22. Any modifications to our opinion, if required		✓	N

APPENDIX I - Resources and Services

OTHER BDO SERVICES

Solutions	<p>BDO Solutions provides accounting software management tools need to run a better operation. Our expert team understands the complex reporting requirements government entities must adhere to, as well as the limited resources they have to address these needs. Spend more time serving your constituents, better manage budgets, allocate time and resources more effectively and improve your ability to focus on the work that really matters to your organization.</p> <p>For more information, please visit the following link:</p> <p>http://www.bdosolutions.com/ca/</p>
Succession Planning	<p>Having a strong strategic plan, such as a succession plan for key employees and strategic planning for the Board, is critical to an organization's success. With our succession planning services, we can help your organization with:</p> <ul style="list-style-type: none">• Planning for a change in leadership• Setting a strategic direction for the Board• Develop a strategic business plan for operations• Aligning all three groups of stakeholders (Board, employees and members) and enhancing communication <p>For more information, please visit the following link:</p> <p>http://www.bdo.ca/en/Services/Advisory/Business-Transition/pages/default.aspx</p>
Risk Advisory	<p>As Canada's leading financial advisory firm, BDO helps organizations and their management teams effectively assess, develop and manage strategic initiatives.</p> <p>Visit the following link to find out more:</p> <p>http://www.bdo.ca/en/Services/Advisory/Financial-Advisory/pages/default.aspx</p>

Outsourcing

Our dedicated team of professional bookkeepers across Canada combined with our powerful Microsoft cloud technology platform can provide you and your organization with a world class bookkeeping solution that gives you anytime access to your financial information. Our BDO Client Portal provides you with access to comprehensive business management functionality and enables you to make proactive and informed decisions for your organization.

Visit the link below to find out how we can create a customized bookkeeping solution for your organization:

<http://www.bdo.ca/en/Services/Outsourcing/Bookkeeping/pages/default.aspx>

Indirect Tax

Government Entities operating in Canada are impacted by commodity taxes in some way or another. These include GST/HST, QST, PST, various employer taxes, and unless managed properly, can have a significant impact on your organization's bottom line. The rules for Government Entities can be especially confusing, and as a result many organizations end up paying more for indirect tax than they need to.

Government Entities must keep on top of changes to ensure they are taking advantage of the maximum refund opportunities. At BDO, we have helped a number of organizations of all sizes with refund opportunities, which can reduce costs for the organization and improve overall financial health.

For more information, please visit the following link:

<http://www.bdo.ca/en/Services/Tax/Indirect-Tax/pages/default.aspx>

BDO PUBLICATIONS

BDO's national and international accounting and assurance department issues publications on the transition and application of Public Sector Accounting Standards. In addition, we offer a wide array of publications on Accounting Standards for Private Enterprises (ASPE), International Financial Reporting Standards (IFRS), and Accounting Standards for Not-for-Profit Organizations (ASNPO).

For additional information on PSAS, including links to archived publications and model financial statements, refer to the link below:

<http://www.bdo.ca/en/library/services/assurance-and-accounting/pages/default.aspx>.

MYPDR

Class is in session! Meeting Your Professional Development Requirements (MYPDR) is an educational program designed to support our clients, contacts and alumni in achieving their ongoing professional development requirements.

Through the MYPDR program, we are committed to providing timely, relevant topics that can support you in meeting your ongoing professional development needs. For more information on the MYPDR program or to register, please visit <http://www.cvent.com/d/34qqxp>.

APPENDIX J - Changes in Accounting Standards With Potential to Affect the City

The following summarizes the status of new standards and the changes to existing standards as of the fall of 2014. The Appendix also reviews Exposure Drafts, Consultation Papers, Invitations to Comment, Issue Papers and Statements of Principles that provide information on the future direction of CPA Public Sector Accounting Handbook.

NEW STANDARDS - PUBLIC SECTOR ACCOUNTING STANDARD (PSAS)

Section PS 3260 –Liability for Contaminated Sites

This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CPA Public Sector Accounting Handbook.

This section applies to government assets no longer in productive use and non-government assets for which the government is responsible. It does not apply to tangible capital assets (however, the PSAB GAAP hierarchy would require consideration of Asset Retirement Obligations in regard to tangible capital assets).

The main features of the new Section are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for, the damage;
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

This Section is effective for fiscal periods beginning on or after April 1, 2014. Earlier adoption is encouraged. For entities with a December year end this means that 2015 is the first year that the standard must be followed. An entity should begin to consider immediately how it will apply with this standard. Organizations are to apply PS 2120 if adoption of PS3260 results in a change in accounting policy. This means that there is a choice about whether to apply prospectively or retrospectively.



NEW STANDARDS - PSAS (NOT YET EFFECTIVE)

Section PS 1201, Financial Statement Presentation

This Section revises and replaces FINANCIAL STATEMENT PRESENTATION, Section PS 1200. The following changes have been made to the Section:

- Remeasurement gains and losses are reported in a new statement;
- Other comprehensive income that can arise when a government includes results of government business enterprises and government business partnerships in its summary financial statements is reported in the statement of remeasurement gains and losses; and
- The accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and the accumulated remeasurement gains and losses.

The new requirements are to be applied at the same time as PS 3450 - Financial Instruments and PS 2601 - Foreign Currency Translation and for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2016. Earlier adoption is permitted.

Section PS 2601, Foreign Currency Translation

This Section revises and replaces PS 2600, FOREIGN CURRENCY TRANSLATION. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in PS 3450 - FINANCIAL INSTRUMENTS;
- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as PS 3450, FINANCIAL INSTRUMENTS and PS 1201, FINANCIAL STATEMENT PRESENTATION and for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2016. Earlier adoption is permitted.

Section PS 3041, Portfolio Investments

This Section revises and replaces Section PS 3040, PORTFOLIO INVESTMENTS. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in FINANCIAL INSTRUMENTS, Section PS 3450;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

This section is to be applied at the same time as PS 3450, FINANCIAL INSTRUMENTS, PS 2601 FOREIGN CURRENCY TRANSLATION and PS 1201, FINANCIAL STATEMENT PRESENTATION and for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2016. Earlier adoption is permitted.

Section PS 3450 – Financial Instruments

PSAB approved amendments to Section PS 3450, Financial Instruments, to align the reporting of income on externally restricted assets that are financial instruments with the requirements in Section PS 3100, Restricted Assets and Revenues. The amendments clarify the application of Section PS 3100 (paragraphs PS 3100.11 - .12) when accounting for:

- A change in the fair value of a financial asset in the fair value category that is externally restricted;
- Income attributable to a financial instrument that is externally restricted; or
- A gain or loss associated with a financial instrument that is externally restricted.

These amendments recognize the importance of the nature of restrictions and the terms of contractual agreements in reporting such transactions and events when externally restricted assets and income are involved.

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost;
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value;
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market;

- Other financial assets and financial liabilities are generally measured at cost or amortized cost;
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses;
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses;
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category;
- New requirements clarify when financial liabilities are derecognized;
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; and
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as PS 2601, FOREIGN CURRENCY TRANSLATION and PS 1201, FINANCIAL STATEMENT PRESENTATION and for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements are effective for fiscal years beginning on or after April 1, 2016. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embedded derivatives within contracts, which can be applied retroactively or prospectively.

Note also the exposure draft “Financial Instruments: Transition” (discussed below) that proposed clarification of some detailed aspects of the Financial Instruments standard.

EXPOSURE DRAFTS - PSAS

Amendments to the Introduction (Closed for Comment)

PSAB proposes to amend the introduction to Public Sector Accounting Standards to clarify the applicability of the CPA PSA Handbook for various public sector entities.

Related Party transactions (Closed for Comment)

Exposure draft issued by the PSAB to propose the issue of two new sections, RELATED PARTY DISCLOSURES and INTER-ENTITY TRANSACTIONS. The main features of the exposure draft are as follows:

RELATED PARTY DISCLOSURES

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include individuals that are members of key management personnel and close family members.

- Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure is only required when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclosure is a matter of judgment based on the assessment of certain factors

INTER-ENTITY TRANSACTIONS

- Inter-entity transactions involving the transfer of assets or liabilities should be recognized by both a provider and a recipient at carrying amount, exchange amount or fair value depending on the particular circumstances of each case.
- Inter-entity transactions in the normal course of operations or under a policy of cost allocation and recovery should be recognized on a gross basis at the exchange amount.
- A recipient may recognize unallocated costs as a revenue and expense at carrying amount, fair value or another amount based on existing policy, depending on the particular circumstances of each case.
- Information about inter-entity transactions would be disclosed in accordance with the proposed new Section on related party disclosures.

Restructurings (Closed for Comment)

Exposure draft issued by the PSAB to propose the issue of a new section, RESTRUCTURING TRANSACTIONS. The main features of the exposure draft are as follows:

- A restructuring transaction is defined separately from an acquisition. The key distinction between the two is the absence of an exchange of consideration in a restructuring transaction.
- A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration.
- Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor at their carrying amount and recognized by the recipient at their carrying amount with applicable adjustments.
- The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction, is recognized as revenue or as an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Individual assets and liabilities received in a restructuring transaction are initially classified based on the accounting policies and circumstances of the recipient at the restructuring date.

- The financial position and results of operations prior to the restructuring date are not restated.
- Disclosure of information about the transferred assets, liabilities and related operations prior to the restructuring date by the recipient is encouraged but not required.

Assets, Contingent Assets and contractual rights (Closed for Comment)

Exposure draft issued by the PSAB to propose the issue of three new sections, ASSETS, CONTINGENT ASSETS and CONTRACTUAL RIGHTS. The main features of the exposure draft are as follows:

ASSETS

- Additional guidance on the definition of assets is provided.
- Disclosure of types of assets that are not recognized is required.

CONTINGENT ASSETS

- Contingent assets are defined.
- Disclosure of contingent assets is required when the occurrence of the confirming future event is likely.

CONTRACTUAL RIGHTS

- Contractual rights are defined.
- Disclosure of contractual rights is required.

Financial Instruments: Transition (Closed for Comment)

Exposure draft that deals technical details related to the standard by providing two amendments and a few clarifications.

The first amendment proposed definitively states that unless a contractual right or contractual obligation underlies a receivable or a payable, the Financial Instruments standard does not apply. There must be a contract for there to be a financial instrument.

The second amendment removes a correct, but redundant, paragraph that notes the Financial Instrument Standard does not apply to a receivable under a lease.

Clarifications are made in areas related to transfer of collateral pursuant to a credit risk management mechanism in a derivative contract, treatment of unamortized discounts or premiums related to debt buy-backs, associated unamortized discount or premium on initial adoption, and derivatives not recognized or recorded at fair value on initial adoption.

These detailed technical changes will likely have most impact to senior governments and it is not expected that many local governments will be affected.



CONSULTATION PAPERS - PSAB

Characteristics of Public Sector Entities (Consultation Paper 1) (Closed for Comment)

The objective of this project is to review and amend, if necessary, the conceptual framework in PS 1000, FINANCIAL STATEMENT CONCEPTS, and PS 1100, FINANCIAL STATEMENT OBJECTIVES with respect to measurement of financial performance. This review could also affect PS 1201, FINANCIAL STATEMENT PRESENTATION.

Measuring Financial Performance in Public Sector Financial Statements (Consultation Paper 2) (Closed for Comment)

The objective of this project is to review and amend, if necessary, the concepts underlying financial performance in the existing public sector conceptual framework in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100. This review could also affect FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

STATEMENTS OF PRINCIPLES - PSAB

Asset Retirement Obligations (Closed for Comment)

The PSAB proposes in this statement of principles a new section on retirement obligations associated with tangible capital assets controlled by a public sector entity. The statement includes retirement obligations associated with tangible capital assets resulting from legal, constructive and equitable obligations which include post-retirement operation, maintenance and monitoring. Retirement costs would increase the carrying amount of the related tangible capital asset or a component thereof and would be expensed in a rational and systematic manner. The subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible assets or a component thereof, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use. Often the best method with which to estimate the liability is a present value technique.

Not-for-Profit Organizations (Closed for Comment)

This statement of principles provides 15 key principles in areas related to:

- Revenue recognition
- Long-lived assets
- Controlled entities
- Financial statement presentation

Important principles in the area of revenue recognition include removal of both the deferral and restricted fund methods of accounting for revenue from contributions. Revenue would now be recognized as soon as the entity controls the related asset (note that this would preclude the recording of pledges receivable). The only exception to immediate recognition of revenue from contributions is when the transfer agreement contains a stipulation that creates a liability. In this case, revenue would be recorded as the liability is extinguished.

Principles in the area of long-lived assets harmonize the approach to accounting for impairment of such assets. Private sector NPO accounting rules had an “all or nothing” approach meaning that a long-lived asset was either not impaired or fully impaired and written off. These principles would now harmonize private sector accounting rules with PSAB which allows for a partial impairment model.

Accounting for controlled entities will also be mostly harmonized between private and public sector NPOs. Private sector NPOs will have to consolidate all controlled entities with only two exceptions:

- If there is a large number of individually immaterial controlled entities (such as Girl Guide groups)
- If the controlled entity is profit-oriented (in which case it would be accounted for on the equity basis)

Principles in the area of financial statement presentation require that both private sector and public sector NPOs would have to present their expenses by function in the Statement of Operations and by object in the notes to the financial statements. Public sector NPOs would use the “Net Debt” model of presentation on their Statement of Financial Position, but private sector NPOs would continue to use their existing model.

Revenue (Closed for Comment)

PSAB proposes in this statement of principles to focus on two areas of revenue which are exchange and unilateral (non-exchange) transactions with the presence of performance obligations being the distinguishing feature. Performance obligations are enforceable promises to provide goods or services. Revenue from an exchange transaction is recognized as the performance obligation is satisfied whereas unilateral transactions are recognized when there is the authority and past event that gives rise to a claim of economic recourses.



STATUS OF CURRENT PROJECTS - PSAB

Article I. Active Projects

Standards for public sector entities	Expected Release Date 2014/2015		
	Q4	Q1	Q2
<u>Asset Retirement Obligations</u>			Exposure Draft
<u>Assets</u>			Handbook Release
<u>Concepts Underlying Financial Performance</u>			Consultation Paper
<u>Fiscal Sustainability (Research project)</u>	No Set Date		
<u>Impairment of Non-Financial Assets</u>	Project on Hold		
<u>Not-for-Profit Organizations</u>	No Set Date		
<u>PSA Handbook Terminology</u>	Handbook Release		
<u>Related Party Transactions</u>		Handbook Release	
<u>Restructurings</u>			Handbook Release
<u>Revenue</u>			Exposure Draft

NEW STANDARDS - AUDITING AND ASSURANCE STANDARDS BOARD (AASB)

CAS 610, Using the Work of Internal Auditors

CAS 610 has been revised to address the auditor's responsibilities when determining whether and how to use the direct assistance from internal auditors. The guidance for auditor's to use the direct assistance of internal auditors is effective for audits of financial statements for the periods ending on or after December 15, 2014.

CSRS 4460, Reports on Supplementary Matters Arising from an Audit or Review Engagement

This new Related Services Standard establishes the various types of information reported to a third party (for example, regulators or funding bodies). It is common in this sector for funders, regulators, or other governments to require specific reporting from the auditor or accountant (known as "derivative reports"). This standard requires the auditor or accountant to expand the level of work required in many cases. Many of the existing types of reports requested by funders, regulators or other governments would not be able to be signed under these new proposals. Instead, a more fully explained report using standard wording would be issued in its place. This standard will be effective for reports dated on or after April 1, 2016.



EXPOSURE DRAFTs - AASB

Reporting on Audited Financial Statements (Closed for Comment)

The AASB issued an exposure draft proposing a new International Standard on Auditing (ISA) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; and revising ISA 260, *Communication with Those Charged with Governance*; ISA 570, *Going Concern*; ISA 700, *Forming an Opinion and Reporting on Financial Statements*; ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; and conforming amendments to other ISAs, issued by the International Auditing and Assurance Standards Board (IAASB). The result would be new and revised respective Canadian Auditing Standards (CASs).

Financial Statement Disclosures (Closed for Comment)

The AASB issued an exposure draft related to the audit of financial statement disclosures to obtain clarification of the existing requirements. They are proposing to revise ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*; ISA 210, *Agreeing the Terms of Audit Engagements*; ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 260, *Communication with Those Charged with Governance*; ISA 300, *Planning an Audit of Financial Statements*; ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; ISA 320, *Materiality in Planning and Performing an Audit*; ISA 330, *The Auditor's Responses to Assessed Risks*; ISA 450, *Evaluation of Misstatements Identified during the Audit*; and ISA 700, *Forming an Opinion and Reporting on Financial Statements*.

Responsibilities Relating to Other Information (Closed for Comment)

The AASB issued an exposure draft to revise ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, including:

- the proposed expansion of the auditor's responsibilities beyond that necessary for the audit of the financial statements; and
- definitions of "other information" and "annual report", which scope in information made available to the auditor after the date of the auditor's report.

Standards for Assurance Engagements (Closed for Comment)

The AASB issued an exposure draft proposing to adopt International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* as Canadian Standards on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, and to issue a new CSAE 3001, *Direct Engagements*. CSAE 3001 will be based on CSAE 3000 but would be revised, as necessary, to reflect the differences between attestation engagements and direct engagements.



PROJECTS - AASB

The AASB will continue to discuss issues on this topic, with a goal of issuing an exposure draft in early 2015.

COMMUNICATIONS WITH LAW FIRMS

The AASB is conducting a project to revise the “Joint Policy Statement Concerning Communications with Law Firms Regarding Claims and Possible Claims in Connection with the Preparation and Audit of Financial Statements” appended to CAS 501, *Audit Evidence – Specific Considerations for Selected Items*, including:

- whether the revised Joint Policy Statement should include illustrations of how the evaluation of claims and possible claims under different financial reporting frameworks could be described in the inquiry letter or whether such illustrations should be issued separately as non-authoritative guidance;
- whether any consequential amendments would be necessary to CAS 501; and
- what the effective date of the revised Joint Policy Statement should be and whether early implementation should be permitted.

The AASB reviewed a draft revised Joint Policy Statement, with a goal of approving an exposure draft at its September 2014 meeting.

Special Reports — Assurance on Compliance with Agreements, Statutes and Regulations

The AASB is conducting a review to revise Sections 5800, *Special Reports – Introduction*, 5815, *Special Reports – Audit Reports on Compliance with Agreements, Statutes and Regulations*, 8100, *General Review Standards*, and 8600, *Reviews of Compliance with Agreements and Regulations*, including:

- how the standard would interact with umbrella assurance standards;
- how material non-compliance with specified provisions of an agreement, statute or regulation should be defined and addressed in such engagements; and
- how the practitioner would consider materiality when planning and performing the engagement (in particular, in situations when the matter being reported on is qualitative rather than quantitative in nature).
- whether a standard, an Assurance and Related Services Guideline or some form of non-authoritative guidance should be developed; and
- if a standard is to be developed, the content of that standard and its relationship with the umbrella assurance standards.

The AASB will continue to discuss issues on this topic, with a goal of approving an exposure draft in the first half of 2015.



APPENDIX K

Prior Year's Management Letter

April 23, 2014

Mr. Paul Gill, General Manager Corporate and Financial Services
District of Maple Ridge
11995 Haney Place
Maple Ridge, BC V2X 6A9

RE: Auditor's Management Letter

As your external auditors we are engaged to provide an audit opinion on your year-end financial statements. An external audit requires testing of transactions and balances and review of those internal control systems upon which we may place reliance. A positive opinion on the financial statements does not necessarily mean that your internal control systems are all operating effectively. This is because we review only those internal control systems where we feel that failure in those systems could result in a material error on the financial statements. With those systems that we do review, our focus is on the assertions necessary to meet our financial statement audit objectives.

Our review of systems, transactions and balances as well as discussions with staff at various levels throughout the District gives us a unique insight into your operations. While conducting this work we make note of items that come to our attention where we feel that improvement could be made or alternatives could be considered. We are fortunate in that we work with a great number of clients and observe a wide variety of processes. We see firsthand any procedures that are emerging as best practices.

As matters come to our attention we make note of these for subsequent follow-up. For minor matters we discuss directly with the staff involved. More important matters are brought forward in this letter (known as a "management letter").

It is always worth noting that we almost always come up with points for all clients. The existence of points does not mean that there are significant problems with your systems or staff. They are just recommendations to make good systems better.

Status of Prior Year Recommendations

There were a few carry-forward points from the prior year's management letter. We track these points to ensure that recommendations are followed up and implemented.

Recommendation	Status
<p>Developer Contributed Assets</p> <p>We recommend that Finance review the controls over access and change in the GIS system.</p>	<p>Management has considered our recommendation and this is currently in progress. Engineering reviewed the data in 2012, resulting in the need for some prior period adjustments. Engineering and Finance will continue to work together to ensure that data capture meets both departments' needs and that controls in place help ensure data integrity.</p>
<p>Lost and Found Items</p> <p>We recommend that the District consider developing guidelines to help determine the preferred disposition method for various categories and conditions of goods received.</p>	<p>Management has considered our recommendation and this was sufficiently dealt with in 2012.</p>

Current Year's Observations and Recommendations

1. Presentation of Investment Reports

Observation

During our audit fieldwork we noted the most recent presentation of investment reports was in June 2011. The District's Investment Policy #13 states that the Audit and Finance Committee will receive, at least quarterly, a report summarizing the investment holdings, returns and deviations from policy. This is an effective governance practice to monitor the City's resource allocation on a timely manner.

Recommendation

We recommend that the Investment Report summarizing the investment holdings, returns and deviations from policy be presented to the Audit and Finance Committee on a regular basis.

Management Comments:

Agreed. Investment reports will be provided to the Audit & Finance Committee on a regular basis. There were no deviations from policy as at December 31, 2014.

2. Deferred Revenue Tracking

Observation

During our audit fieldwork we noted that included in the 2012 utility connection revenue, there is revenue previously deferred in the amount of \$485,000 which should have been recognized in the past. This is due to the project completion reports not being made available to the Finance department until the current year.

Recommendation

We recommend that the Public Works and the Finance departments coordinate to ensure the Finance department has the updated project status and that the completion reports are forwarded to the Finance department upon project completion.

Management Comments:

Agreed. The process is already in place along with regular cross checking of records to minimize the risk of Finance not receiving completion reports in the future.

3. CRA Regulation 105

Observation

This regulation from the CRA is not new but has recently shown up as a hot point in CRA audits. This regulation requires that any entity paying a non-resident person or company a fee in respect of services rendered in Canada must withhold 15% of the payment and remit this to the Government of Canada.

Where this is seen most often is in training and in computer software installations. Often a Canadian entity may deal with a Canadian sales office and may not appreciate the trainer coming up from Florida or the computer installers from Washington are being contracted directly and should therefore be subject to withholdings. The duty of care lies with the Canadian entity and not with the non-resident service providers. The Canadian entity would be responsible for the withholdings and penalties and interest in situations where they did not withhold.

Recommendation

The point is more of an informational item than a suggestion that transactions have been handled incorrectly in the past. However, when dealing with any person or company providing services you should ensure that they are Canadian residents or else withhold 15% of the payment. In most cases, this would be obvious from review of the contract or the invoices but where uncertain you should dig deeper to ensure that you have met your responsibilities. The area does get complicated with services such as web-training so you may want to touch base with tax experts (such as ourselves) in any areas where you are uncertain.



We received excellent cooperation from everyone at the District of Maple Ridge during the audit. We thank Catherine Nolan and all of the Finance Department staff for their assistance in making the audit process as efficient as possible.

Please do not hesitate to contact us should you wish to further discuss any of the matters discussed in this letter.

Yours truly,

A handwritten signature in black ink that reads "Bill Cox". The signature is written in a cursive, flowing style.

Bill Cox, CPA, CA
Partner through a corporation
BDO Canada LLP
Chartered Accountants

BC/mkn

c.c. Audit Committee/Council