

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

**January 25, 2016
9:00 AM
Blaney Room**

Chairperson (Acting): Councillor Masse

Committee Members: Mayor Read; Councillors C. Bell; K. Duncan; G. Robson; T. Shymkiw;
C. Speirs

Staff:	Chief Administrative Officer:	T. Swabey
	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 Nov 30, 2015***
3. ***Adopt Terms of Reference as amended***
4. ***2015 Audit Update***
 - Overview of 2015 audit by external auditor
5. ***Other business***
6. ***Next Meetings***
 - March 14 – Preliminary year-end update
 - April 18 – Consolidated Financial Statements

“Original signed by C. Nolan”

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

City of Maple Ridge

Audit & Finance Committee Meeting Minutes

November 30, 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, November 30, 2015 at 12:30 p.m.

PRESENT

Committee Members

Councillor Masse, Chair
Mayor Read
Councillor Bell
Councillor Shymkiw

Guests

Councillor Duncan
Councillor Speirs
Councillor Robson

Municipal Staff

T. Swabey, 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

The meeting was called to order at 12:35 p.m.

1. **Approval of agenda**

MOVED by Councillor Bell and **SECONDED** by Mayor Read that the agenda be approved as submitted.

CARRIED

2. **Approval of minutes of July 9, 2015**

MOVED by Mayor Read and **SECONDED** by Councillor Bell that the minutes of July 9, 2015 be approved.

CARRIED

3. **Introduction to Financial Overview Report**

The General Manager of Corporate and Financial Services reviewed the Financial Overview Report. He also introduced a funding strategy for consideration that would provide for an investment of \$110 million in Parks & Recreation infrastructure.

Note: The meeting recessed at 2:19 p.m. and reconvened at 2:52 p.m.

4. ***Investment Summary***

The Manager of Financial Planning reviewed the report

5. ***Fiscal Impact Analysis Model***

The Manager of Sustainability and Corporate Planning provided an example of how the draft Fiscal Impact Analysis Model would apply to a current development.

The Committee provided input to the model and discussed its future application.

Adjournment – 3:47 p.m.

B. Masse, Chair

Audit and Finance Committee Terms of Reference

Composition

- *The Audit and Finance Committee will consist of all members of Council*
- *Quorum for the committee will be a majority of members.*
- 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

Audit and Finance Committee
Terms of Reference cont'd

- 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 13, 2016



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BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Direct Line: 604-443-4716
E-mail: bcox@bdo.ca

January 13, 2016

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

Dear Members of the Audit Committee and Council:

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, 2015.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audits 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 Council 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 and Council throughout the entire audit process so that we may both share timely information. The audit process will conclude with an Audit Committee and Council meeting and the preparation of our final report to the Audit Committee and Council.

This report has been prepared solely for the use of the Audit Committee and Council 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 and Council 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,

A handwritten signature in blue ink that reads "Bill Cox". The signature is stylized with a large, looped "B" and a cursive "Cox".

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

BC/lcz



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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 the 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 engagement letter. The oversight and financial reporting responsibilities of the 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 the 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

Auditors are required to understand and 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 \$1,850,000 for the City and a preliminary performance materiality at \$1,387,500.

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 the 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” i.e. less than \$18,500 for the City. 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 the 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 has 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	<p>Cash planning and investment management are important aspects of good financial controls.</p> <p>Due to its nature, cash and investments are almost always considered to be a risk area in any audit.</p>	<p>Our planned audit procedures include review of reconciliations, substantive testing of transactions and confirmations of end of period balances.</p> <p>We will also review reports on return and investment strategies.</p>
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 (ratepayers).	<p>Application of computer audit testing to analyze all payroll transactions in the year is a key step to identify unusual payroll relationships for testing.</p> <p>We will also perform systems testing, tests of controls and analytical review of staff salary and levels.</p>
Tangible Capital Assets and Accumulated Amortization	Estimates will need to be re-evaluated on the tangible capital assets to determine if they are still accurate. This involves a high level of estimation and coordination of the finance department with other departments.	<p>We will perform test of controls for appropriate authorization of purchases combined with substantive testing of additions and disposals in the year and amortization calculations.</p> <p>Useful lives of existing assets will be reviewed for changes in estimates, if applicable.</p> <p>Repairs and maintenance ledgers will also be reviewed for possible capital items that have been expensed.</p>

	Audit Risk	Proposed Audit Approach
Employee Future Benefits	Significant judgment and estimation is used in determining employee future benefits.	We will perform a review of the estimates used in the actuarial report on post employment benefits and compare the inputs to the employment agreements.
Deferred Revenue and Government Grants	There is a risk of government grants not being recorded accurately on the financial statements.	Our planned audit procedures include review of agreements from funding agencies, review of government transfers, and review of expenditures relating to grants and government transfers.
Contaminated Sites	Due to the complexity of this new standard, there is a risk that not all of the contaminated sites are identified, estimated and disclosed correctly.	We will discuss the contaminated sites liability with financial management staff and corroborate our findings with other departments. As well, we will review the valuation of contaminated sites identified.

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, the external actuaries. Canadian generally accepted auditing standards require us to communicate with the expert. We propose to discuss the following with the actuary:

- 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 the actuaries 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 the Council on an annual basis. We have prepared the following comments to facilitate this discussion.

Required Discussion	BDO Response	Question to the Council
Details of existing oversight processes with regards to fraud.	<p>Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including:</p> <ul style="list-style-type: none">• Annual Audit 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 the Council, we will provide a communications package to support the 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 - November 30-December 2, 2015• Year end audit fieldwork - March 7-16, 2016• Review of draft financial statements with the Council or delegates - To be determined (April 2016)• Finalization of financial statements - Immediately subsequent to approval by Council
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.</p> <p>"Contaminated Sites" is in effect for this fiscal year (2015). The most significant standard on the horizon is "Financial Instruments" (effective for 2019).</p>



APPENDIX A - Your BDO Engagement Team

Name	Title	E-mail	Phone
Bill Cox, FCPA, 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	604.646.4415
Shannon Chang, CPA, CA	Audit Fieldwork Lead	schang@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 the 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; and
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 the 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 the 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; and
- 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 behaviour.

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

Direct Line: 604-443-4716
E-mail: bcox@bdo.ca

November 24, 2015

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

Dear Members of the Audit Committee and Council:

We have been engaged to audit the financial statements of the City of Maple Ridge (the "City") for the year ended December 31, 2015.

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 Chartered Professional 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 Chartered Professional Accountants of British Columbia as of the date of this letter.

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

Yours truly,

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

BC/lcz

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

Advisory	<p>As Canada's leading financial advisory firm, BDO helps organizations and their management teams effectively assess, develop and manage strategic initiatives, such as:</p> <p>Asset Reserve Policies - Asset reserves seem to be on everyone's agenda these days. Municipalities and Regional Districts across the country are asking themselves if they have enough money for infrastructure, how much they have, how much they will need and so on. BDO is excited to host interactive workshops on Managing Asset Reserves.</p> <p>Internal Control Assessments - BDO has been engaged by many clients to perform a review and assessment of current processes and key internal controls over financial reporting (ICFR), as well as the structure of accounting/finance departments. The engagements include identification of gaps in control, as well as assessment of the current governance and reporting structure of the accounting/finance department.</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>
Indirect Tax	<p>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.</p> <p>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.</p> <p>For more information, please visit the following link:</p> <p>http://www.bdo.ca/en/Services/Tax/Indirect-Tax/pages/default.aspx</p>
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>



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>

Succession Planning

Having a strong strategic plan, such as a succession plan for key employees and strategic planning for the Board of Directors, is critical to an organization's success. With our succession planning services, we can help your organization with:

- Planning for a change in leadership
- Setting a strategic direction for the Board of Directors
- Develop a strategic business plan for operations
- Aligning all three groups of stakeholders (the Board, employees and rate payers) and enhancing communication

For more information, please visit the following link:

<http://www.bdo.ca/en/Services/Advisory/Business-Transition/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 Impact the City

The following summarizes the status of new standards and the changes to existing standards as of the fall of 2015. The Appendix also reviews Exposure Drafts, Consultation Papers, Statements of Principles, projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.

NEW STANDARDS - PUBLIC SECTOR ACCOUNTING STANDARDS ("PSAS")

Section PS 3260, Liability for Contaminated Sites

This new Section is in force for the 2015 fiscal year and changes are reflected in your current year financial statements.

This standard 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** and to **unexpected events**. 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 this year and may be applied prospectively or retrospectively. The Section requires that the estimates be revisited each year to ensure that it reflects information available at the financial statement date.

NEW STANDARDS - PSAS (NOT YET EFFECTIVE)

Amendments to the Introduction

PSAB amended the introduction to Public Sector Accounting Standards to clarify the applicability of the CPA PSA Handbook for various public sector entities. In the case of a government component, for example a provincial Ministry, that prepares standalone statements, would be directed to use PSAB effective on or after January 1, 2017.

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.

Part of this standard will not have much of an impact until Section PS 3450 - Financial Instruments has been adopted.

The standard is 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, 2019. For entities with a December year end, this means that 2020 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 2200, Related Party Disclosures

This new Section defines a related party and establishes disclosures required for related party transactions.

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 disclose is a matter of judgment based on the assessment of certain factors.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. 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 are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements have been delayed and are now effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end this means 2020 is the first year that the standard must be followed. 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 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, 2019. For entities with a December year end, this means that 2020 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3420, Inter-Entity Transactions

This new Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

The main features are:

- 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, accountability structure or budget practice depending on the particular circumstances of each case.
- Information about inter-entity transactions would be disclosed in accordance with the new Section on related party disclosures.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3210, Assets

This new Section provides additional guidance on the definition of assets and establishes general disclosure standards for assets. Disclosure of types of assets that are not recognized is required.

However, this standard does not address intangible assets which are still not recognized under the PSAB accounting framework.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3320, Contingent Assets

This new Section defines and establishes disclosure standards on contingent assets. Disclosure about contingent assets is required when the occurrence of the confirming future event is likely.



This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3380, Contractual Rights

This new Section defines and establishes disclosure standards on contractual rights. Disclosure about contractual rights is required including the description about their nature and extent and the timing.

This Section is effective for fiscal periods beginning on or after April 1, 2017. For entities with a December year end, this means that 2018 is the first year that the standard must be followed. Earlier adoption is permitted.

Section PS 3430, Restructurings

This Section addresses a problem area for public sector accounting. In the past there was no Canadian standard that addressed acquisition of services and service areas, therefore, accountants looked to the US and international standards for guidance.

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred 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 based primarily on the fair value of the individual assets and liabilities transferred.

- The net effect of the restructuring transaction should be recognized as a revenue or expense by the entities involved.
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. For entities with a December year, end this means that 2019 is the first year that the standard must be followed. 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, although not as demanding as the private sector 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 remeasurement are reported in the statement of remeasurement gains and losses;
- Budget-to-actual comparisons are not required within the statement of remeasurement 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 for government organizations are effective for fiscal years beginning on or after April 1, 2012. In the case of governments, the new requirements have been delayed, mainly due to concerns of the senior government, and are effective for fiscal years beginning on or after April 1, 2019. For entities with a December year end this means 2020 is the first year that the standard must be followed. 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

Financial Instruments: Transition (Closed for comment)

This exposure draft deals with 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.



PSAB has deferred considering amendments proposed in the October 2014 Exposure Draft until a later date.

Government Not-for-Profit Organizations, Sections PS 4200 - 4270

PSAB approved, in principle, an exposure draft proposing withdrawal of Section PS 4260, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*, and amendments to the transitional provisions in Section PS 2200, *Related Party Disclosures*, for not-for-profit organizations applying the PSA Handbook including the PS 4200 series.

PSAB's goal is to eventually remove all of these Not-for-Profit Organization sections. They were added to PSAB from the private NPO standards as a temporary measure when government NPO's were directed to follow PSAB. PSAB will review these standards and adjust relevant standards as applicable and then remove them from this Section.

CONSULTATION PAPERS - PSAB

Concepts Underlying Financial Performance

This project considers the concepts underlying the measure of financial performance. The review may result in amendments to the conceptual framework and could also affect Section PS 1201, Financial Statement Presentation. Three different consultation papers have been issued on this project with the last one, Conceptual Framework Fundamentals and the Reporting Model, having closed for comment on August 31, 2015. In the third consultation paper, there has been about face on concepts stated in the second consultation in regards to having financial statements that did not clearly articulate. Main features of this consultation paper suggests removing the Statement of Remeasurement Gains and Losses, separating capital grants and other unusual items out of the main revenue and expenses to a separate category (below the net result of services) on the Statement of Operations, revisions of assets and liabilities definitions, required use of historical cost except in rare cases and allows the use of an amended approved budget if the government has changed. PSAB is deliberating comments received.

STATEMENTS OF PRINCIPLES - PSAB

Asset Retirement Obligations (PSAB is deliberating comments received)

In 2014, PSAB issued a Statement of Principles called "Retirement Obligations". This caused some confusion to readers as the title sounded as if it might relate to employee retirement obligations. To clarify the project is now called Asset Retirement Obligations. This statement of principles proposes 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. An exposure draft is to be developed.

Not-for-Profit Organizations

In 2013, the Public Sector Accounting Board/Accounting Standards Board Joint Task Force on Not-for-Profit accounting standards released a document for comment that had 15 key principles. This joint working group between PSAB and the AcSB in regard to NPO accounting has been disbanded. The AcSB has set up a NPO Advisory Committee to provide direction for private NPO's. PSAB will



be monitoring the activities of the NPO Advisory Committee and of the AcSB as regards not-for-profit standards, but will not be obliged to make parallel changes to its NPO standards.

Revenue (PSAB is deliberating comments received)

In this Statement of Principles, PSAB proposes 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. Developments in this area will be worth following as there could be significant changes from current practice.

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. Examples of unilateral revenue are fines and business licenses. In these examples the payor receives no direct economic benefit in return. However, some revenues (for example, dog licenses) will not be as clear cut. Using the dog license example, there could be a question about whether a service is provided, as most local governments would have a dog catcher, a response for barking dogs, and would fund the local SPCA. A question arises as to whether these services are provided to the person paying the license or the the public at large.

The goal of this project is to enhance consistency of revenue recognition among public sector entities. An exposure draft is to be developed.

PROJECTS - PSAB

Employment Benefits

PSAB approved an Employment Benefits project. The objective is to review Section PS 3250, Retirement Benefits, and Section PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. Key issues include, but are not limited to, deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick leave benefits.

Impairment of Non-Financial Assets

PSAB approved an Impairment of Non-Financial Assets project. The objective of the project is to issue a standard that address the impairment of tangible capital assets that have service potential. The objective is to define impairment as well as providing guidance on assessment, recognition, measurement and disclosure of impairment losses.

POST IMPLEMENTATION REVIEW

Government Transfers

PSAB conducted its first post-implementation review to determine whether the standard, Section PS 3410, Government Transfers, has been implemented and achieved the intended objectives. PSAB will consider the responses to the Request for Information regarding the post-implementation review at the end of 2015 or in early 2016.

STATUS OF CURRENT PROJECTS - PSAB

Standards for public sector organizations	2015	2015	2016	2016	2016
	Q3	Q4	Q1	Q2	Q3
Asset Retirement Obligations				Exposure draft	

Concepts Underlying Financial Performance					Stmnt of Principles
Employment Benefits				Invitation to comment	
Financial Instruments - Subsequent Issues	Handbook section				
Impairment of Non-Financial Assets	(project deferred)				
Not-for-Profit Organizations (see Joint Not-for-Profit Review)					
Post Implement Reviews - Section PS3410, Government Transfers			Feedback statement		
PSA Handbook Terminology	(project deferred)				
Revenue				Exposure draft	

NEW STANDARDS - AUDITING AND ASSURANCE STANDARDS BOARD (AASB)

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.

CSAE 3000 Attestation Engagement other than Audits or Reviews of Historical Financial Information and CSAE 3001 Direct Engagements

CSAE 3000 and CASE 3001 replaces Sections 5025 Standards for Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information, Section 5030 Quality Control Procedures for Assurance Engagement Other than Audits of Financial Statements and Other Historical Financial Information, Section 5049 Use of Specialists in Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information and Section 5050 Using the Work of Internal Audit in Assurance Engagements Other than Audits of Financial Statements and Other Historical Financial Information. CSAE 3000 is adopted from ISAE 3000 however the Canadian Standards have some differences including:

- narrowing the scope of CSAE 3000 to address attestation engagements only;
- references to relevant ethical requirements; and
- terminology.

Canadian Standard on Assurance Engagements (“CSAE”) 3001 is based on CSAE 3000 but is revised, as necessary, to reflect the differences between attestation engagements and direct engagements. CSAE 3000 and 3001 are effective for attestation engagements where the assurance report is dated on or after June 30, 2017.

EXPOSURE DRAFTS - AASB

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 International Standards on Auditing ("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*.

It is expected that the AASB will approve the final Handbook material in 2016.

Special Reports – Assurance on Compliance with Agreements, Statutes and Regulations (Open for comments until December 23, 2015)

The AASB issued an exposure draft that proposes to issue a *CSAE 3530 Reports on Compliance with Agreements, Statutes and Regulations*, which would replace *5800, Special Reports – Introduction*, *5815, Special Reports – Audit Reports on Compliance with Agreements, Statutes and Regulations*, *8600 Reviews of Compliance with Agreements and Regulations*. The standard would not be a "standalone" section, but rather provide additional requirements and application material to assist practitioners in the application of CSAE 3000 or CSAE 3001.

Communications with Law Firms (Closed for comment)

The AASB conducted 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 responses to the AASB exposure draft indicated strong support for the revised Joint Policy Statement. The AASB discussed issues including:

- how to provide greater clarity in CAS 501 that the revised Joint Policy Statement applies to communications with in-house legal counsel acting in a legal capacity;
- whether amendments should be made to address respondents' concerns that it is not clear what the auditor's work effort should be when using evidence provided by in-house legal counsel acting in a legal capacity; and
- how to appropriately reflect in CAS 501 and the revised Joint Policy Statement the circumstances when an auditor may request communication with legal counsel in situations when there are no claims or possible claims.

The AASB expects to approve the final Joint Policy Statement at its fall 2015 meeting.

Association (Closed for comment)

The AASB issued an exposure draft for comments with *CSOA 5000* replacing *Section 5020, Association*, which addressed the following issues:

- which circumstances would be scoped into the proposed standard and in which circumstances the practitioner would refer to other standards;

- how the practitioner's consent to the use of the practitioner's name or report is defined; and
- what the practitioner's responsibilities would be when information on which the practitioner reported is issued in more than one language.

The AASB is deliberating comments received on its Exposure Draft.

Standards for Review Engagements (Closed for comment)

The AcSB issued a re-exposure draft proposing a new Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*. This standard will replace *Public Accountant's Review of Financial Statements, Section 8200; Reviews of Financial Information Other Than Financial Statements, Section 8500; Assurance and Related Services Guidelines AuG-20, Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200; and Assurance and Related Services Guideline AuG-47, Dating the Review Engagement Report of Financial Statements*. The result would be a self-standing standard for review engagements.

The AASB is deliberating comments received on its re-exposure draft and the new section is expected to be approved in the fall of 2015.

Auditor Reporting - Special Considerations (Closed for comment)

The International Auditing and Assurance Standards Board ("IAASB") is proposing amendments to ISA 800, *Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and ISA 805, *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, resulting from significant revisions to its auditor reporting standards.

The IAASB will address the voluntary communication of key audit matters and naming the engagement partner in the auditor's report on a single financial statement or an element of a financial statement.

Revisions that the IAASB makes to these standards will be reflected in the equivalent CASs with limited Canadian-specific amendments, if necessary. The AASB issued an exposure draft and are currently deliberating comments. The final handbook material is expected to be approved in the fall of 2015.

The AASB issued an Exposure Draft that proposes to adopt IAASB revisions to ISA 810, *Engagements to Report on Summary Financial Statements*, resulting from significant revisions to its auditor reporting standards.

Issues addressed are related to key audit matters, going concern and other information. The final handbook release is expected in 2016.

Responding to Non-compliance or Suspected Non-compliance with Laws and Regulations (Closed for comment)

The AASB issued an Exposure Draft that parallels proposed limited changes to International Standards on Auditing and International Standard on Quality Control. The proposed changes are in response to the International Ethics Standards Board for Accountants' Re-exposure Draft, *Responding to Non Compliance with Laws or Regulations*.

Reporting on Audited Financial Statements (Closed for comment)

The AASB issued an exposure draft that proposed a new 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 IAASB. The result would be new and revised respective Canadian Auditing Standards (CASs) that would provide more information to users of audited financial statements.

After reviewing comments on the exposure draft the AASB has issued an invitation to comment to discuss among other things, Canadian implementation considerations and Canadian amendments to the auditor reporting.

PROJECTS - AASB

Agreed-Upon Procedures

An invitation to comment is being developed on this project to update *Section 9011, Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*. The project will address:

- whether an umbrella standard is needed for agreed-upon procedures engagements;
- whether the concept that an agreed-upon procedures engagement does not result in the provision of assurance is still appropriate;
- whether a practitioner should be required to use professional judgment when determining or modifying the procedures to be performed;
- whether the practitioner should apply materiality to design procedures or assess factual findings; and
- the form and content of the practitioner's report.

It is expected that the invitation to comment document will be approved in April 2016.

CSA 720, Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

The IAASB finalized the revised *ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. This section addresses the auditor's involvement with financial and non-financial information, other than the audited financial statements, included in entities' annual reports. Possible Canadian amendments include:

- the definition of what constitutes the annual report in a Canadian context; and
- the reporting requirements dealing with other information received after the date the financial statements are issued.

An exposure draft will be issued for comment in the fall of 2015.

Responding to Non-compliance or Suspected Non-compliance with Laws and Regulations

The IAASB has issued an Exposure Draft that proposes changes to international standards necessary to resolve actual or perceived inconsistencies or to clarify key aspects of proposed revisions to the IESBA Code of Ethics. Canadian stakeholders are encouraged to provide their comments to the IAASB by October 21, 2015. The AASB is expected to issue their exposure draft in 2015.

Compilation Engagements

Canadian practitioners have indicated that there is a need for a clarified standard that would better meet their needs by providing requirements and guidance on specific matters that have caused confusion and ambiguity in performing compilation engagements. This project will include determining the nature and extent of revisions that should be made to *Section 9200, Compilation Engagements*. This may involve adoption of International Standard on Related Services (ISRS) 4400, *Compilation Engagements*. A task force is currently being recruited.



Future-Oriented Financial Information

A project proposal has been approved to determine what authoritative guidance, if any, is needed in the Handbook to address assurance matters pertaining to future-oriented information.

Reports on the Application of Accounting Principles

A project proposal has been approved to determine what the appropriate course of action for Section 760, Reports on the Application of Accounting Principles, as opinion shopping services, as described in the section, are rarely performed in practice today.

APPENDIX K - Prior Year's Management Letter

Direct Line: 604-443-4716
E-mail: bcox@bdo.ca

April 23, 2015

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

Dear Mr. Gill:

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 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 worth noting that we have management letter comments for virtually all audits of 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

1. Contaminated Sites

We had previously mentioned to you the new public sector accounting standard that comes into force in 2015 known as "Liabilities for Contaminated Sites". This standard requires that a government entity record a liability in regard to any properties that are not in use where there is environmental contamination above the legal standard. Importantly, the standard requires the government to methodologically review its properties to determine those properties at risk, and potentially to conduct environmental testing on high-risk properties.

Since the approach that this standard takes makes it quite onerous because of the requirement to actively go beyond just what you are already aware of, we encouraged them to continue to move the project forward early in the 2014 fiscal year.

We are pleased to report that preliminary plans are underway for the implementation of PS3260 “Liability for Contaminated Sites” and the need to work on this has been incorporated into the business plans of departments that will play a role in its implementation.

2. Policy on Council Training, Conferences and Association Building

During our review on Council’s expenses, we noted expenses for some Council members exceeded the annual amount set under the policy in 2013 and 2012 and could exceed the combined three year amount at the end of the current term of Council. We recommended that the Council expense policy should be re-evaluated.

We are pleased to report that our recommendation was considered and none of the Council’s expenses exceeded the 2014 annual budget amount.

Current Year Observations

1. *Security Deposits*

During the audit, we noted that there were instances in which refundable security deposits collected were not refunded back to the person/entity whose name was on the bill issued. This increases the risk of fraud or error as the security deposits can be misappropriated.

Recommendation

We recommend that a policy be instituted that when the refundable security deposits are required, the person/entity to whom the deposit should be refunded should be verified at the time the bill is issued.

Management Comments

Staff will review current practices for opportunities to improve processes.

2. *Saving for Replacement of Infrastructure - Best Practice*

The North America-wide infrastructure deficit has many municipalities and regional districts reconsidering their plans in regard to saving for replacement of assets. While this is a very complex area that requires detailed planning, some general best practices are emerging.

As a starting point, it is important to realistically evaluate those assets that will have to be replaced through savings. There are groups of assets for which replacement is not planned unless there can be funding raised from third party sources such as senior government, developers, or other sources. However, it is a best practice to regularly review these assets to consider if circumstances have changed. In many cases, infrastructure assets originally considered to be “nice extras” are now integral to the services provided for the community. If any of these assets are now critical to the community, they should also be considered as infrastructure to be replaced from own funds.

The cautious use of debt is an integral part of planning for funding of replacement of assets. Again, however, assumptions change and could have an impact on original asset replacement plans. In particular, as estimates of useful life of infrastructure changes it can be the case that several major infrastructure items will require replacement at about the same time. This may make the use of debt either impossible (due to limitations on allowable debt levels) or at least highly impractical. It is important to recall that using debt is always more expensive than saving for replacement. The use of debt has its place to be certain, but it should be used strategically as part of a well-managed overall plan.



For most infrastructure assets, it is likely that savings will represent the a significant portion of funding for replacement at the end of the economic life of the asset - indeed, the City currently has over \$22 million in its equipment replacement and capital works reserves for this purpose. But due to economic conditions and pressures from taxpayer groups, it has been difficult for local governments to raise rates (requisitions, user rates, and other charges) to a level necessary to increase savings rates.

The City of Maple Ridge is certainly aware of this issue and its importance and has been working towards updating and improving its replacement plans. Long-term planning for infrastructure is fairly advanced and the impact of this on user rates considered. We recommend that these plans be formalized by undertaking the key steps noted above:

- Determine assets that will be required to be replaced with latest estimate of replacement date and value
- Consider where debt or other funding can be used in lieu of saving for replacement - but with a conservative view
- Update savings plans and adjust rates as necessary to allow for funding

Management Comments

The City has a number of projects underway to assess infrastructure management and future replacement requirements. A portion of annual property taxation is dedicated to closing the gap between current and required annual infrastructure funding. Staff acknowledge that additional work is needed to address this issue.

This communication is prepared solely for the information of management and those charged with governance and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the co-operation and assistance which we received from you, Catherine Nolan and the rest of the Finance Department during the course of the audit. Our experience is that the Finance Department is well-prepared for the annual audit, which is a significant contributor to keeping audit costs down.

We shall be pleased to discuss with you further any matters mentioned in this letter at your convenience.

Yours truly,

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

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cc Audit and Finance Committee and Council