

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

**May 2, 2016  
9:00 AM  
Blaney Room**

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**Chairperson:** Councillor Masse

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

<b>Staff:</b>	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

<b>Guest:</b>	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 April 18, 2016**
- 3. 2015 Audit Update**
  - Overview of 2015 audit results by external auditor
- 4. Private committee meeting with auditor**

“Original signed by C. Nolan”  
Agenda submitted by: C. Nolan, CPA, CGA  
Manager of Accounting

## City of Maple Ridge

### Audit & Finance Committee Meeting Minutes

April 18, 2016

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, April 18, 2016 at 9:00 a.m.

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#### ***PRESENT***

##### ***Committee Members***

Councillor Masse, Chair  
Mayor Read  
Councillor Shymkiw  
Councillor Speirs  
Councillor Bell  
Councillor Duncan

##### ***Municipal Staff***

T. Swabey, Chief Administrative Officer  
P. Gill, General Manager Corporate & Financial Services  
C. Nolan, Manager of Accounting  
T. Thompson, Manager of Financial Planning  
A. Gaunt, Confidential Secretary

##### ***Absent***

Councillor Robson

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Note: Mayor Read chaired the meeting. The meeting was called to order at 9:05 a.m.

#### ***1. Approval of agenda***

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

CARRIED

#### ***2. Approval of minutes of March 14, 2016***

That the minutes of the Audit & Finance Committee Meeting of March 14, 2016 be approved.

CARRIED

### **3. 2015 Consolidated Financial Statements**

The Manager of Accounting gave a power point presentation providing information on the 2015 Consolidated Financial Statements

Note: Councillor Shymkiw joined the meeting at 9:08 a.m.

The Manager of Accounting advised that the external auditors cannot finalize their work until a Council recommendation accepting the consolidated financial statements is approved.

### **4. Reserves**

The Manager of Accounting gave a power point presentation providing information on the City's financial resources including:

- Accumulated surplus (revenue funds)
- Reserve funds
- Reserve accounts
- Restricted Revenues

Note: Councillor Duncan joined the meeting at 9:31 a.m.

### **5. Introduction to Financial Reports on Committee of the Whole Agenda**

The Manager of Financial Planning provided an overview of reports on the Committee of the Whole Agenda including the Financial Plan Amending Bylaw and the 2016 Tax Rates Bylaw.

### **6. Next Meetings**

- May 2 – Review of 2015 audit results

***Adjournment – 9:42AM***

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B. Masse, Chair



# The City of Maple Ridge

Audit Results and Communications

Report to the Audit and Finance Committee and Council

For the fiscal year ended December 31, 2015

March 28, 2016



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Vancouver BC V6C 3L2 Canada

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

April 25, 2016, 2016

Members of the 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 the results of our audit of the financial statements of the City of Maple Ridge (the "City") for the year ended December 31, 2015. The purpose of our report is to summarize certain aspects of the audit that we believe to be of interest to the Members of the Audit Committee and Council and should be read in conjunction with the draft financial statements.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Audit Committee and Council in fulfilling its responsibilities.

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.

We wish to express our appreciation for the co-operation we received during the audit from the City's management and staff that assisted us in carrying out our work. We look forward to discussing the contents of this report and 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, flowing "B" and a cursive "Cox".

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

BC/



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## EXECUTIVE SUMMARY

<b>Audit Findings</b>	<p>Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>A detailed description of our audit findings has been included on page 6.</p>
<b>Status of Audit</b>	<p>As of the date of this report, we have substantially completed our audit of the December 31, 2015 financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our audit report on the financial statements:</p> <ul style="list-style-type: none"> <li>• Receipt of the signed management representation letter</li> <li>• Subsequent events review through to financial statement approval date</li> <li>• Approval of financial statements by Council</li> </ul>
<b>Audit Risks</b>	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as containing risks of material misstatements:</p> <ul style="list-style-type: none"> <li>• Risk of Management Override</li> <li>• Cash and Investments</li> <li>• Staff Salaries</li> <li>• Tangible Capital Assets and Accumulated Amortization</li> <li>• Employee Future Benefits</li> <li>• Deferred Revenue and Government Grants</li> <li>• Contaminated Sites</li> </ul> <p>We have summarized the results of our audit procedures for each of these risk areas, beginning on page 6 of this report.</p>
<b>Internal Control Over Financial Reporting</b>	<p>We did not identify any significant deficiencies in internal controls over financial reporting during the year ended December 31, 2015 that we considered to be material weaknesses.</p>
<b>Fraud and Illegal Activities</b>	<p>We developed procedures within our audit plan as recommended by CAS 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Based on these procedures, we have not encountered any illegal activities or fraudulent events with respect to the City.</p>
<b>Significant Events</b>	<p>As of the date of this letter, we have not identified any significant events which we believe should be brought to your attention.</p>
<b>Significant Accounting Policies</b>	<p>The City's significant accounting policies are listed in the financial statements. We believe management's selection of accounting policies is appropriate under Canadian public sector accounting standards.</p>

Estimates	<p>Accounting estimates are an integral part of the financial statements and are based on management's current judgments. These judgments are based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>Our comments on the significant estimates included in the financial statements are included on page 9 of this report.</p>
Audit Adjustments and Unadjusted Differences	<p>Our final materiality level was \$2,500,000. This represented a somewhat increased level from our planning materiality due to higher than anticipated activity levels.</p> <p>The effect on annual surplus for unadjusted misstatements for the year ended December 31, 2015 totaled \$75,000. A summary of these items is included in Appendix C.</p> <p>A summary of the year end audit adjustments approved by management, including the impact on the annual surplus of the City, is included in Appendix D.</p>
Disclosures	<p>There are no material omissions with respect to the disclosures in the financial statements for the year ended December 31, 2015 that we have noted.</p>
Independence	<p>We confirm that we are still independent as of the date of this letter.</p>
Representation Letter	<p>A draft version of the representation letter to be signed by management is included in Appendix E.</p>
Conclusion	<p>We intend to issue an unmodified audit report on the financial statements for the year ended December 31, 2015 once the outstanding items referred to above are satisfactorily resolved and the financial statements are approved the Council.</p>





## INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. 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 would report to you regarding all relationships between the City and our firm that, in our professional judgment, may reasonably be thought to bear on our independence. We have confirmed our independence to the Council for the year ended December 31, 2015 in our Planning Report dated January 13, 2016. We confirm that we are still independent as of the date of this letter.

## 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.

Final materiality was \$2,500,000 based on 1.5% of normalized revenues.

In Appendix C, we have communicated all uncorrected misstatements identified during our audit which we determined to be above “clearly trivial”. Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate. See Appendix C for the unadjusted differences noted during the audit.

## AUDIT FINDINGS

Based on our knowledge of the City’s operations, our past experience in this area, 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.

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the City’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

## ACCOUNTING AND AUDIT MATTERS

### Management Override of Controls

Risk	Approach	Results
<p>Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is required for all audits pursuant to Canadian audit standards.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

### Cash and Investments

Risk	Approach	Results
<p>Due to its nature, cash and investments are almost always considered to be a risk area in any audit.</p>	<p>We reviewed the year end reconciliations and obtained third party confirmations.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

### Staff Salaries

Risk	Approach	Results
<p>A significant single type of expenditure that cover many employees and departments. As a municipality, this figure is often of particular interest to financial statement users (taxpayers).</p>	<p>We applied computer audit testing to analyze all payroll transactions in the year. We performed system testing, tests of controls and analytical review of staff salaries.</p>	<p>All audit testing in this area was executed as planned and no errors were noted.</p>

## Tangible Capital Assets and Accumulated Amortization

Risk	Approach	Results
Estimates of the useful lives of tangible capital assets owned by the City require regular evaluation to determine if they are still appropriate. This involves a high level of estimation and coordination of the finance department with other departments.	<p>We performed tests of control for appropriate authorization of purchases combined with substantive testing of additions and disposals and amortization calculations.</p> <p>We reviewed the useful lives of existing assets for reasonableness.</p>	<p>All audit testing in this area was executed as planned.</p> <p>We identified a few minor differences that were immaterial. These related to instances where the wrong rate was applied to value developer contributed assets. Staff also identified an instance of amortization expense being incorrectly calculated as part of their review. In both instances, the statements were adjusted. These have been reported in Appendix D.</p>

## Employee Future Benefits

Risk	Approach	Results
These amounts represent the liability owed to the City's employees for their post employment benefits. This is a complex area that requires estimation and reliance on actuarial experts.	<p>We reviewed the actuarial reports and audited significant assumptions.</p> <p>We reviewed all financial statement disclosures and ensured the information was appropriately presented.</p>	All audit testing in this area was executed as planned and no errors were noted.

## Deferred Revenue and Government Grants

Risk	Approach	Results
There is a risk that revenue may be incorrectly deferred into future periods or vice versa.	<p>We reviewed grant agreements to ensure that revenue is being recognized in accordance with latest revenue recognition standards.</p> <p>We reviewed a sample of deferred revenue balances by examining supporting documentation to validate the accounting treatment.</p> <p>We reviewed minutes to determine whether any contributions received should be deferred and whether any grants had not yet been recorded.</p>	All audit testing in this area was executed as planned and no errors were noted.

## Contaminated Sites

Risk	Approach	Results
The City is required to adopt the new standard PS 3260 - Contaminated Sites for the current year financial statements. There is a risk that the standard may not be correctly applied, leading to a liability not being completely or accurately accounted for.	<p>We reviewed management's process to identify and estimate any obligations under the standard.</p> <p>We reviewed all financial statement disclosures and ensured the implementation of the new standard was appropriate.</p>	All audit testing in this area was executed as planned and no errors were noted.

## SIGNIFICANT ACCOUNTING ESTIMATES

Management is responsible for determining the City's significant accounting policies. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the organization. The application of those policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the estimates in the financial statements are reasonable and the disclosures relating to accounting estimates are in accordance with Canadian public sector accounting standards.



## **UNADJUSTED DIFFERENCES**

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions identified through the course of the audit engagement. Each of these items has been discussed with management.

Management has determined that the unadjusted differences are immaterial both individually and in aggregate to the financial statements taken as a whole. Should the Council agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of unadjusted differences and disclosure omissions has been presented in Appendix C.

## **AUDIT ADJUSTMENTS**

Year end audit adjustments were discussed with management and approved prior to the release of the draft consolidated financial statements. A summary of these adjustments is included in Appendix D.

## **MANAGEMENT REPRESENTATIONS**

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented in our audit working papers through memoranda of discussions with management, as well as by written representations received from management. A copy of the representation letter we have requested from management is included in Appendix E of this report.



## FRAUD DISCUSSION

Canadian auditing standards require us to discuss fraud risk with the Council on an annual basis. We discussed it in our Planning Report dated January 13, 2016. Currently, we are not aware of any actual, suspected or alleged fraud. If you are aware of any instances of actual, suspected or alleged fraud affecting the City since the date of our previous discussion, please advise us at [bcox@bdo.ca](mailto:bcox@bdo.ca).

### AUDITOR'S RESPONSIBILITIES FOR DETECTING FRAUD

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.

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 our audit, we performed the following procedures in order to fulfill our responsibilities:

- Inquire of management, Council, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including;
  - Test internal controls designed to prevent and detect fraud;
  - Examine a sample of journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - Review accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
  - Evaluate the City's rationale for significant unusual transactions.



## INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the City's internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the City's financial statements, our audit cannot be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be exhaustive. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

### DEFICIENCIES IN INTERNAL CONTROL

Deficiency	Issue and Impact
None noted.	None noted.

While there are no significant deficiencies in internal controls noted, we do take the opportunity to comment on non-critical matters in our management letter that is included in Appendix F.

## APPENDIX A - Other Required Communication

Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
1. Our responsibilities under Canadian Auditing Standards (CAS)	✓		Included in our engagement letter dated December 2, 2014.
2. Our audit strategy and audit scope	✓		Included in our Planning Report which was presented to the Council on January 13, 2016.
3. Fraud risk factors	✓		Included in our Planning Report which was presented to the Council on January 13, 2016.
4. Going concern matters		✓	None.
5. Significant estimates or judgments		✓	See Page 9.
6. Audit adjustments		✓	See Appendix D.
7. Unadjusted differences		✓	See Appendix C.
8. Omitted disclosures		✓	See Appendix C.
9. Disagreements with management		✓	There were no disagreements with management.
10. Consultations with other accountants or experts		✓	No external experts were consulted during this engagement.
11. Major issues discussed with management in regards to retention		✓	None.
12. Significant difficulties encountered during the audit		✓	No significant difficulties were encountered during our audit.
13. Significant deficiencies in internal control		✓	No significant deficiencies were noted.



Required Communication	Audit Planning Presentation	Audit Results Presentation	Auditor Comments
14. Material written communication between BDO and management		✓	No material written communications were noted.
15. Any relationships which may affect our independence	✓	✓	No independence issues noted.
16. Any illegal acts identified during the audit		✓	No illegal activities identified through the audit process.
17. Any fraud or possible fraudulent acts identified during the audit	✓	✓	No fraud identified through the audit process.
18. Significant transactions with related parties not consistent with ordinary business operations		✓	None noted.
19. Non-compliance with laws or regulations identified during the audit		✓	No legal or regulatory non-compliance matters were noted as part of our audit.
20. Limitations of scope over our audit, if any		✓	None.
21. Written representations made by management		✓	See Appendix E.
22. Any modifications to our opinion, if required		✓	Please see our draft independent auditor's report included in Appendix B.

## APPENDIX B - Draft Independent Auditor's Report

### INDEPENDENT AUDITOR'S REPORT

#### To the Mayor and Council of the City of Maple Ridge

We have audited the accompanying consolidated financial statements of the City of Maple Ridge, which comprise the Consolidated Statement of Financial Position as at December 31, 2015, and the Consolidated Statements of Operations, Change in Net Financial Assets and Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the consolidated financial position of the City of Maple Ridge as at December 31, 2015 and its consolidated results of operations, cash flows, and changes in net financial assets for the year then ended, in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants  
Vancouver, British Columbia  
*Date of Council Approval*

## APPENDIX C - Unadjusted Differences

### SUMMARY OF UNADJUSTED DIFFERENCES

The following is a summary of uncorrected misstatements noted during the course of our audit engagement:

	Increase (Decrease)			
	Assets	Liabilities	Accumulated Surplus	Annual Operating Surplus
Changes in estimation of legal liability based on legal counsel's updated information.	\$ -	\$ 75,000	\$ -	\$ (75,000)
<b>Total Unadjusted Differences</b>	<b>\$ -</b>	<b>\$ 75,000</b>	<b>\$ -</b>	<b>\$ (75,000)</b>

### SUMMARY OF DISCLOSURE OMISSIONS

The following is a summary of disclosures that have not been made within the financial statements:

Disclosure Omission	Management's Response
None.	None.

## APPENDIX D - Audit Adjustments

### SUMMARY OF AUDIT ADJUSTMENTS

The following is a summary of year end audit adjustments made during the course of our audit engagement. All adjustments were approved by management before the issuance of our draft independent auditor's report.

	Increase (Decrease)			
	Assets	Liabilities	Accumulated Surplus	Annual Operating Surplus
Incorrect rate used to value developer contributed assets.				
- Adjustment required to developer contributed assets and the related amortization expense and accumulated amortization	\$ (327,306)	\$ -	\$ -	\$ (327,306)
<b>Total Adjusted Differences</b>	<b>\$ (327,306)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (327,306)</b>

## APPENDIX E - Representation Letter

*Date of Council Approval*

BDO Canada LLP  
Chartered Professional Accountants  
600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

Dear Sirs/Mesdames:

This representation letter is provided in connection with your audit of financial statements of the City of Maple Ridge (the "City") for the year ended December 31, 2015, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position as at December 31, 2015, and the results of operations and cash flows for the year ended December 31, 2015 of the City in accordance with Canadian public sector accounting standards.

We confirm that to the best of our knowledge and belief:

### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated December 2, 2014, for the preparation of the financial statements in accordance with Canadian public sector accounting standards; in particular the financial statements are fairly presented in accordance therewith.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Public sector accounting standards.
4. All events subsequent to the date of the financial statements and for which Public sector accounting standards require adjustment or disclosure have been adjusted or disclosed.
5. The financial statements of the City use appropriate accounting policies that have been properly disclosed and consistently applied.

### Information Provided

6. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
7. We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.

8. The minute books of the Council are a complete record of all meetings and resolutions of the Council throughout the year and to the present date.
9. We have disclosed to you all significant matters contained in the minutes of all meetings and resolutions of Council throughout the year and to the present date.
10. All transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
12. We have identified to you:
  - guarantees;
  - indemnifications against damages, liabilities, costs, charges or expenses suffered or incurred by officers or directors as a result of their service, and/or by any subsidiaries; and
  - non-monetary transactions and transactions for no consideration.
13. We have disclosed to you the identity of the entity's related parties and the related party relationships and transactions of which we are aware.
14. We are aware of the environmental laws and regulations that impact the City and we are in compliance. There are no known environmental liabilities or contingencies that have not been accrued for or disclosed in the financial statements.

#### **Fraud and Error**

15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
16. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
18. We have reviewed and approved all journal entries recommended by the auditors during the audit.
19. The effects of unadjusted misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A list of the uncorrected misstatements is attached to the representation letter.

## Existence, Completeness and Valuation of Specific Financial Statement Balances

20. There are no pledges or assignments of assets as security for liabilities except as disclosed in the financial statements.
21. All financial instruments have been appropriately recognized and measured in accordance with Public sector accounting standards. Significant assumptions used in arriving at fair value of financial instruments are reasonable and appropriate in the circumstances.
22. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
23. The inventories as set out in the financial statements represent all of the inventories to which the municipality held title as at the balance sheet date. Inventories do not include any goods consigned to the municipality, merchandise billed to customers or any items for which the liability has not been provided in the books. Appropriate provisions have been made for obsolete, slow-moving and defective inventories.
24. The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with Canadian public sector accounting standards. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

## General Representations

25. The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
26. There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the City, except as disclosed in the financial statements.
27. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel. Since there are no outstanding or possible claims, no disclosure is required in the financial statements.
28. We confirm that there are no derivatives or off-balance sheet financial instruments held at year end that have not been properly recorded or disclosed in the financial statements.
29. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We confirm that operating segments are appropriately identified and disclosed in accordance with Canadian public sector accounting standards.
31. No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements.



32. We have made the following additional significant representations to you during the course of your audit which we understand that you have relied upon:

- All tangible capital assets and inventory have been recorded and additions for the year are complete and accurate. Amortization based on the expected useful life of the tangible capital asset and residual value is our best estimate for the consumption of a portion of the tangible capital asset for the year. Where the value of any tangible capital asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you. The City also reviewed and made changes to its estimate of useful lives of various classes of tangible capital assets, and any resultant changes have been disclosed to you.
- PS 3260 Contaminated Sites came into effect for the December 31, 2015 year end. The City reviewed its inventory of sites and has made an assessment about any potential remediation liabilities. The City has determined that no such liability exists.

Yours truly,

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Position

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Position





## APPENDIX F - Management Letter

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

April 25, 2016

Mr. 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 consolidated 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 consolidated 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 consolidated financial statements. With those systems that we do review, our focus is on the assertions necessary to meet our consolidated 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. Security Deposits

In previous audits, we noted that the process for refunding security deposits is very labour intensive. There were instances in which refundable security deposits collected were not refunded back to the person/entity whose name was on the bill issued but to some related entity. This increases the risk of error, as the process is not as clear as it could be.

#### *Recommendation*

We continue to recommend that a process 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 continue to review current practices for opportunities to improve processes.*

## Current Year Observations

### 2. Conflict of Interest Policy - Go Beyond the Legal Requirements

Conflict of interest requirements already exist in legislation. The *Financial Disclosure Act* requires that members of Council as well as employees appointed by Council (generally the most senior members of management) make written disclosure of their corporate holdings, business interests, other organizations which may compensate them, and their interests in lands. These disclosures must be updated yearly. The *Community Charter* contains an entire Division on Conflict of Interest, however this applies only to Council members and deals mostly with participation in meetings, prohibition against influence and disclosure of gifts and contracts.

These legal requirements are important and set the right tone for consideration of conflict of interest in government. However, best practice would be to go beyond these baseline requirements to enhance openness and transparency at the City by developing a conflict of interest policy.

One of the most difficult areas when dealing with conflicts is the area of “perceived conflicts”. A perceived conflict exists where the actual technicalities of the situation might not yield a conflict - yet the general public, who would not have access to the technical details, would perceive that there may be a conflict situation. A perceived conflict should be treated on par with an actual conflict unless there can be certainty that the conflict can be effectively managed.

A perceived conflict can be managed by:

- Being open and transparent in regard to the situation.
- Developing plans to manage the conflict. This can be done a variety of ways, but often involves removing the individual from any of the decision making in regard to the transaction or business dealing.
- Publicly explaining how the conflict is to be managed and how it will be assessed whether the management of the conflict is succeeding.

Currently, there is not widespread adoption of policies that effectively address the issue of perceived conflict. Best practices suggest that a policy on conflict of interest should address this issue.

The City already has processes and procedures that cover many of the above noted matters. However, it would be beneficial for the City to codify the procedures, supplement where necessary, and create a formal written policy. Explicit signing of compliance of the policy by both Council/staff and suppliers is also key to success in this area.

### *Management Comments*

*As noted, the Community Charter contains a comprehensive set of rules with respect to the management of elected officials’ conflicts of interest for direct and indirect pecuniary interest in a matter. Management of non-pecuniary interests exists at common law. Courts have established that the test for non-pecuniary, or perceived, conflict of interest is whether a reasonable person would think that the interest might influence the official.*

*Employees have similar codes of conduct regulating their relationship with their local government employers. These codes originate in employee's implied duty of loyalty to their employers and their express duties under workplace and other professional regulatory statutes.*

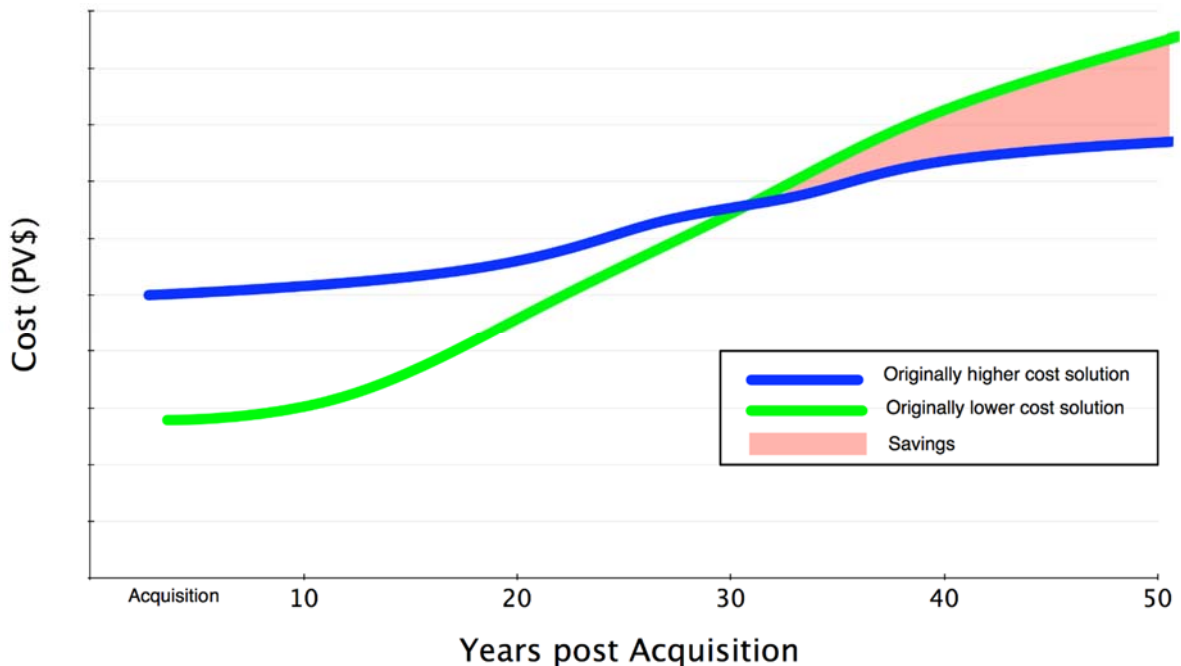
*Given the legislative and common law framework for management of conflicts of interest that already exist, staff believes that a conflict of interest policy is not required.*

### 3. Lifecycle Costing and Business Cases

Recent audits by the Auditor General for Local Government contained themes on Lifecycle Costing and preparation of business cases for major business decisions. The City generally does both of these things, but it is useful to consider potential enhancements to current practice.

By way of background, lifecycle costing is a process that considers all costs associated with the acquisition of an asset, both the purchase cost as well as estimated maintenance and eventual disposal costs. This type of analysis is useful, as it is possible that an asset with a lower initial acquisition costs may end up costing more over its lifetime than another option. A business case considers need for a project, its scope, relevant risks and mitigation strategies as well as reasons it may become necessary to revisit the original analysis in support of a project. Inclusion of lifecycle costing analysis in a business case is considered a best practice.

The following graph illustrates the concept of lifecycle costing. In this graph, the lines represent the cumulative cost (on a present value basis) of two different options. The "green" option is initially lower cost, but over time ends up costing considerably more than the "blue" option. The salmon coloured area shows the savings that could have been realized by choosing the option that was initially higher cost.



The write up of a formal business case can create an extensive amount of work. While a lot of information exists in reports from consultants, staff reports, notes from management meetings, and other existing sources, compiling it into one document can be time consuming. Several advantages accrue, however, from formalizing the process, such as guarding against scope creep or instilling a practice of revisiting the business case should the funding picture change. Additionally, the compilation of this type of information enhances an organization's corporate memory; an increasingly important consideration given the retirements of senior staff and an increasing trend of people opting for more varied careers.

As noted, the City presently undertakes most of the above best practices in areas of lifecycle costing and business case analysis. However, the underlying information exists in various sources. We recommend that the information be collected into a formal business case. It may be helpful to develop a business case template that contains placeholders for the above-noted elements to facilitate the preparation of future business cases.

#### *Management Comments*

*The City currently prepares business cases for capital projects with a high degree of complexity. Additionally, staff are investigating the use of wrap up reports for significant capital projects. This document would include a budget to actual analysis, revisit assumptions in the original business case and document any lessons learned, helping to inform future business decisions.*

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

BC/

cc: Audit Committee and Council