

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

**February 19, 2019  
2:00 PM  
Blaney Room**

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**Chairperson (Acting):** Mayor Morden

**Committee Members:** Councillors: J. Dueck; K. Duncan; C. Meadus; G. Robson; R. Svendsen;  
A. Yousef

<b>Staff:</b>	Chief Administrative Officer:	P. Gill
	GM – Public Works & Development	F. Quinn
	GM – Community Dev. Park & Rec	K. Swift
	Corporate Controller	C. Nolan
	Chief Financial Officer	T. Thompson

**Recording Secretary:** Amanda Allen

**Guest:** Bill Cox (BDO Canada LLP)

**AGENDA**

- 1. *Introductions***
- 2. *Appointment of Chairperson***
- 3. *Approval of agenda***
- 4. *Approval of minutes of July 3, 2018***
- 5. *Role of the Audit & Finance Committee***
- 6. *Adopt Terms of Reference***
- 7. *2018 Audit Update***
  - Overview of 2018 audit by external auditor
- 8. *Notice of Closed Committee Meeting***

That the Committee meeting immediately following this meeting be closed to the public pursuant to section 90(1) of the Community Charter as the subject matter being considered relates to the following:

  - Discussion with municipal officers and employees respecting municipal objectives, measures and progress reports for the purposes of preparing an annual report under section 98 [annual municipal report].
- 9. *Adjournment***

*“Original signed by Catherine Nolan”*

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*Agenda submitted by: C. Nolan, CPA, CGA  
Corporate Controller*

**City of Maple Ridge**

**Audit & Finance Committee Meeting Minutes**

July 3, 2018

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 Tuesday, July 3, 2018 at 5:02 pm

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***PRESENT***

***Committee Members***

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

***Municipal Staff***

P. Gill, Chief Administration Officer  
K. Swift, General Manager of Parks, Recreation and Culture  
T. Thompson, Chief Financial Officer  
C. Nolan, Corporate Controller  
A. Dhah, Accountant 2  
A. Allen, Committee Clerk

***ABSENT***

Councillor Shymkiw

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Note: These Minutes are also posted on the City's Website at [www.mapleridge.ca](http://www.mapleridge.ca)

The meeting was live streamed and recorded by the City of Maple Ridge

**1. *APPROVAL OF THE AGENDA***

It was moved and seconded

**That the agenda for the July 3, 2018 Audit & Finance Committee meeting be approved as circulated.**

CARRIED

**2. *ADOPTION OF MINUTES***

It was moved and seconded

**That the minutes of the Audit & Finance Committee of June 5, 2018 be adopted as circulated.**

CARRIED

Note: Councillor Robson joined the meeting at 5:03pm

3. ***COUNCIL EXPENSES***

The Corporate Controller reviewed the Council expenses report and policy guidelines with the committee. The committee discussed the current policy direction and the merits of establishing an intergovernmental committee.

It was moved and seconded

**That Maple Ridge Council create an intergovernmental committee and that current Council members sit on the committee.**

CARRIED

Councillor Robson - OPPOSED

4. ***RESERVES***

The Accountant 2 gave a PowerPoint presentation on the City's financial resources as at the end of 2017.

5. ***BUSINESS PLANNING***

The Chief Financial Officer reviewed the 2019-2023 Financial Plan Bylaw report.

It was moved and seconded

**That the 2019-2023 Financial Plan Bylaw be brought to Council for Consideration**

CARRIED

6. ***AUDIT SERVICES***

It was moved and seconded

**That the Audit and Finance Committee recommend to Council that the contract for audit services be extended to include audit services for the 2018 fiscal year; and**

**That the Audit and Finance Committee direct staff to issue an RFP for Audit Services in 2019.**

CARRIED

7. ***INVESTMENT UPDATE***

The Chief Financial Officer reviewed the investment report and the Return on Investments for 2018.

8. ***ADJOURNMENT – 6:03 pm***

**TO:** Audit & Finance Committee  
**FROM:** Corporate Controller  
**SUBJECT:** Role of the Audit & Finance Committee

**MEETING DATE:** Feb 19, 2019  
**FILE NO:**  
**MEETING:** Audit & Finance

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**EXECUTIVE SUMMARY:**

The Audit & Finance Committee (the Committee) plays an important role in ensuring that public trust in the City's finances is upheld. This report provides an overview of the Committee's responsibilities, its role in the financial statement process, and the various items it can expect to see for the balance of 2019. The role of the external auditor is also reviewed.

**RECOMMENDATION:**

**None Required – information only**

**DISCUSSION:**

Upholding public trust in the City of Maple Ridge's finances is something held in very high importance by both members of Council and staff. The Audit & Finance Committee plays an important role in ensuring the City's fiduciary responsibility is met in this regard. This report is intended to provide an overview of the role, or purpose, of the City's Audit & Finance Committee and some information about what the committee can expect to see of the next period of time.

The role of Audit & Finance Committee is set out in the Terms of Reference for the committee and can be summarized as follows:

- The Audit & Finance Committee has the authority to investigate any activity of the City and may retain people with the requisite expertise to assist it in fulfilling its responsibilities,
- It is responsible to meet with the City's external auditors (currently BDO Canada LLP) and with the Finance Department to ensure that:
  - the city's risk management strategy is appropriate,
  - appropriate internal controls are in place and operating effectively,
  - the City's annual financial statements are free of material misstatement,
  - information in the annual report is accurate and complete,
  - that the external audit has been effectively carried out and to discuss with the auditor any matters they feel should be brought to the attention of Council
- To review interim financial reports
- To recommend to Council the appointment or reappointment of the City's external auditors,
- To inquire into any matters referred to it by Council.

The Committee's terms of reference are reviewed, amended if necessary, and adopted at the start of each term of Council. They are included as part of your agenda package for this meeting.

As noted in the terms of reference, the Committee has a role to play in the preparation of the City's annual financial statements. In meeting with the City's external auditors, both before and after the

audit work, the Committee has an opportunity to ask questions of the auditors and to have some input into the level of focus they may give any one particular area of their work. The auditors work includes an assessment of the adequacy and effectiveness of the City's risk management and internal control processes which is reported back to the committee, allowing it to meet its responsibilities as outlined above.

The City's external auditor is BDO Canada LLP, and their contract with the City runs through the completion of work related to the 2018 fiscal year.

The external auditor is primarily engaged to provide an opinion on the accuracy of the City's annual financial statements. The work they do to accomplish this is detailed in their planning letter attached to this agenda and can be summarized to include, testing the internal controls & systems in place in all departments and by testing the numbers in the draft financial statements. They accomplish this through a number of different procedures, including things such as reviewing expenses to ensure they're appropriately authorized and included in the correct year, verifying the amounts we say are owed to vendors by asking a sample of vendors to confirm those amounts, confirming cash amounts directly with the City's bank.

What the external auditor's role does not include is things such as commenting on the City's policy documents, such as the Official Community Plan, conducting process improvement reviews or value for money audits.

It is important to note that while we produce the financial statements once a year, the processes that lead to them are part of the City's daily work. Every time we process an invoice for payment we make sure it's appropriately approved, we review revenue amounts to make sure they've been calculated correctly, we reconcile accounts each month to make sure amounts are correct, we review financial information with departments to ensure that annual spending is within approved budget envelopes. At this time staff are working to ensure we have captured all transactions for the year and once that is complete the work of drafting the financial statements will begin. At this meeting the committee will have an opportunity to hear from the City's external auditors about the work they intend to do and also to have a private conversation with them about any matters you may want to discuss with them.

Financial reporting in local government serves to communicate the fiscal health and well being of a community and there are two main streams to that reporting:

- Financial Planning – a forward looking process that sets out planned expenditures and how they will be paid for over the next five years, and
- Financial Statements – a retrospective process that reports on the City's financial condition at a point in time and financial performance for the year just ended.

Both reporting streams are guided by legislated requirements, the financial plan by the Community Charter, and the financial statement by the guidelines established by the Public Sector Accounting Board, as amended from time-to-time.

The number of Audit & Finance Committee meetings will vary from year-to-year depending on need. There are typically more meetings in the first year of a new Council's mandate to allow time for policy reviews that are not repeated each year. The following is a list of what you can expect to see for the balance of 2019. Items of relevance will be added to agendas where it makes sense to do so. Any recurring items are identified with an asterisk “\*”.

#### Quarter 1

- Preliminary year-end update (general revenue fund)\*

#### Quarter 2

- Review the City's annual consolidated financial statements\*
- Review policy frameworks for community grants and permissive tax exemptions
- Post audit meeting with the external auditor, BDO Canada LLP\*
- Review the audit RFP plan

#### Quarter 3

- Mid-year financial update\*
- Review an update of the purchasing policy
- Review audit RFP results and recommend the appointment of the City's external auditors.

#### **CONCLUSIONS:**

As noted at the outset of this report, upholding the public trust in the City's finances is held in high importance by both members of Council and City staff. The role the Audit & Finance Committee plays in this regard is outlined in this report.

*"Original signed by Catherine Nolan"*

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Prepared by: Catherine Nolan, CPA, CGA  
Corporate Controller

*"Original signed by Paul Gill"*

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Concurrence: Paul Gill, BBA, CPA, CGA  
Chief Administrative Officer

## **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 and Finance Committee and Council

February 7, 2019





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Vancouver BC V6C 3L2 Canada

Direct Line: 604-646-3389

E-mail: [bszabo@bdo.ca](mailto:bszabo@bdo.ca)

February 7, 2019

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

Dear Members of the Audit and Finance Committee and Council:

We are pleased to present our audit service plan for the audit of the financial statements of the City of Maple Ridge ("the City") for the year ended December 31, 2018. The purpose of this letter is to summarize our approach, scope, and delivery plan for the engagement.

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

Per: Brian Szabo, CPA, CA  
Partner through a corporation  
BDO Canada LLP  
Chartered Professional Accountants

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

BJS/jaw

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## ENGAGEMENT LETTER

The terms and conditions of our engagement are included in the most recent engagement letter dated March 16, 2017 included a copy of the letter in Appendix G.



## RESPONSIBILITIES

It is important for Council to understand the responsibilities that rest with the external auditor and the responsibilities of those charged with governance. The responsibilities of BDO, management and those charged with governance are outlined within the most recent engagement letter dated March 16, 2017. The oversight and financial reporting responsibilities of Council as they pertain to the annual audit are summarized below:

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters, if any.
- Refer to Appendix E and F for full details on the responsibilities of management and Council.



## ENGAGEMENT OBJECTIVES

- Express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, and results of operations, changes in its net financial assets and cash flows of the City in accordance with Canadian public sector accounting standards.
- Provide opinions on the C2 - Home Owner Grant/Treasurer/Audit Certificate and the compliance with agreement relating to Part 8 of the School Act (British Columbia).
- Present significant findings to Council including key audit and accounting issues, and any other significant matters arising from our work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- 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

Auditing standards require auditors to document all significant manual and computer systems. Building on this, we plan to focus much of our review of transaction streams using “tests of controls” (compliance procedures) in combination with substantive analytical procedures and detailed 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 D for a high level overview of our audit strategy.



## MATERIALITY

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

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

For purposes of our audit, we have set preliminary materiality at \$2,300,000 for the City, based on 1.5% of prior year normalized revenues, and a preliminary performance materiality (level used for testing) at \$1,725,000. Our materiality calculation is based on the City’s prior year results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to Council as part of our year end communication.

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

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



## KEY AUDIT AREAS AND PLANNED AUDIT RESPONSES

Based on our knowledge of the City's business, our past experience, and knowledge gained from management and Council, we have identified the following key audit areas that, in our judgment, require special audit consideration.

Key audit areas 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 audit areas and whether there are any other areas of concern that Council have identified.

Key Audit Area	Comments	Proposed Audit Approach
<b>Management Override of Internal Controls</b>  <i>(Mandatory audit consideration)</i>	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 key audit areas are as follows:

Audit Area	Comments	Proposed Audit Approach
<b>Cash and investments</b>	Cash planning and investment management are important aspects of good financial controls.  Due to its nature, cash and investments are almost always considered to be a risk area in any audit.	Our planned audit procedures include review of reconciliations, substantive testing of transactions and confirmations of end of period balances.
<b>Staff Salaries</b>	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).	Application of computer audit testing to analyze all payroll transactions in the year is a key step to identify unusual payroll relationships for testing.  We will also perform systems testing, tests of controls and analytical review of staff salary and levels.
<b>Tangible Capital Assets and</b>	Remaining useful lives of tangible capital assets to be re-evaluated through discussion with finance	Useful lives of existing assets will be reviewed for changes in estimates, if applicable.

<b>Accumulated Amortization</b>	department with other relevant departments.	Repairs and maintenance ledgers will also be reviewed for possible capital items that have been expensed.
<b>Employee Future Benefits</b>	Significant assumptions and estimation is used in determining employee future benefits.	We will perform a review of the assumptions used and calculations leading to the estimates in the actuarial report on post-employment benefits and compare the inputs to the employment agreements.
<b>Grant and Revenue Recognition</b>	Accounting standards are complex and open to interpretation. There is a risk that revenue may be incorrectly deferred into future periods.	<p>Grant funding received will be confirmed through a review of agreements, which ensures that the amounts recorded exist. We will also ensure the revenue is recorded accurately in accordance with the settlement of any stipulations.</p> <p>We will review the deferred revenue balances by examining supporting documentation and validate the accounting treatment.</p> <p>Other revenues streams also contain revenue recognition issues which will be reviewed in accordance with latest revenue recognition standards.</p>
<b>Contaminated Sites</b>	This standard is complex and therefore there is a risk that liabilities may not be identified and appropriately accounted for.	We will review management's process for identifying potential contaminated sites, and management's assessment on whether a liability exists. If applicable, we will review the assumptions and amounts inherent in the calculation of the liability.



## FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the Audit and Finance Committee and Council on an annual basis. We have prepared the following comments to facilitate this discussion. If you are aware of any instances of actual or suspected fraud, please advise us at (partner e-mail).

Required Discussion	BDO Response	Question to Council
Details of existing oversight processes with regards to fraud.	Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> <li>• Council charters;</li> <li>• Discussions at Council meetings and our attendance at those meetings;</li> <li>• Review of related party transactions; and</li> <li>• Consideration of tone at the top.</li> </ul>	Are there any new processes or changes in existing processes relating to fraud that we should be aware of?  What are your views of the potential areas of fraud within the City?
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?

Should you have any concerns or information related to this area, we request that you contact us directly.

Refer to Appendix K 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 Audit and Finance Committee and Council, we will provide a communications package to support Council in discharging their responsibilities. This communication will include any identified significant deficiencies in internal controls. See Appendix B for a comprehensive list of communication requirements throughout the audit.

As a result of changes to Canadian Audit Standards our audit report to be issued on the December 31, 2018 financial statements will read somewhat differently. The Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASS) effective for periods ending on or after December 15, 2018.

Highlights of the new auditor's report in Canada include:

- Re-ordering the contents of the auditor's report (opinion first);
- Expanded descriptions of responsibilities of management, those charged with governance and the auditors;
- Separate section on "Material Uncertainty Related to Going Concern", if applicable;
- Separate section on "Other Information" (e.g. annual reports); and
- Disclosure of engagement partner's name (listed entities only).

An example of the new form of the report is provided in Appendix A and will be applicable to the City for its fiscal 2018 audited financial statement.

## OTHER MATTERS

Timing	<p>The following schedule has been agreed to with management:</p> <ul style="list-style-type: none"> <li>• December 3-6, 2018 - Interim audit fieldwork (completed without issue)</li> <li>• March 11-22, 2019 - Year end field work</li> <li>• April 2019 - Meet with Audit Committee to present audit results.</li> <li>• April 2019 - Review of the draft financial statements with Council or delegates</li> <li>• Finalization of draft financial statements - Immediately subsequent to approval of the financial statements formalized by Council Resolution</li> </ul>
Independence	<p>We confirm that we are independent of the City as of the date of this letter and a copy of our independence letter is included in Appendix H.</p>
Management Representations	<p>As part of our audit finalization we will obtain written representation from management. The draft representation letter will be included as part of our final report.</p>
New Accounting Standards	<p>Refer to Appendix M for changes in standards. Any changes that will impact the City are not expected to be significant.</p>

## APPENDIX A - Draft Auditor's Report

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### Independent Auditor's Report

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To the Mayor and Council of the City of Maple Ridge

#### Opinion

We have audited the financial statements of the City of Maple Ridge ("the City") which comprise the Statement of Financial Position as at December 31, 2018 and the Statements Operations, Changes in Net Financial Assets, and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the City's financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018 and the results of its operations, changes in net financial assets, and cash flows for the year ended in accordance with Canadian public sector accounting standards.

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally-accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any for of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally-accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally-accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the City to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Chartered Professional Accountants

Vancouver, British Columbia  
[Date of Council approval]

## APPENDIX B - Communication Requirements

Required Communication	Audit Planning Presentation	Audit Results Presentation	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 auditor 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 C - Your BDO Engagement Team

Name	Title	Email	Phone
Bill Cox, FCPA, FCA	Client Relationship Partner	<a href="mailto:bcox@bdo.ca">bcox@bdo.ca</a>	604.443.4716
Brian Szabo, CPA, CA	Engagement Partner	<a href="mailto:bszabo@bdo.ca">bszabo@bdo.ca</a>	604.646.3389
Marjorie Mercado, CPA, CA	Audit Manager	<a href="mailto:mmercado@bdo.ca">mmercado@bdo.ca</a>	604.688.5421
Jeremy Fong, CPA	Auditor In-charge	<a href="mailto:jfong@bdo.ca">jfong@bdo.ca</a>	604.688.5421
Patricia Arrais Do Rosario	Auditor	<a href="mailto:parraisdorosario@bdo.ca">parraisdorosario@bdo.ca</a>	604.688.5421
Amanda Fu	Auditor	<a href="mailto:afu@bdo.ca">afu@bdo.ca</a>	604.688.5421

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.

To assess risk accurately, we 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 will 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 transaction details.

We will perform audit procedures maintaining an appropriate degree of professional skepticism, in order to obtain evidence to conclude whether or not the financial statements are presented fairly, in all material respects in accordance with Canadian public sector accounting standards.

It is important that we maintain effective two-way communication with Council throughout the entire audit process so that we may both share information on a timely basis. The audit process will conclude with an audit meeting and the preparation of our final report to Council and Board.

## APPENDIX E – Management Responsibilities

All facets of City's internal controls including those governing the accounting records, systems and financial statements will be impacted by the City's complexity, the nature of risks, and the related laws, regulations, or stakeholder requirements. It is management's and Council'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. Design and implementation of internal controls over financial reporting to enable the preparation of financial statements that are free of material misstatements;
2. Inform the City's auditors of any deficiencies in design or operation of internal controls;
3. Update the City's auditors for any material change in the City's internal controls including if the individual responsible for the controls have changed;
4. Identification of and compliance with any laws, regulations, and/or agreements which apply to the City;
5. Any adjustments required to the financial statements to correct material misstatements;
6. Safeguarding of assets;
7. Provide 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. Provide accurate copies of all minutes of the meetings of the Board or board committees;
9. Provide timely, accurate information as requested for the completion of the audit;
10. Allow unrestricted access to persons, or information as requested as part of the audit;
11. Notify the auditor of any circumstances which arise between the date the audit work is completed and the approval date of the financial statements that may impact the amounts or disclosures in 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 representation letter that will be provided as near as practicable to, but not after the date of our auditor's report on the financial statements.

## APPENDIX F – Council Responsibilities

### General Responsibilities

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

### Significant Audit Findings

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

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

In addition, we will communicate:

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

## APPENDIX G - Engagement Letter



Tel: (604) 688-5421  
Fax: (604) 688-5132  
Toll free: www.bdo.ca  
www.bdo.ca

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

March 16, 2017

City of Maple Ridge  
11995 Haney Place  
Maple Ridge, BC V2X 6A9

Attention: Ms. Catherine Nolan, CPA, CGA

Dear Ms. Nolan:

We understand that you wish for us to continue our appointment to review City of Maple Ridge's compliance with Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia for the period from January 1, 2016 to December 31, 2016 and subsequent periods to assist you with compliance with the criteria established by the provisions of the Acts, subject to the terms and conditions of this Agreement.

We are pleased to continue our appointment subject to the terms and conditions of this Agreement, to which the attached Standard Terms and Conditions form an integral part. The definitions set out in the Standard Terms and Conditions are applicable throughout this Agreement. This Agreement will remain in place and fully effective for future periods until varied or replaced by another relevant written agreement.

### ***Our Role as Accountants***

We will conduct a review of your compliance with Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia, consisting primarily of inquiry, analytical procedures and discussion in accordance with Canadian generally accepted standards for reviews of compliance with agreements and regulations.

This review does not constitute an audit. For example, it does not contemplate a study and evaluation of internal control, tests of accounting records and of responses to enquiries by obtaining audit evidence through inspection, observation or confirmation and other procedures ordinarily performed during an audit. Accordingly, this review is not intended to, and will not, result in the expression of an audit opinion nor the fulfilling of any statutory or other audit requirement.

Our review is conducted primarily to enable us to provide negative assurance rather than to identify all errors, fraud and other illegal or possibly illegal acts, significant weaknesses in internal control or other irregularities. In addition, because of the nature of fraud, including attempts at concealment through collusion and forgery, a review designed and executed in accordance with Canadian generally accepted standards for review engagements may not detect a material fraud.

We will communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those responsible for financial reporting oversight and/or the board of directors.



#### **Reporting**

Our review engagement report will be substantially in the form set out in CPA Canada Standards and Guidance, Section 8600. The form and content of our report may need to be amended in light of our findings. If we are unable to issue or decline to issue a report, we will discuss the reasons with you and seek to resolve any differences of view that may exist.

#### **Role of Management**

You are responsible for:

- (a) the maintenance of records in compliance with Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia;
- (b) such internal controls as you determine are necessary to enable the maintenance of records in compliance with Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia to prevent and detect fraud and error;
- (c) ensuring that each page of the records is conspicuously marked "Unaudited"; and
- (d) providing us with:
  - access, in a timely manner, to all information of which you are aware that is relevant to the maintenance of records such as documentation and other matters;
  - access to Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia, and analysis by management of any interpretations made when complying with Section 10 and 12 of the Home Owner Grant Act and Part 8 of the School Act British Columbia;
  - additional information that we may request for the purpose of our review;
  - unrestricted access to persons within the entity from whom we determine it is necessary to make inquiries; and
  - written confirmation concerning representations made to us in connection with our review. If appropriate and adequate written representations are not provided to us, professional standards require that we express a scope limitation in our review engagement report.

#### **Standard Terms and Conditions**

A copy of our Standard Terms and Conditions is attached as Appendix 1. You should ensure that you read and understand them. The Standard Terms and Conditions include clauses that limit our professional liability.

Please sign and return the attached copy of this Agreement to indicate your agreement with it. If you have any questions concerning this Agreement, please contact us before signing it.



It is a pleasure for us to be of service and we look forward to many future years of association with you.

Yours truly,

*BDO Canada LLP*

Chartered Professional Accountants

BC/mkn

Agreement of all terms and conditions in the Agreement is hereby acknowledged by:

City of Maple Ridge

  
Signature

Kelly Swift  
Name (please print)

Acting CAO  
Position

21-Mar-2017  
Date

  
Signature

Catherine Nolan  
Name (please print)

Mgr. of Accounting 20-Mar-2017  
Position Date



**Appendix 1**  
**Standard Terms and Conditions**

**1. Overview and Interpretation**

- 1.1 This Agreement sets forth the entire agreement between the parties in relation to Services and it supersedes all prior agreements, negotiations or understandings, whether oral or written, with respect to Services. To the extent that any of the provisions of the accompanying letter conflict with these Standard Terms and Conditions, these Standard Terms and Conditions shall prevail. This Agreement may not be changed, modified or waived in whole or part except by an instrument in writing signed by both parties.
- 1.2 In this agreement, the following words and expressions have the meanings set out below:
- This Agreement** - these Standard Terms and Conditions, the letter to which they are attached, and any supporting schedules or other appendices to the letter
- Services** - the services provided or to be provided under this Agreement
- We, us, our, BDO** - refer to BDO Canada LLP, a Canadian limited liability partnership organized under the laws of the Province of Ontario
- You, your** - the party or parties contracting with BDO under this agreement, including the party's or parties' management and those charged with corporate governance. You and your does not include BDO, its affiliates or BDO Member Firms
- BDO Member Firm or Firms** - any firm or firms that form part of the international network of independent firms that are members of BDO International Limited
- Confidential Information** - information that contains identifying features that can be attributed to you or individual personnel

**2. BDO Network and Sole Recourse**

- 2.1 BDO is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international network of independent member firms (i.e. BDO Member Firms), each of which is a separate legal entity.
- 2.2 We may use other BDO Member Firms or subcontractors to provide Services; however, we remain solely responsible for Services. You agree not to bring any claim or action against another BDO Member Firm (or their partners, members, directors, employees or subcontractors) or our subcontractors in respect of any liability relating to the provision of Services.
- 2.3 You agree that any of our affiliates, subcontractors, and other BDO Member Firms and any subcontractors thereof whom we directly or indirectly involve in providing Services have the right to rely on and enforce Section 2.2 above as if they were a party to this agreement.



**3. Respective Responsibilities**

- 3.1 We will use reasonable efforts to complete, within any agreed-upon time frame, the performance of Services.
- 3.2 You shall be responsible for your personnel's compliance with your obligations under this Agreement. We will not be responsible for any delays or other consequences arising from you not fulfilling your obligations.

**4. Working Papers and Deliverables**

- 4.1 **Ownership** - Any documents prepared by us or for us in connection with Services belong solely to us.
- 4.2 **Oral advice and draft deliverables** - You should not rely upon any draft deliverables or oral advice provided by us. Should you wish to rely upon something we have said to you, please let us know and, if possible, we will provide the information that you require in writing.
- 4.3 **Translated documents** - If you engage us to translate any documents, advice, opinions, reports or other work product of BDO from one language to another, you are responsible for the accuracy of the translation work.
- 4.4 **Reliance by Third Parties** - Our Services will not be planned or conducted in contemplation of or for the purpose of reliance by any third party other than you and any party to whom the report is addressed. Items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.
- 4.5 **Consent to use the Report** - If we are requested to consent to the use of our report in connection with a continuous disclosure document, a public or private offering document, an annual report or any other document, we will consider, at the relevant time, providing consent and any conditions applicable to our consent. Our consent must be in writing. In order to provide consent, professional standards require that we read the other information in the related document and consider whether such information is materially inconsistent with the related financial information or results of procedures performed. We will require adequate notice of the request for consent to allow us to consider your identification and resolution of events occurring in the period since the date of our report, and to obtain updated written representation letters. Such procedures will be performed at your cost.

**5. Confidentiality**

- 5.1 We agree to use Confidential Information provided by you only in relation to the services in connection with which the information is provided and we will not disclose the information, except where required by law, regulation or professional obligation. We may, however, give Confidential Information to other BDO Member Firms or other subcontractors assisting us in providing Services.
- 5.2 BDO shall be entitled to include a description of services we render to or for you in marketing and research materials and disclose such information to third parties, provided that all such information will be made anonymous and not associated with you. Additionally, we may analyze information on an industry or sector basis for internal



purposes or to provide industry/sector wide information to our clients or potential clients. You consent to our using information obtained from you in this way provided that the outputs therefrom will not contain any identifying features that can be attributed to you.

**6. Independence**

- 6.1 Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to our clients in the performance of our services. We will communicate to you any relationships between BDO (including its related entities) and you that, in our professional judgment, may reasonably be thought to bear on our independence. Further, we will confirm our independence in writing.

**7. Offers of Employment**

- 7.1 Any discussions that you, or any party acting on your behalf, have with professional personnel of our Firm regarding employment could pose a threat to our independence. Your recruitment of an engagement team member from the current or prior year's engagement may compromise our independence and our ability to render agreed services to you. Engagement team members may include current and former partners and staff of BDO, other BDO Member Firms and other firms who work under our direction. Therefore, you agree to inform us prior to any such discussions so that you and we can implement appropriate safeguards to maintain our independence.

**8. Professional and Regulatory Oversight**

- 8.1 As required by legal, regulatory, or professional authorities (both in Canada and abroad) and by BDO policy, our client files must periodically be reviewed by practice inspectors to ensure that we are adhering to professional and BDO standards. It is understood that by entering into this agreement, you provide your consent to us providing our files relating to your engagement to the practice inspectors for the sole purpose of their inspection.
- 8.2 Certain regulatory bodies may also have the right to conduct investigations of you, including the Services provided by us. To the extent practicable and permitted by law, we will advise you of any such investigation request or order prior to providing our working papers.
- 8.3 You agree to reimburse us for our time and expenses, including reasonable legal fees, incurred in responding to any investigation that is requested or authorized by you or investigations of you undertaken under government regulation or authority, court order or other legal process.

**9. Privacy and Consents**

- 9.1 You agree we will have access to all personal information in your custody that we require to complete our engagement. We may collect, use, transfer, store, or process such information disclosed by you of a personal nature (personal information). Our Services are provided on the understanding that:
- you have obtained any consents for collection, use and disclosure to us of personal information required under all applicable privacy legislation; and
  - we will hold all personal information in compliance with our Privacy Statement.



#### **10. Electronic Communications**

- 10.1 Both parties recognize and accept the security risks associated with email communications, including but not limited to the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless you request in writing that we do not communicate by internet email, you assume all responsibility and liability in respect of risk associated with its use.
- 10.2 Unless BDO is otherwise advised in writing, by executing this agreement you provide BDO with consent to communicate with you electronically, including sending newsletters, publications, announcements, invitations and other news and alerts. You may withdraw your consent at any time by contacting BDO at [unsubscribe@bdo.ca](mailto:unsubscribe@bdo.ca).

#### **11. Limitation of Liability**

- 11.1 In any dispute, action, claim, demand for losses or damages arising out of the Services performed by BDO pursuant to this Agreement, BDO shall only be liable for its proportionate share of the total liability based on degree of fault as determined by a court of competent jurisdiction or by an independent arbitrator as a result of the dispute resolution procedures, notwithstanding the provisions of any statute or rule of common law which create, or purport to create, joint and several liability.
- 11.2 Our liability shall be restricted to damages of a direct and compensatory nature and shall not include indirect, consequential, aggravated or punitive damages, or damages for loss of profits or expected tax savings, whether or not the likelihood of such loss or damage was contemplated.
- 11.3 You agree that BDO shall not be liable to you for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the Services performed hereunder for an aggregate amount no more than the higher of:
- three times the fees paid by you to BDO in the twelve months preceding the incident giving rise to the claim; and
  - \$25,000.
- 11.4 No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
- 11.5 You agree claims or actions relating to the delivery of Services shall be brought against us alone, and not against any individual. Where our individuals are described as partners, they are acting as one of our members.

#### **12. Indemnity**

- 12.1 To the fullest extent permitted by applicable law and professional regulations, you agree to indemnify and hold harmless BDO from and against all losses, costs (including solicitors' fees), damages, expenses, claims, demands or liabilities arising out of or in consequence of:



- a misrepresentation by a member of your management or board of directors, regardless of whether such person was acting in your interest
- the services performed by BDO pursuant to this Agreement, unless, and to the extent that, such losses, costs, damages and expenses are found by a court of competent jurisdiction to have been due to the gross negligence of BDO. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by you, failing which, the matter may be referred to dispute resolution in accordance with the terms of this letter.

**13. Alternative Dispute Resolution**

- 13.1 Both parties agree that they will first attempt to settle any dispute arising out of or relating to this agreement or the Services provided hereunder through good faith negotiations.
- 13.2 In the event that the parties are unable to settle or resolve their dispute through negotiation, such dispute shall be subject to mediation pursuant to the National Mediation rules of the ADR Institute of Canada Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as the parties mutually agree upon shall be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada Inc. Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the National Arbitration Rules.

**14. Limitation Period**

- 14.1 You shall make any claim relating to Services or otherwise under this Agreement no later than one year after you became aware or ought reasonably to have become aware of the facts giving rise to any such claim.
- 14.2 Intentionally deleted
- 14.3 To the extent permitted by law, the parties to this Agreement agree that the limitation periods established in this Agreement replace any limitation periods under any limitations act and/or any other applicable legislation and any limitation periods under any limitations act and/or any other applicable legislation shall not alter the limitation periods specified in this Agreement.

**15. Intentionally Deleted**

**16. Termination**

- 16.1 This Agreement applies to Services whenever performed (including before the date of this Agreement).
- 16.2 You or we may terminate this Agreement at any time upon written notice of such termination to the other party. We will not be liable for any loss, cost or expense arising from such termination. You agree to pay us for all Services performed up to the date of termination, including Services performed, work-in-progress and expenses incurred by us up to and including the effective date of the termination of this Agreement.



**17. Fees and Billings**

- 17.1 We will notify you immediately of any circumstances we encounter which could significantly affect our initial fee estimate and planned completion date.
- 17.2 Our professional fees will be based on our regular billing rates which depend on the means by which and by whom our Services are provided. We also will bill you for our out-of-pocket expenses, our administrative charge (described below), and applicable Harmonized Sales Tax, Goods and Services Tax and Provincial Sales Tax.
- 17.3 Our administrative charge is calculated as a percentage of our professional fee and represents an allocation of estimated costs associated with our technology infrastructure, telephone charges, photocopying and some support staff time costs.
- 17.4 Our accounts are due when rendered. BDO may suspend the performance of Services in the event that you fail to pay an invoice when it is due. Interest may be charged at the rate of 12% per annum on all accounts outstanding for more than 30 days.

**18. Governing Laws**

- 18.1 The terms of our engagement shall remain operative until amended, terminated, or superseded in writing. They shall be interpreted according to the laws of the province or territory in which BDO's principal Canadian office performing the engagement is located, without regard to such province/territory's rules on conflicts of law.

**19. Entire Agreement and Survival**

- 19.1 This Agreement sets forth the entire agreement between the parties with respect to the subject matter herein, superseding all prior agreements, negotiations or understandings, whether oral or written, with respect to such subject matter. It is understood that this Agreement will not be superseded by any contract with us for other specific services that are not of the same scope as the Services contemplated in this Agreement, unless the other contract explicitly references this Agreement and an intent to supersede it.
- 19.2 The provisions of this Agreement that give either of us rights or obligations beyond its termination shall continue indefinitely following the termination of this Agreement. Any clause that is meant to continue to apply after termination of this Agreement will do so.

**20. Force Majeure**

- 20.1 We will not be liable for any delays or failures in performance or breach of contract due to events or circumstances beyond our reasonable control, including acts of God, war, acts by governments and regulators, acts of terrorism, accident, fire, flood or storm or civil disturbance.



**21. Assignment**

- 21.1 No party may assign, transfer or delegate any of the rights or obligations hereunder without the written consent of the other party or parties. BDO may engage independent contractors and BDO Member Firms to assist us in performing the Services in this Agreement without your consent.

**22. Severability**

- 22.1 If a court or regulator with proper jurisdiction determines that a provision of this Agreement is invalid, then the provision will be interpreted in a way that is valid under applicable law or regulation. If any provision is invalid, the rest of this Agreement will remain effective.

## APPENDIX H - Independence Letter

February 7, 2019

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

Dear Council Members:

We have been engaged to audit the financial statements of City of Maple Ridge ("the City") for the year ended December 31, 2018.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the City and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we have considered the applicable legislation and relevant rules and related interpretations prescribed by the Chartered Professional Accountants of British Columbia, 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 thought to bear on independence that have occurred from November 3, 2017 to February 7, 2019.

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 Council and management and should not be used for any other purposes.

Yours truly,



Brian Szabo, CPA, CA  
Partner through a corporation  
BDO Canada LLP  
Chartered Professional Accountants  
BJS/jaw

## APPENDIX I - Circumstances Affecting Timing and Fees

The fee quote for the audit is based on careful consideration of the time required to complete the required work. Circumstances may arise during the engagement that could significantly impact the targeted completion dates and/or our fee estimates. 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 misstatements identified during the audit work requiring investigation, calculation and/or discussion;
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 not contemplated in the planning stage.

### 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 J - Reliance on Experts

### 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, Westcoast Actuaries. Canadian generally accepted auditing standards require us to communicate with the expert. We propose to discuss the following with Westcoast Actuaries:

- 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 Westcoast Actuaries and that they also review the assumptions used and results reported by the expert for reasonableness.

## APPENDIX K – Auditor’s Considerations of Possible Fraud and Illegal Activities

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

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

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

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

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

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

- Inquiry of management, the Board, 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:

- 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 L – Resources and Services

### OTHER BDO RESOURCES AND SERVICES

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><a href="https://www.bdo.ca/en-ca/services/tax/commodity-tax-services/overview/">https://www.bdo.ca/en-ca/services/tax/commodity-tax-services/overview/</a></p>
Employer health tax	<p>The NDP government announced a proposed Employer Health Tax (EHT) to take effect starting January 1, 2019. The proposed EHT will impose a payroll tax on employers who meet the payroll threshold and annual payroll tax filing.</p> <p>In advance of detailed legislation to come in the fall, the government recently released additional implementation details.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/tax/tax-alerts/bc-employer-health-tax-updates-2018/">https://www.bdo.ca/en-ca/insights/tax/tax-alerts/bc-employer-health-tax-updates-2018/</a></p>
Employees or subcontractors	<p>Many organizations have been unclear in their agreements with contractors, and left themselves and their contractors exposed to the risk of serious and costly repercussions with the Canada Revenue Agency ("CRA").</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/industries/manufacturing-distribution/employees-or-subcontractors-the-risk-is-in-the-details/">https://www.bdo.ca/en-ca/insights/industries/manufacturing-distribution/employees-or-subcontractors-the-risk-is-in-the-details/</a></p>
Hiring foreign workers	<p>Many Canadian employers are considering hiring international talent, while others have already hired employees from outside Canada, but are not sure how to keep the employee long-term.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/tax/weekly-tax-tips/hiring-foreign-workers-canada/">https://www.bdo.ca/en-ca/insights/tax/weekly-tax-tips/hiring-foreign-workers-canada/</a></p>

<b>Fraud trends in Canada</b>	<p>Organizations are the target of many types of fraud, such as wire fraud and phishing scams. Both small and large businesses across all industries are affected by either employee fraud or external fraud.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/canadian-business-fraud-trends-statistics-2017/">https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/canadian-business-fraud-trends-statistics-2017/</a></p>
<b>Three critical traits that help board members combat fraud</b>	<p>Board membership carries with it a sense of corporate status and achievement in one's professional life. It may raise one's profile in the corporate world and be rewarded by monetary compensation. It may be seen as an avenue to give back to society and to pursue one's personal interests, such as a cause they feel passionate about - but are there only positives? Is being a director on a board really as rewarding as it sounds?</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/three-critical-traits-that-help-board-members-combat-fraud/">https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/three-critical-traits-that-help-board-members-combat-fraud/</a></p>
<b>Employee fraud: a guide for fraud prevention, detection and response</b>	<p>Employee fraud is a serious issue impacting Canadian organizations of all sizes, in all sectors. The impact of employee fraud is not only devastating financially – it can cause lasting reputational damage that many businesses will be unable to overcome.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/employee-fraud-prevention-detection-guide/">https://www.bdo.ca/en-ca/insights/consulting/forensic-and-investigative-services/employee-fraud-prevention-detection-guide/</a></p>
<b>Strategic planning</b>	<p>Strategic planning is more than refreshing the last plan with new initiatives. The plan will not be well executed if assumptions are not tested. A thorough plan is essential if organizations want to be successful. Without a strategic plan in place, organizations are poised to stumble, and they often do.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/consulting/strategy-operations/avoid-strategic-planning-pitfalls/">https://www.bdo.ca/en-ca/insights/consulting/strategy-operations/avoid-strategic-planning-pitfalls/</a></p>
<b>Future enhancements to the Auditor's Report</b>	<p>As Canada continues its commitment to adopting international standards on auditing, it is important to prepare for the new and revised auditor reporting standards that become effective for audits of financial statements for periods ending on or after December 15, 2018.</p> <p>For more information, please visit the following link:</p> <p><a href="https://www.bdo.ca/en-ca/insights/assurance-accounting/navigating-the-auditor-reporting-journey/">https://www.bdo.ca/en-ca/insights/assurance-accounting/navigating-the-auditor-reporting-journey/</a></p>

## Cybersecurity

Cybersecurity risk continues to rise up the agenda of Canadian organizations. To respond, senior decision-makers need to increase their cyber literacy. In today's environment, making the right decisions depends on knowing the risk, staying current on changes in the threat environment, and understanding competitors' activities.

For more information, please visit the following link:

<https://www.bdo.ca/en-ca/insights/consulting/risk-advisory/cybersecurity-risk-report-2017/>

## BDO PUBLICATIONS

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

For additional information on ASNPO and ASPE, 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: <https://www.bdo.ca/en-ca/events/>.

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

*The following summarizes the status of new standards and the changes to existing standards as of the fall of 2018. The Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.*

### **NEW STANDARDS - PSAS**

#### ***Section PS 3430, Restructuring Transactions***

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.

### **NEW STANDARDS - PSAS (NOT YET EFFECTIVE)**

#### ***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 re-measurement 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, 2021. For entities with a December year end this means 2022 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 *PS 3450, Financial Instruments*;
- 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.

The new requirements are effective for fiscal years beginning on or after April 1, 2021. For the City, this means that the year ending March 31, 2022 is the first year that the standard must be followed. Earlier adoption is permitted.

#### ***Section PS 3280, Asset Retirement Obligations***

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.

- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
  - editorial changes have been made to other standards; and
  - SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270, has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2021 (2022 fiscal year for organizations with December year ends). Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2021, unless a public sector entity elects earlier adoption.

#### ***Section PS 3400 Revenue***

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

#### ***Section PS 3450, Financial Instruments***

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

The main features of the new Section are:

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

- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- 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 are effective for fiscal years beginning on or after April 1, 2021. For entities with a December year end this means 2022 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 that Narrow Scope Amendments are expected (see below) that will not impact many readers of this Appendix.

#### **STATUS OF CURRENT PROJECTS - PSAB**

	2018 Q4	2019 Q1
Concepts Underlying Financial Performance		
Employment Benefits	Invitation to Comment #3	
Financial Instruments - Narrow Scope Amendments		Exposure Draft
Public Private Partnerships		Exposure Draft
Revenue	Handbook Release	
Review of International Strategy		

## INVITATION TO COMMENT - PSAS

### *Employment Benefits*

Identified as the top priority in PSAB's 2014 Project Priority Survey, the Board has approved a project to review Section PS 3250, *Retirement Benefits*, and Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. Since the issuance of these Sections decades ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts.

This project will involve looking at issues such as deferral of experience gains and losses, discount rates, how to account for shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered.

A new, comprehensive Handbook Section on employment benefits will replace the two existing Sections.

To date, two Invitations to Comment have been issued related to Discount Rates and Deferral Provisions. Invitation to Comment #3 is expected in Q4 2018 in regard to Risk Sharing Provisions.

Final standard is on track for release in 2022.

## EXPOSURE DRAFTS - PSAS

### *Financial Instruments - Narrow Scope Amendments*

In conjunction with the decision to move forward with Section PS 3450, *Financial Instruments*, the Public Sector Accounting Board (PSAB) will provide amendments in 3 narrow areas:

1. Accounting treatment of a bond repurchase

The current standard states that, when a public sector entity acquires its own bond from the market, this transaction should be treated as an extinguishment. PSAB is investigating alternatives to this treatment.

2. Scope exclusion of certain activities by the Federal government

Section PS 2601, Foreign Currency Translation, excludes foreign exchange balances "*intended to sustain foreign exchange reserves and orderly conditions in the foreign exchange market for the Canadian dollar or to provide assistance to foreign countries.*" PSAB is investigating whether derivatives that are used as part of such activities should be excluded from the scope.

3. Improvements to transitional provisions

Several improvements to the transitional provisions of Section PS 3450, *Financial Instruments*, were proposed in the Exposure Draft, *Financial Instruments: Transition*, issued in 2014. PSAB is revisiting these improvements to ensure they remain appropriate.

### *Public Private Partnerships*

Identified as a priority in PSAB's 2014 Project Priority Survey, the Board approved a project to develop authoritative guidance specific to public private partnerships.

The project is nearing completion with a Statement of Principles issued in 2017 and a final section expected to be issued in Q4 2018.

***Concepts Underlying Financial Performance (Statement of Concepts and Statements of Principles issued)***

The conceptual framework in Sections PS 1000, *Financial Statement Concepts*, and PS 1100, *Financial Statement Objectives*, require review with a focus on measuring the financial performance of public sector entities.

This review was identified as a high priority in the Public Sector Accounting Board's (PSAB) 2010-2013 Strategic Plan in response to a suggestion from the senior government finance community.

This project will consider 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*.

A Statement of Concepts and a Statement of Principles for financial reporting were issued in May 2018. A final exposure draft is expected for Q4 2019.

***Review of International Strategy (Consultation Paper Issued)***

In developing the 2017-2020 Strategic Plan, the Public Sector Accounting Board (PSAB) determined the time was appropriate to review its current approach towards International Public Sector Accounting Standards.

Over the 2017-2020 period, the Board intends to:

- conduct research on differences between Canadian Public Sector Accounting Standards and International Public Sector Accounting Standards;
- learn about experiences of other jurisdictions that choose to follow International Public Sector Accounting Standards;
- publish a consultation paper to get the opinion of stakeholders; and develop options for the Board's International Strategy.

A first Consultation Paper was issued in May 2018 with a second Consultation Paper expected in Q1 2019.

***Not-for-Profit Project (Consultation Paper Expected Q1 2019)***

When government not-for-profits were brought into the PSA Handbook they were given the option of applying PSAS standards or PSAS standards in conjunction with the "4200 Series" of standards that mirror Part III of the CPA Handbook. It was always recognized that the 4200 Series was likely a stop-gap measure with additional NPO-specific standards being brought into the "regular" PSA Handbook. The situation became more timely with several provinces mandating that their organizations not use the 4200 series.

In 2017 PSAB conducted broad outreach with Government Not-for-Profit Organizations across Canada. A Consultation Paper on this matter is expected in Q1 2019.

**PROJECTS - PSAB (DEFERRED)**

***Impairment of Non-Financial Assets***

Currently, there is a lack of Canadian guidance on the impairment of non-financial assets that have service potential.

The objective of this project is to issue a standard that addresses the impairment of tangible capital assets that have service potential.

The project will define impairment, as well as provide guidance on assessment, recognition, measurement and disclosure of impairment losses.

### ***PSA Handbook Terminology***

Application of sections in the CPA Canada Public Sector Accounting (PSA) Handbook for government organizations that previously followed the CPA Canada Handbook - Accounting and were directed to adopt the PSA standards need to be considered.

The PSA Handbook was originally written primarily for government summary financial statements. The term "government" is used throughout the PSA Handbook.

This project will update terminology in the PSA Handbook to clarify standards and guidance that are applicable to public sector entities, which will be specifically defined in the Introduction to the Public Sector Accounting Standards.

### **NEW STANDARDS - AUDITING AND ASSURANCE STANDARDS BOARD (AASB)**

#### ***Auditor Reporting***

The following new/revised auditor reporting standards are effective for audits of financial statements for periods ending on or after December 15, 2018.

*CAS 700 - Forming an Opinion and Reporting on Financial Statements.*

*CAS 701 - Communicating Key Audit Matters*

*CAS 705 - Modifications to the Opinion*

*CAS 706 - Emphasis of Matters and Other Matters*

*CAS 720 - Responsibilities Relating to Other Information*

*CAS 570 - Going Concern*

The recently revised Canadian Auditing Standards (CASs) were designed for the unique aspects of the Canadian environment, and with the ultimate objective of providing stakeholders with more useful information by focusing on the key output from the audit process - the auditor's report.

Key changes, which will help improve the communicative value of the auditor's report include:

- Placing the opinion section at the beginning of the report.
- Revised format and structure of the auditor's report.
- Enhanced reporting on going concern matters - including a separate section when there is a material uncertainty relating to going concern.
- Emphasizing the nature of the audit and the role and responsibilities of the auditors.
- Including an explicit statement about the auditor's independence in accordance with relevant ethical standards.
- Emphasizing the importance of the annual report (or similar document) and the auditor's work performed on such other information.
- Providing enhanced descriptions about the responsibilities of management, and those charged with governance where applicable.

- Voluntary reporting of key audit matters.
- For listed entities, disclosure of the name of the engagement partner.

The requirements relating to Key Audit Matters (KAM) are set out under CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report. Unless specifically required by law or regulation, the reporting of KAM is optional. This differs from the international standard whereby KAM are required to be disclosed for all listed entities. Canadian standards do not contain a KAM reporting requirement, but allow for the KAM reporting when:

- The auditor decides to communicate KAM in the auditor's report, or
- The auditor is required by law or regulation to communicate KAM in the auditor's report.

Reporting of KAM is not required for audits of the public sector entities because there is no or regulation that requires it. However, we are aware that some Auditors General are considering whether they may apply this for reports prepared by their offices.

#### **EXPOSURE DRAFT- AASB**

##### ***Auditing Accounting Estimates (Closed for Comments)***

Accounting estimates and related disclosures have become more complex. Stakeholders have indicated that clearer or additional guidance is needed to enable auditors to appropriately deal with these complexities.

The International Auditing and Assurance Standards Board (IAASB) released International Standard on Auditing (ISA) 540 (Revised), its revised standard for the audit of accounting estimates and related disclosures. The new standard reflects the rapidly evolving business environment, keeping pace with the changing market. It requires consideration of the factors such as complexity, subjective management judgement and other inherent risk factors.

The Canadian Standard, CAS 540, is expected to be effective for financial statement audits for periods beginning on or after December 15, 2019.

##### ***Identifying and Assessing the Risks of Material Misstatement (Open for Comments)***

There are challenges involved in identifying and assessing audit risks for entities – in particular, those that vary in size and nature. Clearer or additional guidance is needed to help address these challenges.

As a result, the International Auditing and Assurance Standards Board (IAASB) is proposing revisions to ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding of the Entity and its Environment*.

The IAASB proposal includes establishing more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in accordance with the size and nature of the entity. This would be done by focusing on enhancing the auditor's approach to understanding the entity and risk assessment activities in light of the changing environment.

The Canadian Standard, CAS 315, is expected to be effective for financial statement audits for periods beginning on or after December 15, 2020.

## PROJECTS - AASB

### *Group Audits*

Many audits today are audits of group financial statements - also known as group audits - these type of engagements can be very challenging.

This is a result of complex group structures, cultural and language barriers, differences in laws and regulation, involvement of component auditors and many other factors.

The IAASB is proposing revisions to ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* to:

- strengthen the auditor's approach to planning and performance of a group audit; and
- clarify the interaction of ISA 600 to the other ISAs.

The Exposure Draft is expected to be approved during the first quarter of 2020.

### *Quality Control*

Auditors must effectively manage audit quality, both at the firm and the engagement level, with high-quality audits supporting financial stability.

Through consultations with stakeholders, the International Auditing and Assurance Standards Board (IAASB) identified a need to strengthen standards addressing quality control.

Therefore, the IAASB is proposing revisions to:

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; and
- ISA 220, *Quality Control for an Audit of Financial Statements*.

The IAASB proposals includes revisions to these standards to:

- strengthen and improve a firms' management of quality for all engagements by more explicitly incorporating a quality management approach, fostering the ability of the standards to be applied to a wide range of circumstances; and
- focus on identifying, assessing and responding to quality risks in a broad range of engagement circumstances.

The Exposure Drafts for CSQC 1, CSQC 2 and CAS 220 are expected to be approved during the fourth quarter of 2018.