



CORPORATION OF THE CITY OF CLARENCE-ROCKLAND

AUDIT FINAL REPORT TO THE MUNICIPAL COUNCIL

May 22, 2019



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SUMMARY



Status of the Audit

As of the date of this report, we have substantially completed our audit of the consolidated financial statements, pending completion of the following items:

- ▶ Receipt of signed management representation letter
- ▶ Receipt of outstanding legal confirmations
- ▶ Subsequent events review through to auditor report date
- ▶ Approval of consolidated financial statements by the Municipal Council

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement.

The scope of the work performed was substantially the same as that described in our Planning Report to the Municipal Council dated March 13, 2019.

Materiality

As communicated to you in our Planning Report to the Municipal Council, preliminary materiality was \$750,000. Final materiality was increased to \$850,000 to reflect the 2018 revenues.



Audit Findings

Our audit focused on the risks specific to your business and key accounts. Our discussion points below focus on areas of significant risks of material misstatement, or the following items:

- ▶ Revenue recognition
- ▶ Liability of contaminated sites
- ▶ Potential lawsuits
- ▶ Management override of controls

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Municipal Council in fulfilling its responsibilities. This report has been prepared solely for the use of the Municipal Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.



Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified. The specifics of this communication are included in our report below.



Adjusted and Unadjusted Differences

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

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

For purposes of our discussion, a summary of adjusted and unadjusted differences has been presented in Appendix A.



Management Representations

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the consolidated financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.



Fraud Discussion

Through our planning process, and current and prior years' audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud.

If you are aware of changes to process or are aware of any instances of actual, suspected or alleged fraud affecting the Municipality since our discussions held at planning, we request that you provide us with this information.

Please refer to the Auditor's Responsibilities for Detecting Fraud in the Planning Report to the Municipal Council.

AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Municipality's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT	RISKS NOTED	AUDIT FINDINGS
Revenue Recognition	Canadian Auditing Standards require the audits to include a significant risk with regards to revenue recognition	We have conducted a review of journal entries, adjustments made in the taxation revenues and user charges revenues and we sent external confirmations No issues were noted.
Liabilities for contaminated site	There are significant estimates used to determine the liability for contaminated sites.	We have discussed with management to identify any contaminated sites. For those identified, we assessed management conclusion on whether a liability should be recorded or not. We concurred with management that there is no liability.
Potential lawsuits	There are significant estimates used to determine the contingencies liability.	We have conducted a review of professional fees throughout the year. We assessed management conclusion on whether a liability should be recorded or not. It is management's opinion that the likelihood of loss is not known or undeterminable as of the date of this letter. Legal letters have been sent out to confirm material claims.
Management override of controls	The risk of management override of controls is standard in all audit engagements. Management override of controls is a standard risk in all audits.	We have conducted a review of journal entries throughout the year. No issues were noted.

INTERNAL CONTROL MATTERS

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

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

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

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

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

Even though no significant weakness were encountered, we have provided a management letter to management, which can be found at Appendix B.

OTHER REQUIRED COMMUNICATIONS

Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.

- BDO Response: We are waiting on legal letters

Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- BDO Response: No risk identified

Disagreements with management about matters that, individually or in the aggregate, could be significant to the entity's financial statements or our audit report.

- BDO Response: No disagreement identified

Matters involving non-compliance with laws and regulations.

- BDO Response: No matter identified

Significant related party transactions that are not in the normal course of operations and which involve significant judgments made by management concerning measurement or disclosure.

- BDO Response: No such transaction identified

Management consultation with other accountants about significant auditing and accounting matters.

- BDO Response: None encountered

Other Matters

- BDO Response: no other matter

Professional standards require independent auditors to communicate with those charged with governance certain matters in relation to an audit. In addition to the points communicated within this letter, the attached table summarizes these additional required communications.

APPENDICES

Appendix A: Unadjusted and adjusted differences

Appendix B: Management letter

Appendix C: BDO resources

APPENDIX A: UNADJUSTED AND ADJUSTED DIFFERENCES

SUMMARY OF UNADJUSTED DIFFERENCES

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

	Error	Extrapolated error	Debit (Credit)			
			Assets	Liabilities	Accumulated Surplus	Surplus
Understated amortization expense, due to prior years' errors.	\$ 13,994	\$ 111,344	\$ (111,344)	\$ -	\$ -	\$ 111 344
Total			(111,344)	-	-	111 344
Effect of Prior Year's Reversing Errors			-	-	-	-
Total Unadjusted Differences			\$ (111,344)	\$ -	\$ -	\$ 111 344

Corporation de la cité de Clarence-Rockland

Year End: December 31, 2018

Journal Entries

Date: 01/12/1999 To 12/31/2018

Number	Date	Name	Account No	Reference	Debit	Credit	Recurrence	Misstatement
3	12/31/2018	Surplus / Deficit - Water	1-2-0099-0496	UU		321,513.00		
3	12/31/2018	Surplus / Deficit - Internal loan	1-2-0099-0498	UU	321,513.00			
		To record the internal loan for Water looping.						
4	12/31/2018	Due from Library	1-1-0020-0074	UU	17,384.30			
4	12/31/2018	Long term receivable from Library	1-1-0036-0346	UU		17,384.30		
4	12/31/2018	Surplus / Deficit - General	1-2-0099-0499	UU		17,384.00		
4	12/31/2018	Due to the City Clarence -Rockland	4-2-0060-0210	UU		17,384.30		
4	12/31/2018	Long term debt owed to the City	4-2-0060-0346	UU	17,384.30			
4	12/31/2018	Surplus / Deficit - Library	4-2-0099-0491	UU	17,384.00			
		To adjust the portion of the loan to be repaid by the library.						
5	12/31/2018	Due and Unpaid	1-2-0060-0230	APT_CC. 14.	559,680.90			
5	12/31/2018	Unfunded Future employee benefit	1-2-0099-0492	APT_CC. 14.		559,680.90		
5	12/31/2018	Surplus / Deficit - General	1-2-0099-0499	APT_CC. 14.	559,680.90			
5	12/31/2018	WSIB - Schedule 2	1-4-2121-1244	APT_CC. 14.		559,680.90		
		To adjust the WSIB payable estimate at the end of 2018.						
6	12/31/2018	Prepaid Revenues - Others	1-2-0078-0323		631,208.60			
6	12/31/2018	Grant received in Advance	1-2-0078-0324			631,208.60		
		Pour reclasser un transfert de paiement. Selon Client. POUR FINS DE PRÉSENTATION SEULEMENT.						
					2,124,236.00	2,124,236.00		

Net Income (Loss) 4,185,354.01

Prepared by KDV 05/06/2019	Detail Rev LCG 05/06/2019	Gen Rev AJB 05/06/2019	Quality Rev
4th Level Rev	Tax Rev	IS Audit Rev	Other Rev

APPENDIX B: MANAGEMENT LETTER

May 22, 2019

Corporation of the City of Clarence-Rockland
1560 Laurier Street
Rockland, Ontario
K4K 1P7

Dear Mr. Desnoyers,

During the course of our audit of the consolidated financial statements ("financial statements") of the Corporation of the City of Clarence-Rockland for the year ended December 31, 2018, we identified matters which may be of interest to management.

The objective of an audit is to obtain reasonable assurance whether the financial statement are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters.

The matters we have identified are discussed in Appendix 1.

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

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from yourself, Carole Normand, Lynda Assellin, Suzanne Marleau-Bruyère and Sylvie Gauthier.

Your truly,



Annik Blanchard, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants

Appendix 1

ISSUE	IMPACT	RECOMMENDATION
Tangible Capital Assets' Policy	During the audit, we noted that the useful life for certain tangible capital assets recorded in the system differed from the new tangible capital assets' policy.	We recommend that the Municipality review the useful life recorded in the system and modify them, when needed, in order to comply with its accounting policies.
Cybersecurity	As a municipality you share information with vendors, contractors, partners, residents, taxpayers and other municipal levels, many of whom are now demanding easier and more open access. Every one of these digital relationships presents an expanding set of cyber risks. The need for security and privacy measurers, and the way they are implemented, must be balanced strategically against the municipality's ability to operate effectively, and to actively pursue its future goals.	We recommend that you complete a comprehensive assessment of the municipality's operating environment and its specific needs with regards to cybersecurity.

APPENDIX C: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the international BDO network, we're able to provide seamless and consistent cross-border services to clients with global needs. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

PSAB PUBLICATIONS

BDO's national department publishes a certain number of publications on SAVs.

For more information, please refer to the link below:

- <https://www.bdi.ca/en-ca/services/assurance-and-accounting/a-a-knowledge-centre/psas/>

TAX BULLETINS, ALERTS AND NEWSLETTERS

BDO's national tax department issues a number of bulletins, alerts and newsletters relating to corporate federal, personal, commodity, transfer pricing and international tax matters.

For additional information on tax matters and links to archived tax publications, please refer to the following link: [Tax Library | BDO Canada](#)