MEDIA RELEASE: Friday, November 2, 2012, 4:30 p.m.

REGIONAL MUNICIPALITY OF WATERLOO
AUDIT COMMITTEE
AGENDA

Wednesday, November 6, 2012
2:30 p.m.
(Time is approximate; meeting follows Standing Committees)
Room 217
150 Frederick Street, Kitchener, Ontario

1. MOTION TO GO INTO CLOSED SESSION

That a closed meeting of Audit Committee be held on Tuesday, November 6, 2012 at approximately 2:30 p.m. in Room 217, in accordance with Section 239 of the Municipal Act, 2001, for the purposes of considering the following subject matters:

a) labour relations
b) the security of the property of the municipality and personal matters about an identifiable individual, including municipal employees

2. MOTION TO RECONVENE INTO OPEN SESSION

3. DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT

4. DELEGATIONS

5. STAFF REPORTS – FINANCE

a) F-12-096, 2012 Year-End Audit

6. PRESENTATION

a) Evan McDade, Deloitte & Touche, LLP re: Region of Waterloo 2012 Audit Service Plan

7. INFORMATION/CORRESPONDENCE

8. OTHER BUSINESS

9. NEXT MEETING – May 8, 2013 at 5:00 p.m.

10. ADJOURN
Report: F-12-096

REGION OF WATERLOO
FINANCE DEPARTMENT
Financial Services Division

TO: Chair T. Galloway and Members of the Audit Committee

DATE: November 6, 2012

FILE CODE: F26-20

SUBJECT: 2012 YEAR-END AUDIT

RECOMMENDATION:

For Information

SUMMARY: Nil

REPORT:

In January 2012, the Region awarded a five year contract for audit services to Deloitte & Touche LLP (Deloitte). The 2012 fiscal year (ending December 31, 2012) marks the second year of the term. The Region’s year-end process requires the dedication and diligence of a large number of Regional employees from various departments to ensure that financial transactions are complete, correct and processed on a timely basis. The Finance Department co-ordinates the year-end process and sets the necessary deadlines to ensure the timely completion of the Financial Statements. The 2012 Audited Financial Statements are scheduled to be presented to Audit Committee on May 8, 2013 which is four weeks earlier than the 2011 Financial Statements.

Key dates for the 2012 year-end process are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 6, 2012</td>
<td>Audit Committee – Representatives from Deloitte will present an overview of the proposed 2012 financial statement audit work plan</td>
</tr>
<tr>
<td>December 10-12/12</td>
<td>Preliminary Audit work by Deloitte</td>
</tr>
<tr>
<td>March 4, 2013</td>
<td>2012 General Ledger closed</td>
</tr>
<tr>
<td>April 1-19, 2013</td>
<td>Annual Audit by Deloitte</td>
</tr>
<tr>
<td>May 8, 2013</td>
<td>Presentation of 2012 Financial Statements to Audit Committee</td>
</tr>
<tr>
<td>May 28, 2013</td>
<td>Administration &amp; Finance Committee approval of Financial Statements</td>
</tr>
<tr>
<td>June 5, 2013</td>
<td>Regional Council approval of Financial Statements</td>
</tr>
</tbody>
</table>

CORPORATE STRATEGIC PLAN:

To ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

FINANCIAL IMPLICATIONS: Nil

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE: Nil

ATTACHMENTS: Nil

PREPARED BY: P. Holling, Manager, Financial Services
APPROVED BY: C. Dyer, Chief Financial Officer
Region of Waterloo

2012 Audit service plan

For the year ending December 31, 2012
Presented to the Audit Committee
November 6, 2012
November 6, 2012

Private and confidential

To the Chair and members of the Audit Committee of Region of Waterloo

Dear Audit Committee Members:

Subject: Audit service plan for the year ending December 31, 2012

We are pleased to present our audit service plan for Region of Waterloo (“the Region”) for the year ending December 31, 2012. This plan describes the Deloitte & Touche LLP (“Deloitte”) audit approach, our team, our audit scope and our planned communications with you.

Our audit of Region of Waterloo’s consolidated financial statements for the year ending December 31, 2012 prepared in accordance with Canadian public sector accounting standards (“PSAS”) will be conducted in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under Canadian GAAS are described in more detail in our audit engagement letter.

We are proud of our relationship with Region of Waterloo. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. We recognize and are sensitive to your expectations regarding cost management and quality. We will focus our efforts on higher risk areas and co-ordinate our activities with management and make every effort to achieve audit efficiencies.

We are providing this audit service plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and Council to assist them in discharging their responsibilities with respect to the consolidated financial statements and is not intended for any other purpose. We accept no responsibility or obligation to any third party who may rely on this report.

We look forward to discussing our audit service plan with you and answering any questions that you may have.

Yours very truly,

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants
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Executive summary

The Deloitte audit approach adheres to applicable professional auditing standards and, accordingly, is risk-based and tailored to address the risks to financial reporting – the audit risks. Our audit approach involves consideration of the following:

<table>
<thead>
<tr>
<th>Audit scope</th>
<th>The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality</td>
<td>We are responsible for providing reasonable assurance that your consolidated financial statements as a whole are free from material misstatement. Materiality levels are determined on the basis of consolidated revenue. Our preliminary estimate of materiality for the year ending December 31, 2012 is $14,900,000 (2011: $14,900,000). We will report to the Audit Committee all uncorrected misstatements greater than a clearly trivial amount of $745,000 (2011: $745,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements be corrected.</td>
</tr>
<tr>
<td>Audit risks</td>
<td>Our audit scope reflects the risks that we have identified at the Region of Waterloo and our planned audit response to them. The more significant of the risks that we identified as part of our strategic audit planning activities, together with our planned audit response, are set out in the body of this report.</td>
</tr>
<tr>
<td>Fraud risk</td>
<td>In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will: 1. Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and the auditor’s assessment of the risks of material misstatement due to fraud for the engagement; 2. Evaluate whether the selection and application of accounting policies by your organization, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management’s effort to manage earnings; 3. Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures. We will inquire directly of the Audit Committee regarding its views about the risk of fraud and whether the Audit Committee has knowledge of any actual or suspected fraud affecting the Region of Waterloo. If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.</td>
</tr>
<tr>
<td>Internal control matters</td>
<td>Our planned reliance on internal control relevant to the audit is described in the body of this report. We will communicate in writing significant deficiencies in internal control identified during the audit to the Audit Committee on a timely basis.</td>
</tr>
<tr>
<td>Group audit</td>
<td>When designing our audit strategy, we also considered: - the financial significance or relative importance of each of the consolidated entities (listed in Appendix A) to your organization as a whole; - the complexity and nature of the operations, internal controls and accounting issues at each of the consolidated entities; - the degree of centralization or decentralization of processes and controls including the extent of relevant enterprise-level controls; and - the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at each of the consolidated entities. For the Region, we are the auditors for the related entities, so we are able to co-ordinate the group audit internally, including identifying risks and materiality. Any issues arising from these audits will be communicated to the Audit Committee in the audit results presentation.</td>
</tr>
<tr>
<td>Use of the work of experts</td>
<td>Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist our audit engagement teams when dealing with more complex technical, accounting, auditing and reporting issues.</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Audit team</td>
<td>The engagement team that will serve the Region of Waterloo provides a balance of continuity of existing members with knowledge of and experience with your organization and new members who will provide fresh perspectives and insights. Our team also includes high-quality technical specialists and other professionals. We are committed to continuing to serve Region of Waterloo with quality and distinction.</td>
</tr>
<tr>
<td>Engagement letter</td>
<td>The terms and conditions of our engagement are included in the engagement letter included under separate cover.</td>
</tr>
<tr>
<td>Complete engagement reporting</td>
<td>Upon the satisfactory completion of our audit, we will provide you with an audit report on your consolidated financial statements. We will also provide reports to the Audit Committee to assist it in fulfilling its responsibilities, as required by applicable auditing standards.</td>
</tr>
<tr>
<td>Communications</td>
<td>We have summarized our required communications with the Audit Committee in Appendix C.</td>
</tr>
<tr>
<td>Audit fees</td>
<td>We propose audit fees for 2012 in accordance with our response to the 2011 request for proposal. Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from Region of Waterloo staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS.</td>
</tr>
<tr>
<td>Independence</td>
<td>We have developed important safeguards and procedures to protect our independence and objectivity. We are independent of the Region of Waterloo and we will reconfirm our independence in our final report to the Audit Committee.</td>
</tr>
<tr>
<td>Management representations</td>
<td>We will obtain written and oral representations from management to complement our audit procedures.</td>
</tr>
</tbody>
</table>
| New financial reporting standards | We have included in Appendix D, the Deloitte Standard-setting Activities Digest, which summarizes the standards (both finalized and in development) that we believe are particularly relevant to the Region. New public sector accounting standards include:  
  • Consequential Amendments Resulting from Section 3450, Financial Instruments  
  • Section PS 1201, Financial Statement Presentation  
  • Section PS 3410 (Revised), Government Transfers  
  • Section PS 3450, Financial Instruments  
  • Section PS 3610, Tax Revenue  
  • Section PS 4200 – PS 4270, Government Not-for-profit Organizations |
The Deloitte risk-based audit approach

A consistent approach that supports a dynamic environment.

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing the Region. Our risk-based audit approach is:

<table>
<thead>
<tr>
<th>Partner-led</th>
<th>driven by our partners' experience and their detailed knowledge of your organization, with significant partner input at all stages of the audit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused</td>
<td>by identifying and designing appropriate audit procedures that focus on risks to the audit process for significant accounts, transactions and disclosures as well as material misstatements to the financial statements.</td>
</tr>
<tr>
<td>Quality-focused</td>
<td>with a commitment to providing an uncompromisingly high level of professional and technical quality.</td>
</tr>
<tr>
<td>Dynamic</td>
<td>tailored to respond to changing circumstances.</td>
</tr>
</tbody>
</table>

There are four key phases within our systematic approach:

1. initial planning
2. assessing and responding to risk of material misstatement
3. developing and executing the audit plan
4. reporting and assessing performance

These steps are not necessarily sequential nor are they mutually exclusive. For example, once we've developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

Understanding your business and accounting processes

Our audit will take into account specific items of particular interest raised by the Audit Committee as well as areas of concern identified by the Audit Committee or management.
2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Risk assessment

The risks that we have identified to date, and which will be addressed when conducting the non-integrated audit, are summarized in the Audit Scope section below. As we perform our audit, we will update our risk assessment and will inform the Audit Committee and management of any significant changes to our risk assessment and any additional risks that are identified.

Consideration of the risk of fraud

Fraudulent acts include the deliberate failure to record transactions, the forgery of records and documents, and intentional misrepresentations made to our audit engagement team. Fraud may include intentional acts by management or employees acting on behalf of the Region, as well as employee fraud if management or employees are involved in actions that defraud the Region. Deloitte does not assume that management is dishonest nor do we assume unquestioned honesty. Rather, in accordance with Canadian GAAS, we exercise professional scepticism and recognize that the conditions we observe and evidential matter we obtain, including that obtained from prior audit engagements, need to be objectively evaluated to determine whether the consolidated financial statements are presented fairly in all material respects.

Maintaining an attitude of professional scepticism means that we carefully consider the reasonableness of the responses we receive to our inquiries from those charged with governance, and evaluate other information obtained from them in light of the evidence we obtain during the audit. When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

As required by professional auditing standards, we will also make inquiries of the Audit Committee regarding:

- its views about the risk of fraud;
- its knowledge of any actual suspected or alleged fraud; and
- the role it exercises in the oversight of management’s antifraud programs.

Because of the inherent limitations of Internal Control over Financial Reporting, including the possibility of collusion or improper management override of controls, it is possible that material misstatements due to error or fraud may not be prevented or detected on a timely basis. Accordingly, the assurance an auditor provides concerning the lack of misstatements arising from fraud is necessarily lower than the assurance provided concerning those arising from an error.
Information technology

An important part of our audit planning process involves gaining an understanding of:

1. the importance of the computer environment relative to the risks to financial reporting;
2. the way in which that environment supports the control procedures we intend to rely on when conducting our audit; and
3. the computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the consolidated financial statements. To accomplish this, we gain an up-to-date understanding of your organization’s computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

We will assess the design and effectiveness of general computer controls in the following areas:

1. data centre and network operations;
2. system software acquisition, change and maintenance;
3. program change;
4. access security; and
5. application system acquisition, development, and maintenance.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit; testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

For example, we anticipate performing audit procedures on account balances and disclosures involving significant and complex transactions, such as acquisitions, divestitures, or adoption of new accounting pronouncements, as they occur.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of Internal Control over Financial Reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for management’s purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.
The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Audit Committee and management of any significant deficiencies that are identified in the course of conducting the audit, regardless of whether they were identified by us or management.

**Substantive audit procedures**

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls testing and are designed to enable us to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the consolidated financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at $745,000), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

**Use of work of experts**

Our audit engagement team is supported with online resources as well as practice office and national office experts who will assist the team in dealing with more complex technical, accounting, auditing and reporting issues.

4. **Reporting and assessing performance**

**Perform post-engagement activities**

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- the scope of the audit was sufficient to support our opinion; and
- the misstatements identified during the audit do not result in financial statements being materially misstated.

**Obtain management representations**

We will obtain written and oral representations from management to complement our audit procedures. These representations are not a substitute for the application of our audit procedures; instead, they are intended to confirm the information provided to us and reduce the possibility of misunderstanding.
Complete engagement reporting

After the satisfactory completion of appropriate audit procedures, we will provide an audit report on your consolidated financial statements.

We also provide a report to the Audit Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix C summarizes the required communications between Deloitte and the Audit Committee.

Deloitte’s client service principles include providing management and the Audit Committee with insights into the condition of the business and offering meaningful suggestions for improvement. We will report these insights and suggestions to the appropriate members of management and/or the Audit Committee for their consideration.

To enable us to determine how well we have achieved our client service objectives, including an assessment of the quality of our audit engagement, we actively solicit feedback from our clients. This feedback will be obtained either through meetings with members of the Audit Committee and management or their completion of questionnaires.

Your feedback enhances our understanding of your expectations of us through your evaluation of our performance. The information you provide helps us to refine our client service objectives to ensure that we remain focused, responsive, and proactive in meeting your needs while fulfilling our professional responsibilities.

Deloitte enjoys a solid reputation for our commitment to quality. Key factors supporting that reputation include:

- A strong tone at the top;
- A comprehensive ethics and compliance program;
- An uncompromising approach to quality in client service;
- Communication of and adherence to professional standards and client service principles;
- A mature client feedback program;
- A multifaceted approach to monitoring independence;
- A robust technical consultation approach;
- National office consultation regarding areas of high risk or areas that require significant judgment;
- Technical training for our professionals;
- An annual internal inspection process for audit engagements; and
- Continuous improvement based on lessons learned and client feedback.
Audit scope

Designed to obtain reasonable assurance and address the risks of material misstatements.

An audit is designed to search for potential misstatements that, individually or collectively, are material. This is done by determining a specific threshold for each engagement and considering other qualitative factors. The threshold amount is also used to evaluate the significance of uncorrected misstatements ("passed" misstatements and reclassifications).

Compliance with Canadian Public Sector Accounting Standards

The audit enables us to express an opinion on whether the financial statements present fairly, in all material respects, in accordance with Canadian public sector accounting standards. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the financial statements. Our report on the financial statements and communications required by Canadian GAAS will be in accordance with our findings.

Materiality

Our overall materiality level is used in our assessment of significant accounts and locations where audit effort is necessary and is based on the consolidated revenue of the Region. Our materiality for planning and determining the audit scope for 2012 has been initially set at $14,900,000 (2011: $14,900,000). We will design our work so as to consider material items appropriately and to detect potential adjustments that, individually or in combination with others, would be material to the financial statements. In accordance with Canadian GAAS, we will request the correction of any misstatements.

If the amount of uncorrected misstatements detected when conducting our audit exceeds that which we anticipated when we planned the audit, we may need to revise the scope of our audit. Should such a situation arise, we will discuss the matter with management on a timely basis in order to agree upon the appropriate course of action.

Risk assessment

We compile information from a variety of sources, including discussions with management and the Audit Committee, to identify risks to Region’s financial reporting process that may require attention. Our preliminary risk assessment took into account:

- Key business developments and transactions (internal and external);
- Current business, regulatory and accounting pronouncements and developments;
- Key management strategies and business plans;
- Prior years’ audit results; and
- Areas of significant judgment and risk.
Our audit planning activities and our preliminary identification of audit risks enable us to set the scope of our audit and to design audit procedures tailored to the identified risks to financial reporting. The table below sets out the more significant risks to financial reporting that we have identified, with management’s support, during our preliminary planning activities.

The table also includes our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk’s occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the Region.

<table>
<thead>
<tr>
<th>Areas of audit risk</th>
<th>Our proposed audit response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>• Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities.</td>
</tr>
<tr>
<td>Description: Accounts payable and accrued liabilities may be understated due to improper cut-off.</td>
<td>• Test the supporting assumptions for accruals.</td>
</tr>
<tr>
<td></td>
<td>• Review the outcome of prior year estimates and accruals.</td>
</tr>
<tr>
<td>Actuarially determined liabilities</td>
<td>• Review actuary report, including related assumptions.</td>
</tr>
<tr>
<td>Description: Actuarial liabilities may be misstated due to improper inputs used in valuation. In addition, the financial statement disclosure may not contain all required items.</td>
<td>• Ensure appropriate accounting treatment has been applied.</td>
</tr>
<tr>
<td></td>
<td>• Review related financial statement note disclosure for accuracy and completeness.</td>
</tr>
<tr>
<td></td>
<td>• Communicate with actuary on our reliance on their report for audit purposes.</td>
</tr>
<tr>
<td>Contingencies</td>
<td>• We will contact the Regional Solicitor to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition.</td>
</tr>
<tr>
<td>Description: Contingent liabilities are not properly accrued for or disclosed in the financial statements.</td>
<td>• Review of sample of expense reports for validity and proper approval.</td>
</tr>
<tr>
<td>Council and senior management expenses</td>
<td>• Test the supporting assumptions for estimates.</td>
</tr>
<tr>
<td>Description: Council and Senior management may expense items not in line with Region of Waterloo’s expense policy.</td>
<td>• Review the outcome of prior year estimates and accruals.</td>
</tr>
<tr>
<td>Estimates</td>
<td>• Focused detail testing on payroll expenditures and accruals.</td>
</tr>
<tr>
<td>Description: Management estimates are not calculated in accordance with GAAP or properly supported.</td>
<td>• Substantive testing on variances.</td>
</tr>
<tr>
<td>Payroll</td>
<td>• Substantive testing on the continuity and material transactions to determine if transfers are in accordance with Council approvals and applicable legislative requirements.</td>
</tr>
<tr>
<td>Description: Payroll expense is not accurately recorded.</td>
<td>• Review grants charges, contributions or other monies received during the year and determine if the amount should be recorded as revenue or as deferred revenue.</td>
</tr>
<tr>
<td>Reserves and Reserve Funds</td>
<td>• Review and evaluate management’s estimate of the allowance for doubtful accounts to ensure it is reasonable and consistent. This will include review of assumptions/supporting documents used to determine estimate, a retrospective review and testing of subsequent receipts.</td>
</tr>
<tr>
<td>Description: Transfers to and from reserves and reserve funds have been completed without council approval.</td>
<td>• Revenue recognition/cut-off issue relating to amounts to be deferred.</td>
</tr>
<tr>
<td>Revenue/deferred revenue</td>
<td>• Revenue recognition.</td>
</tr>
</tbody>
</table>
Group audit considerations

An audit is designed to search for potential misstatements that, individually or collectively, are material. Some of the factors we consider in determining the audit scope at the consolidated entities include:

- the existence of significant risks at the consolidated entities;
- a consideration of significant accounts and disclosures using materiality levels that are appropriate to support our audit opinion on your organization’s consolidated financial statements;
- the complexity and nature of the operations, internal controls and accounting issues at the consolidated entities;
- the degree of centralization or decentralization of processes and controls, including the extent of relevant enterprise-level controls; and
- the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at the consolidated entities.

Based on our analysis of these risks, we have determined the scope of work we consider necessary to provide an appropriate basis for our audit opinions on the consolidated financial statements. Our audit approach will be modified in the current year owing to the transfer of the assets and liabilities of Region of Waterloo Community Housing Inc. to the existing housing operations of the Region. These balances will be subject to testing as part of the main entity going forward.

Full-scope audits will be performed using the materiality level specified for the individual entities that are individually significant to the consolidated financial statements.

Audit scope uncertainty

Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect the scope and the extent and timing of our audit procedures. These circumstances may include, but are not limited to, the following:

- The quality of the Region’s accounting records deteriorates during the current year engagement compared to the prior-year engagement;
- Significant deficiencies are identified in the Region’s internal control that result in the expansion of our audit procedures; and
- A significant level of proposed audit adjustments is identified during our audit.
- Significant new issues or changes arise, such as:
  - New accounting issues;
  - Changes in accounting policies or practices from those used in prior years;
  - Events or transactions not contemplated in our budgets;
  - Changes in the Region’s financial reporting process or IT systems;
  - Changes in the Region’s accounting personnel, their responsibilities, or their availability;
  - Changes in auditing standards; and
  - Changes in the Region’s use of experts or the specialists and/or their work product does not meet the qualifications that Canadian GAAS require for us to be able to use their work.
- Changes in the audit scope caused by events that are beyond our control.

If any of these or similar such circumstances arise during the course of our audit we will discuss them on a timely basis with management and provide the Audit Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Audit Committee.
Audit service team

The roles and responsibilities of the individuals who lead our audit team are:

- Peter Barr
  Lead Client Services
  Partner

- Evan McDade
  Audit Partner

- Paula Jesty
  Advisory Partner
Appendix A – Sources of audit evidence in a group audit

This section indicates where will perform full-scope audits.

<table>
<thead>
<tr>
<th>Business unit</th>
<th>Type/Location and notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region of Waterloo</td>
<td>Kitchener - Deloitte</td>
</tr>
<tr>
<td>Trust Funds</td>
<td>Kitchener - Deloitte</td>
</tr>
<tr>
<td>Sinking Fund</td>
<td>Kitchener - Deloitte</td>
</tr>
</tbody>
</table>
Appendix B – Communication calendar

This calendar indicates the planned interactions that will support the efficient and effective execution of our audit as well as those that provide value-added content to the Region. We will finalize the Calendar with input from you.

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
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<tbody>
<tr>
<td>Audit Committee meeting to present Audit Service Plan</td>
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<tr>
<td>Interim Fieldwork</td>
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<tr>
<td>Final Fieldwork</td>
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<tr>
<td>Final Audit Committee meeting</td>
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<tr>
<td>Annual year-end issues meetings</td>
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<td>Audit continuous improvement meetings</td>
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<td>Annual client feedback process</td>
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</tbody>
</table>
## Appendix C – Communication requirements

<table>
<thead>
<tr>
<th>Required communication</th>
<th>Timing of communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our responsibilities under Canadian GAAS.</td>
<td>November 2012</td>
</tr>
<tr>
<td>2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.</td>
<td>November 2012</td>
</tr>
<tr>
<td>5. Uncorrected misstatements.</td>
<td>May 2013</td>
</tr>
<tr>
<td>7. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.</td>
<td>May 2013</td>
</tr>
<tr>
<td>8. Our views about significant qualitative aspects of Region of Waterloo’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.</td>
<td>May 2013</td>
</tr>
<tr>
<td>9. Our responsibility for other information in documents containing audited consolidated financial statements (e.g., Annual Report), any procedures performed, and the results.</td>
<td>As available</td>
</tr>
<tr>
<td>10. Disagreements with management</td>
<td>May 2013</td>
</tr>
<tr>
<td>11. Our views about significant matters that were the subject of consultation with other accountants.</td>
<td>May 2013</td>
</tr>
<tr>
<td>12. Major issues discussed with management prior to our retention.</td>
<td>May 2013</td>
</tr>
<tr>
<td>13. Significant difficulties, if any, encountered during the audit.</td>
<td>May 2013</td>
</tr>
<tr>
<td>14. Material written communications between management and us.</td>
<td>May 2013</td>
</tr>
<tr>
<td>15. All relationships between Region of Waterloo and us that, in our professional judgment, may reasonably be thought to bear on independence.</td>
<td>May 2013</td>
</tr>
<tr>
<td>16. A statement that, in our judgment, the engagement team and others in our firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.</td>
<td>May 2013</td>
</tr>
<tr>
<td>17. Illegal or possibly illegal acts.</td>
<td>May 2013</td>
</tr>
<tr>
<td>18. Fraud or possible fraud identified through the audit process.</td>
<td>May 2013</td>
</tr>
<tr>
<td>19. Significant transactions inconsistent with ordinary business, including related party transactions.</td>
<td>May 2013</td>
</tr>
<tr>
<td>20. Non-compliance with laws and regulations that come to our attention.</td>
<td>May 2013</td>
</tr>
<tr>
<td>21. Communication in writing to the Region Council regarding any areas we became aware of where the oversight of Region of Waterloo’s external financial reporting and internal control over financial reporting by Region of Waterloo’s Audit Committee may be ineffective.</td>
<td>May 2013</td>
</tr>
<tr>
<td>22. Limitations placed on our scope.</td>
<td>May 2013</td>
</tr>
<tr>
<td>23. Written representations we are requesting.</td>
<td>May 2013</td>
</tr>
</tbody>
</table>
## Public sector accounting standards

<table>
<thead>
<tr>
<th>Final standards</th>
<th>Effective date</th>
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</thead>
<tbody>
<tr>
<td>Amendments to the Transition Provisions of Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments</td>
<td>Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.</td>
</tr>
<tr>
<td>Consequential Amendments Resulting from the Issue of Section PS 3450, Financial Instruments, including a new Section PS 3041, Portfolio Investments</td>
<td>Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.</td>
</tr>
<tr>
<td>Handbook Improvements</td>
<td>Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.</td>
</tr>
<tr>
<td>Introduction to Public Sector Accounting Standards - Government Not-for-Profit Organizations</td>
<td>January 1, 2012</td>
</tr>
</tbody>
</table>

Amendments to the Transition Provisions of Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments: At their meeting on March 21-23, 2012, the PSAB approved amendments to the transition provisions of Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments. In addition to approving the proposed amendments of the ED, which were supported by commenters, an additional amendment was made by the PSAB to clarify that the measurement provisions of the new Sections are to be applied prospectively.

Consequential Amendments Resulting from the Issue of Section PS 3450, Financial Instruments, including a new Section PS 3041, Portfolio Investments: At their meeting on December 15-16, 2011, the PSAB approved these amendments to the PSA Handbook, including a new Section PS 3041, Portfolio Investments, and the withdrawal of Section PS 3030, Temporary Investments, and Section PS 3040, Portfolio Investments. In response to respondents' feedback, some clarifications to the amendments were made in finalizing the changes.

On April 3, 2012, the PSAB issued a Background Information and Basis for Conclusions document in respect of the new Section PS 3041.

At their meeting on June 26-27, 2012, the PSAB approved an ED proposing amendments to certain paragraphs in Section PS 3450, Financial Instruments. The amendments ensure that the reporting of income on externally restricted assets that are financial instruments aligns with the requirements in Section PS 3100, Restricted Assets and Revenues. The proposed amendments also address transitional issues that can arise when Section PS 3450 is adopted.

Handbook Improvements: At their meeting on December 15-16, 2011, the PSAB approved a series of final 'Handbook Improvement' changes clarifying various Sections of the Public Sector Accounting Handbook as a result of (i) the issue of new Section PS 3450, Financial Instruments, and (ii) recent changes to Canadian assurance standards that warrant more specific guidance on what constitutes the date of completion of financial statements.

Introduction to Public Sector Accounting Standards - Government Not-for-Profit Organizations: The Introduction to Public Sector Accounting Standards was amended to require that, for purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CICA Public Sector Accounting (PSA) Handbook or the standards in the CICA PSA Handbook without Sections PS 4200 to PS 4270.
Section PS 1201, Financial Statement Presentation
The new Section PS 1201 replaces existing Section PS 1200, Financial Statement Presentation, and includes a new statement of remeasurement gains and losses. The new statement will report:
- unrealized gains and losses associated with financial instruments in the fair value category;
- exchange gains and losses associated with monetary assets and monetary liabilities denominated in a foreign currency that have not been settled;
- amounts reclassified to the statement of operations upon derecognition or settlement; and
- other comprehensive income reported when a public sector entity includes the results of its government business enterprises and government business partnerships in the summary financial statements.

Effective date
Government organizations:
- April 1, 2012
- April 1, 2015

Government:
- April 1, 2012

Section PS 2601, Foreign Currency Translation
The new Section PS 2601 replaces existing Section PS 2600, Foreign Currency Translation. Major changes from Section PS 2600 include:
- elimination of deferral and amortization of unrealized gains and losses arising from foreign currency translation before settlement;
- withdrawal of hedge accounting as it is unnecessary under the new treatment of unrealized gains and losses; and
- separating realized and unrealized foreign exchange gains and losses and reporting them in different statements.

Effective date
Government organizations:
- April 1, 2012
- April 1, 2015

Section PS 3260, Liability for Contaminated Sites
This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CICA Public Sector Accounting Handbook.

Effective date
April 1, 2014

Section PS 3410 (Revised), Government Transfers
The PSAB approved a final standard to replace existing Section PS 3410, which establishes standards on how governments should account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.

Effective date
April 1, 2012

Section PS 3450, Financial Instruments
This new accounting standard Section PS 3450 provides comprehensive guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives, by government organizations.

Effective date
Government organizations:
- April 1, 2012
- April 1, 2015

Government:
- April 1, 2012

Section PS 3510, Tax Revenue
This new Section establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements.

Effective date
April 1, 2012

Section PS 4200 – PS 4270, Government Not-for-profit Organizations
The PSAB approved the inclusion of the PS 4200 to PS 4270 series of standards into the PSA Handbook for use by government organizations applying the standards for not-for-profit organizations.

Effective date
January 1, 2012
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