MEDIA RELEASE: Friday, November 8, 2013, 4:30 p.m.

REGIONAL MUNICIPALITY OF WATERLOO
AUDIT COMMITTEE
AGENDA

Wednesday, November 13, 2013
3:30 p.m.
Room 218
150 Frederick Street, Kitchener, Ontario

1. DECLARATIONS OF PECuniARY interest under the MuniCiPal CONflICT of INTEREST ACT

2. DELEGATIONS

3. REPORTS – Finance

   a) F-13-104, 2013 Year-End Audit

4. PRESENTATION

   a) Elaine Read and Peter Barr, Deloitte & Touche, LLP Re: Region of Waterloo 2013 Audit Service Plan

5. INFORMATION/CORRESPONDENCE

6. OTHER BUSINESS

7. NEXT MEETING – May 7, 2014 at 5:00 p.m. (Room 217)

8. ADJOURN
TO: Chair Tom Galloway and Members of the Audit Committee

DATE: November 13, 2013  FILE CODE: F26-20

SUBJECT: 2013 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 2013 fiscal year (ending December 31, 2013) marks the third year of the term. Mr. Evan McDade, the Audit Partner who oversaw the first two audits under this contract, has left Deloitte. With the departure of Mr. McDade, the Region welcomes a new Deloitte partner, Elaine Read, to conduct the 2013 Audit.

The Region’s year-end process requires the dedication and diligence of a large number of Regional employees from various departments (including Finance) 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 2013 Audited Financial Statements are scheduled to be presented to Audit Committee on May 7, 2014.

Key dates for the 2013 year-end process are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 13, 2013</td>
<td>Audit Committee – Representatives from Deloitte will present an overview of the proposed 2013 financial statement audit work plan</td>
</tr>
<tr>
<td>December 11-13/13</td>
<td>Preliminary Audit work by Deloitte</td>
</tr>
<tr>
<td>March 4, 2014</td>
<td>2013 General Ledger Closed</td>
</tr>
<tr>
<td>Mar 24–Apr 18/14</td>
<td>Annual Audit by Deloitte</td>
</tr>
<tr>
<td>April 1, 2014</td>
<td>Year End Periodic Financial Report (PFR) to Committee</td>
</tr>
<tr>
<td>May 7, 2014</td>
<td>Presentation of 2013 Financial Statements to Audit Committee</td>
</tr>
<tr>
<td>May 13, 2014</td>
<td>Administration &amp; Finance Committee Approval of Financial Statements</td>
</tr>
<tr>
<td>May 28, 2014</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: Peter Holling, Manager, Financial Services

APPROVED BY: Craig Dyer, Chief Financial Officer
Region of Waterloo
2013 Audit Service Plan

For the year ending December 31, 2013
Presented to the Audit Committee
November 13, 2013
November 13, 2013

Private and confidential

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

Dear Audit Committee Members:

Subject: Audit service plan for the year ending December 31, 2013

We are pleased to present our audit service plan for the Region of Waterloo ("the Region") for the year ending December 31, 2013. This plan describes the Deloitte LLP ("Deloitte") audit approach, our team, our audit scope and our planned communications with you.

Our engagement will include:

- An audit of the Region of Waterloo’s consolidated financial statements (the "Financial Statements") as at and for the year ending December 31, 2013 prepared in accordance with Public Sector Accounting Standards ("PSAS") and conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAS).

Our responsibilities under Canadian GAAS are described in more detail in our audit engagement letter.

We are proud of our relationship with the 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 coordinate our activities with management and make every effort to achieve audit efficiencies.

We are providing this audit service plan to the Committee on a confidential basis. It is intended solely for the use of the Committee and Council to assist them in discharging their responsibilities with respect to the Financial Statements and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on it.

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

Yours very truly,

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
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Executive summary

As your auditor, Deloitte will provide you with more than an opinion on your Financial Statements. We will be diligent about our independence and exercise our professional responsibilities in an efficient and effective manner.

The Deloitte audit approach adheres to applicable professional auditing standards and, 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>Materiality is the magnitude of misstatements, including omissions, in the Financial Statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement. Our performance materiality is determined on the basis of consolidated expenditures. Our preliminary estimate of performance materiality for the year ending December 31, 2013 is $13,580,000 (2012 - $13,410,000). We will report to the Audit Committee all uncorrected misstatements greater than a clearly trivial amount of $800,000, (2012 - $745,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements, if any, be corrected.</td>
</tr>
<tr>
<td>Audit risks</td>
<td>Our audit scope reflects the risks that we have identified at the Region and our planned audit response to them. The more significant of the risks that we identified as part of our strategic audit planning, 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 our 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, whether it has knowledge of any actual or suspected fraud affecting the Region and the role it exercises in the oversight of management’s anti-fraud programs. 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>We will obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all such controls are relevant to the audit. It is a matter of professional judgment whether a control, individually or in combination with others, is relevant to the audit. We will communicate in writing significant deficiencies in internal control identified during the audit to the Audit Committee on a timely basis.</td>
</tr>
</tbody>
</table>

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Group audit

When designing our audit strategy, we also considered:

- the financial significance or relative importance of the consolidated entities (listed in Appendix 2) to your organization as a whole;
- 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 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.

Use of the work of experts

Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist them with more complex technical, accounting, auditing and reporting issues.

Audit team

The engagement team that will serve the Region of Waterloo provides a balance of continuity among existing members with knowledge of and experience with your organization and new members who will provide fresh perspectives and insights.

The key audit team members serving the Region are set out on page 9.

Our team also includes high-quality technical specialists and other professionals. We are committed to continuing to serve the Region with quality and distinction.

Engagement letter

The terms and conditions of our engagement are included in the engagement letter.

Complete engagement reporting

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. Appendix 4 summarizes the required communications between Deloitte and the Audit Committee.

Audit fees

Our fees are in accordance with our response to the 2011 request for proposal. The fees for the December 31, 2013 consolidated year-end audit are as presented in our proposal for audit services.

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 the Region 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.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity.

We are independent of the Region and we will reconfirm our independence in our final report to the Audit Committee.

Management representations

We will obtain written and oral representations from management to complement our audit procedures. These representations are intended to confirm the information that is provided to us and reduce the possibility of misunderstanding.

We will provide the Audit Committee with a copy of the written representations to be provided by management in our final report.
New financial reporting standards

We have included, in Appendix 5, the Deloitte Standard-setting Activities Digest, which summarizes the changing standards (both finalized and in development) that we believe are particularly relevant to the Region.

Significant new financial reporting standards and other regulatory requirements that are likely to impact the Region’s financial reporting are:

Public sector accounting standards effective as at December 31, 2013:

- Section PS 3410 (Revised), Government Transfers.
- Section PS 3510, Tax Revenue.

Public sector accounting standards effective as at December 31, 2015:

- Section PS 3260, Liability for Contaminated Sites.

Public sector accounting standards effective as at December 31, 2016:

- Section PS 1201, Financial Statement Presentation.
- Section PS 2601, Foreign Currency Translation.
- Section PS 3450, Financial Instruments.
- Amendments to the Transition Provisions of Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments.
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.

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 results of operations for the Region. Our performance materiality for planning and determining the audit scope for 2013 has been initially set at $13,580,000 (2012 - $13,410,000). 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 the 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 enables 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.
The results of our audit planning and risk assessment drive the scope and timing of the auditing procedures:

**Accounts payable and accrued liabilities**
*Description:* Accounts payable and accrued liabilities may be understated due to improper cutoff.

- Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities.
- Test the supporting assumptions for accruals.
- Review the outcome of prior year estimates and accruals to assess for bias.
- Review actuary report, including related assumptions.
- Ensure appropriate accounting treatment has been applied.
- Review related financial statement note disclosure for accuracy and completeness.
- Communicate with actuary on our reliance on their report for audit purposes.
- We will contact the Region of Waterloo’s external law firms to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition.
- We will review Council minutes and Audit Committee minutes for evidence of contingent liabilities.
- Test a sample of expense reports and VISA statements for validity and proper approval.
- Assess the reasonableness of estimates by testing the supporting assumptions used for the estimates.
- Review the outcome of prior year estimates to assess for bias.
- Test the supporting assumptions for payroll accruals.
- Perform analytical testing on payroll expenditures and investigate any significant variances.
- Test the change in reserve and reserve fund balances and verify material transactions to determine if transfers have been approved by Council.
- Test a sample of grant charges, contributions or other monies received during the year and verify the terms and conditions to assess whether the amount should be recorded as revenue or as deferred revenue.
- Recalculation of a sample of assessments based on verified property value and tax rates.
- Evaluate management’s estimate of the allowance for doubtful accounts to ensure it is reasonable and consistent with the Region’s accounting policy. This will include a review of assumptions and supporting documents used to determine the estimate, a retrospective review and a test of subsequent receipts.
- Test a sample of tangible capital asset additions and verify that the asset additions are capital in nature. If the tangible capital asset addition replaces an old tangible capital asset, ensure that the old tangible capital asset has been properly disposed.
- Assess the disposal schedule prepared by management for reasonability and test selected transactions.

**Contingencies**
*Description:* Contingent liabilities are not properly accrued for or disclosed in the financial statements.

**Council and senior management expenses**
*Description:* Council and Senior management may expense items not in line with the Region of Waterloo’s expense policy.

**Estimates**
*Description:* Management estimates are not calculated in accordance with GAAP or properly supported.

**Payroll**
*Description:* Payroll expense is not accurately recorded.

**Reserves and Reserve Funds**
*Description:* Transfers to and from reserves and reserve funds have been completed without council approval.

**Revenue / deferred revenue**
*Description:* Revenue is overstated through the recognition of revenue that should be deferred to a subsequent period.

**Taxation revenue**
*Description:* Management’s estimate of allowance for doubtful accounts is understated.

**Tangible capital assets**
*Description:* Assets recorded are not capital in nature and assets disposed of by the Region of Waterloo have not been recorded.
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 opinion on the consolidated financial statements.

**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;
- 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.
The Deloitte client service commitment

Seamless and effective delivery focused on your specific needs

The Region of Waterloo is important to Deloitte. Your organization is unique and it deserves a customized approach to the services we provide. Our service plan is built on a tailored set of service commitments that guide the delivery of every aspect of our audit services. Our client service assessment, which is central to our philosophy, emphasizes the importance of listening to your expectations, reassessing your needs based on the feedback you provide to us in the assessment process, and responding with actions and results. We strive to continually raise the bar by improving processes and adding value while delivering an effective and efficient audit.

Our approach to client service excellence

At Deloitte, our objective is to execute our audit in a way that meets our professional standards and also creates a positive client experience.

Our client service principles provide the framework for guiding and coaching members of our engagement team, and identifying our clients’ unique preferences regarding the ways they want to work with us. These principles enable our engagement teams to focus on client service excellence.

Our client service principles

We will:

make and meet our commitments to you by...

- working with you to clearly define your expectations;
- delivering what is agreed upon;
- being easily accessible to you;
- providing valuable responses to all your inquiries; and
- ensuring timeliness and accuracy in our billings.

understand your business and what is important to you by...

- anticipating your needs; and
- understanding the unique characteristics of your business industry and operating circumstances.
provide value and build trust through technical competence and consistent results by...

- instilling confidence and trust in the quality of our work;
- providing you with up-to-date professional expertise;
- providing value to your enterprise; and
- providing insights into the condition of the business and meaningful suggestions for improvement.

demonstrate professionalism through effective interaction and communications by...

- keeping you informed of project status;
- performing as a well-organized team; and
- working collaboratively with you.

provide a no surprises experience by...

- proactively addressing issues;
- providing timely communication of changes to fees; and
- effectively managing changes to the service team.

At the conclusion of our audit, or at any time during the engagement, we invite you to assess our performance against these principles through our client feedback process.
Highly-talented team

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

Peter Barr
Lead Client Service Partner
Peter is responsible for the overall relationship and maintenance of a high quality of service with the Region across all services provided. He has served the Region of Waterloo for over 10 years.

Elaine Read
Lead Audit Engagement Partner
Elaine is responsible for leading the group audit engagement and for the quality of our services to the Region. She has over 20 years of audit experience and is committed to leading a team dedicated to Deloitte's client service culture.

Paula Jesty
Advisory Partner
Paula is an audit partner with over 30 years of public accounting experience in Ontario and has served many municipalities in the GTA. She will provide industry insights and access to other specialists and Deloitte leaders.

Jim Pryce
Lead Enterprise Risk Services Partner
Jim is responsible for the delivery of our control assurance and risk services. He oversees the procedures performed on the process-level and IT-related controls. He has served the Region since 2004.

Scott Lamb
Tax Partner
Scott leads the tax team and provides insight to the Region on emerging tax issues. He has served the Region since 1998.
Appendix 1 - 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 of Waterloo. Our risk-based audit approach is:

- Partner-led driven by our partners' experience and their detailed knowledge of your organization, with significant partner input at all stages of the audit.
- Focused 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.
- Quality focused with a commitment to providing an uncompromisingly high level of professional and technical quality.
- Dynamic tailored to respond to changing circumstances.

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; and
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

The Deloitte audit approach begins with an extensive planning process that includes:

- assessing your current business and operating conditions;
- understanding the composition and structure of your business and organization;
- understanding your accounting processes and internal controls;
- understanding your information technology systems;
- identifying potential engagement risks;
- planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks; and
- co-ordinating our activities with external parties and experts.
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 audit, are summarized in the Audit Scope section. 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 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.

Because of the inherent limitations of Internal Controls 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 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.
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 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 Financial Statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at $800,000), 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.

Complete engagement reporting

After the satisfactory completion of appropriate audit procedures, we will provide an audit report on your Financial Statements.

We also provide reports to the Audit Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix 4 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.
Appendix 2 - Sources of audit evidence in a group audit

This section indicates where Deloitte will perform full-scope audits.

<table>
<thead>
<tr>
<th>Full-scope audits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Region of Waterloo</td>
<td>Kitchener – Deloitte</td>
</tr>
<tr>
<td>Trusl Funds</td>
<td>Kitchener – Deloitte</td>
</tr>
<tr>
<td>Sinking Fund</td>
<td>Kitchener – Deloitte</td>
</tr>
</tbody>
</table>
Appendix 3 - 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>Audit execution – meetings with Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee meeting to present Audit Service Plan</td>
</tr>
<tr>
<td>Interim fieldwork</td>
</tr>
<tr>
<td>Final fieldwork</td>
</tr>
<tr>
<td>Final Audit Committee meeting</td>
</tr>
<tr>
<td>Annual year-end issues meetings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Client feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit continuous improvement meetings</td>
</tr>
<tr>
<td>Annual client feedback process</td>
</tr>
</tbody>
</table>

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Appendix 4 - Communication requirements

The table below summarizes our communication requirements under Canadian GAAS and other communications that we believe would help us achieve an effective audit.

<table>
<thead>
<tr>
<th>Communication Requirements</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Our responsibilities under Canadian GAAS.</td>
<td>November 2013</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 2013</td>
</tr>
<tr>
<td>5. Audit adjustments.</td>
<td>May 2014</td>
</tr>
<tr>
<td>6. Uncorrected misstatements and disclosure items.</td>
<td>May 2014</td>
</tr>
<tr>
<td>7. Significant accounting policies.</td>
<td>May 2014</td>
</tr>
<tr>
<td>8. Critical accounting policies and practices.</td>
<td>May 2014</td>
</tr>
<tr>
<td>9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.</td>
<td>May 2014</td>
</tr>
<tr>
<td>10. Our views about significant qualitative aspects of the Region's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.</td>
<td>May 2014</td>
</tr>
<tr>
<td>11. Our responsibility for other information in documents containing audited Financial Statements (e.g., Annual Report), any procedures performed, and the results.</td>
<td>As available</td>
</tr>
<tr>
<td>12. Disagreements with management.</td>
<td>May 2014</td>
</tr>
<tr>
<td>13. Our views about significant matters that were the subject of consultation with other accountants.</td>
<td>May 2014</td>
</tr>
<tr>
<td>14. Major issues discussed with management prior to our retention.</td>
<td>May 2014</td>
</tr>
<tr>
<td>15. Significant difficulties, if any, encountered dealing with management related to the performance of the audit.</td>
<td>May 2014</td>
</tr>
<tr>
<td>Significant deficiencies in internal control, if any, identified by us during the interim period in the conduct of the audit of the financial statements.</td>
<td>May 2014</td>
</tr>
<tr>
<td>16. Material written communications between management and us.</td>
<td>May 2014</td>
</tr>
<tr>
<td>17. All relationships between the Region and us that, in our professional judgment, may reasonably be thought to bear on independence.</td>
<td>May 2014</td>
</tr>
<tr>
<td>18. 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 2014</td>
</tr>
<tr>
<td>19. Illegal or possibly illegal acts.</td>
<td>May 2014</td>
</tr>
<tr>
<td>20. Fraud or possible fraud identified through the audit process.</td>
<td>May 2014</td>
</tr>
<tr>
<td>21. Significant transactions inconsistent with ordinary business, including related party transactions.</td>
<td>May 2014</td>
</tr>
</tbody>
</table>
22. Non-compliance with laws and regulations that come to our attention. 

23. Communication in writing to the Region Council regarding any areas we became aware of where the oversight of the Region of Waterloo’s external financial reporting and internal control over financial reporting by the Region of Waterloo’s Audit Committee may be ineffective. 

24. Limitations placed on our scope. 

25. Written representations we are requesting. 

26. Modifications to our opinion(s).
Appendix 5 - Standard-setting update

Public sector accounting standards

**Final standards**

At its meeting on March 21-22, 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.

On October 3, 2012, the PSAB issued a Basis of Conclusions document with respect to these amendments.

**For-profits**

At its 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.

**For-profits**

At its meeting on December 13-14, 2012, the PSAB approved these amendments to Section PS 3450, Financial Instruments. In doing so, PSAB revised certain wording in the ED, but did not consider it necessary to re-expose the revisions as they did not represent significant changes.

The amendments align the reporting of income on externally restricted assets that are financial instruments in Section PS 3450 with the requirements in Section PS 3100, Restricted Assets and Revenues, and address transitional issues that can arise when Section PS 3450 is adopted. Responses to the ED supported the proposed changes.

**For-profits**

At its meeting on December 15-16, 2011, the PSAB approved a series of final Handbook Improvement changes clarifying various Sections of the PSA 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.

**For-profits**

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 PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270.

**For-profits**

This 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: (i) unrealized gains and losses associated with financial instruments in the fair value category; (ii) exchange gains and losses associated with monetary assets and monetary liabilities denominated in a foreign currency that have not been settled; (iii) amounts reclassified to the statement of operations upon derecognition or settlement; and (iv) 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.
This new Section PS 2501 replaces existing Section PS 2600, Foreign Currency Translation. Major changes from Section PS 2600 include: (i) elimination of deferral and amortization of unrealized gains and losses arising from foreign currency translation before settlement; (ii) withdrawal of hedge accounting as it is unnecessary under the new treatment of unrealized gains and losses; and (iii) separating realized and unrealized foreign exchange gains and losses and reporting them in different statements.

At its meeting on June 12-13, 2013, the PSAB approved amendments to the transitional provisions in this Section and agreed that exposure of the changes is not required given the change is simply clarification of an implementation intent.

This new Section PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the PSA Handbook.

In December 2010, 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.

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

At its meeting on June 12-13, 2013, the PSAB approved amendments to the transitional provisions in this Section and agreed that exposure of the changes is not required given the change is simply clarification of an implementation intent.

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

Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.

Fiscal years beginning on or after April 1, 2014.

Fiscal years beginning on or after April 1, 2012.

Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.

Fiscal years beginning on or after April 1, 2012.