



Media Release: Friday, January 30, 2015, 4:30 p.m.

## **Regional Municipality of Waterloo**

### **Audit Committee**

### **Agenda**

Tuesday, February 3, 2015

2:00 p.m. (Time is approximate; immediately following Committees)

Waterloo County Room

150 Frederick Street, Kitchener, Ontario

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- 1. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”**
  - 2. Reports**
    - a) [CAO-IAU-15-02](#), 2014 Internal Audit Report 1
    - b) [COR-FSD-15-02](#), 2014 Year-End Audit 8
  - 3. Presentations**

Peter Barr, Deloitte & Touche, LLP Re: Region of Waterloo 2014 Audit Service Plan ([Attachment](#) distributed separately.)
  - 4. Information/Correspondence**
  - 5. Other Business**
  - 6. Next Meeting – May 5, 2015**
  - 7. Adjourn**



Report: CAO-IAU-15-02

**Region of Waterloo**  
**Office of the Chief Administrator**  
**Internal Audit**

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**To:** Chair Sean Strickland and Members of the Audit Committee  
**Date:** February 3, 2015 **File Code:** A35-01  
**Subject:** **2014 Internal Audit Report**

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**Recommendation:**

For information.

**Summary:**

Nil.

**Report:**

**Background:**

A system of internal controls assists management staff in meeting their responsibilities for the efficient and effective operation of an organization. A well managed control function is dependent upon many factors including: organizational processes established to ensure that program objectives are met, clearly defined management responsibilities, external audits of financial information and systems, and internal audits of programs, systems, and processes. In order to ensure an effective control function these components must work in a constructive and mutually supportive manner.

Internal Audit is one key element in a system of internal controls that are part of the Region's management practices. Internal Audit provides an independent, objective assurance and consulting activity that, together with management practices and external audits, ensures that programs and services are delivered efficiently, effectively, and in compliance with internal policies and external regulations. Currently, the Internal

Audit group consists of two staff, the Manager, Internal Audit and the Internal Audit Specialist.

In 2014, Internal Audit's activities included compliance audits, control consultations, and program reviews. Activities in these three categories are briefly described below. In addition to the summary of work activities for 2014 a work plan for 2015 is contained in this report.

### **Compliance Reviews:**

Three compliance audits were conducted in 2014:

1. Petty Cash Review – to determine compliance with the respective internal Region policy.
2. Purchase Card Review – to determine compliance with the respective internal Region policy.
3. Corporate Health and Safety's participation in the Ministry of Transportation's "Driver Certification Program", was evaluated for compliance.

#### **1. Petty Cash Review**

Results of the Petty Cash Review indicated that compliance with the petty cash policy and other applicable guidelines was excellent. In almost all cases, the "surprise counts" matched what was expected. That is, that the cash on hand + expense vouchers = value of the petty cash fund. One exception of the ten sampled was found at the time of the count, but the amount (\$10.00) was immaterial and was dealt with internally. In reviewing the custodians' petty cash processes, it was found that all custodians were utilizing accepted methods as is outlined in the petty cash policy and that all appropriate authorizations were shown on the receipts themselves and on the cheque request form submitted to Finance.

#### **2. Purchase Card Review**

The Purchase Card Review (P-card Review) was completed in December 2014 and a memo to the Corporate Leadership Team was provided for information purposes.

The results of the audit indicate that compliance with the Finance's P-card policy and guidelines was excellent. No significant issues were noted this year, and thus, no recommendations were put forward. This review has shown marked improvement from 2009 as communication of the correct procedures has been reinforced through the Finance 101 training sessions and the annual Internal Audit compliance reviews.

### 3. Corporate Health and Safety – Driver Certification Program

In 2014, a compliance review of Corporate Health and Safety's participation in the Ministry of Transportation's (MTO), Driver Certification Program (DCP) was conducted. The DCP is a voluntary program that gives organizations the authority from the Ministry of Transportation to train and test their employees/students for the purpose of upgrading or renewing classified licenses, class M and/or endorsements.

A compliance audit report was completed in December 2014 and forwarded to the respective authorities at the MTO. Two compliance exceptions were noted in the report, both relating to the same issue. The exceptions were: the SA's (Signing Authorities) and the RAO (Recognized Authority Official) not having a Criminal Records Search performed. The requirement is to have such a search performed within 1 year from the date of the compliance audit report. Internal Audit will follow-up to ensure this criterion is met within the 1 year time frame.

#### **Control Consultations:**

In 2014, Internal Audit conducted an internal control review of the Region's GRT inventory and Fleet inventory processes.

Internal Audit performed a high-level review to assess such matters as: count and reconciling procedures, physical security, segregation of duties and inventory management best practices. The review made a number of recommendations that were communicated to the CFO, the Acting Director of Procurement and to the operational management staff to whom the recommendations are relevant.

A summary of the key recommendations are as follows:

- Review the segregation of duties performed by lead hands and stock keepers to ensure that no one person has the ability to initiate, approve and reconcile purchase transactions.
- Establishment of a formal cycle counting process to ensure inventory accuracy.
- Establishment of key inventory metrics to ensure that business objectives are met.

Internal Audit and senior management will be reviewing the implementation activities put forth in Q1 2015.

#### **Program Reviews:**

Program reviews are fundamental to the annual internal audit plan and are being

completed on a regular basis.

Program reviews provide an objective evaluation of the efficiency and effectiveness of the program under review and an assessment as to the identification and management of risk. In this case, risk means the things that could potentially prevent the program from achieving program goals.

The use of external consultants takes place for all program reviews. External consultants provide the expertise in process design and program specific knowledge.

A program review attempts to answer the following questions:

1. Is the program effective? Are appropriate results being achieved? Are there ways to make it more effective?
2. Is the program achieving results in an efficient manner? Are we getting good value for the money invested? Are there ways to make it more efficient?
3. Are the program risks being managed effectively? Is there a process in place to identify risks and are there control systems and processes in place to assist us in mitigating risks in an efficient manner?

In 2014, the Transportation Operations Program Review was completed with a report (CA-14-010/ E-14-115) going to Audit Committee on November 4, 2014. A brief summary of the Transportation Operation Program Review is included below.

### **Transportation Operations – Program Review**

The Transportation Division at the Region of Waterloo operates the Transportation Operations program (herein referred to as “Transportation Operations”). Transportation Operations is responsible for the operations and maintenance of Regional roads, traffic signals and roadway signs (regulatory, warning and informational traffic signs), to ensure the safe and efficient movement of people and goods. This includes winter control (salting and ploughing), snow removal, road/roadside maintenance (fixing potholes, grass cutting, sweeping, shouldering, ditching, flooding and erosion control, retaining wall and fence repair, tree replacement and removal), catch basin and storm sewer maintenance, and pavement markings. The results of the review indicated that a number of the Program’s current practices are working well. In general, the Program has:

- Engaged Staff: The interviews and focus groups were well-attended and the overall culture of the section seems to be that of an engaged workforce.
- Desire to Improve: Staff expressed their interest and desire to make the work environment better and improve service delivery value to the public.

- **Technologists Perceived as Adding Value:** Transportation Operations Technologists are seen as providing real value to the group in fostering innovation, providing needed analysis and solving day-to-day operational problems.
- **Appropriate Levels of Management:** Organizational structure / management layering is appropriate for the section and is balanced with peer jurisdiction configurations.

The Program Review identified opportunities to better align with best practices and increase efficiency and effectiveness. These opportunities could be centered on the following key themes:

- Improve communications between divisions and section.
- Improve data collection, reporting and accountability.
- Increase the efficiency of the current information management model and asset management framework to better meet the needs of the Program.
- Finalize and implement succession planning to transfer institutional knowledge from long-serving employees to new employees when long-serving employees retire.

Many of the recommendations resulting from this review are focused on increasing efficiency, which should result in a savings of time and money. However, some of the recommendations are oriented towards increasing effectiveness and removing or mitigating risk, and will require an investment of staff time or other resources.

An update regarding the implementation of these recommendations will be provided to Council later in 2015.

### **Other Engagements:**

Internal Audit has been engaged to assist with two other large reviews: 1) Lean Methodology Pilot and 2) Region of Waterloo Service Review.

#### **1. Lean Methodology Pilot**

Internal Audit is currently engaged in a pilot project to review three distinct processes using the Lean Methodology. The Lean methodology is used to identify “non value added” activities within operational processes through a detailed mapping exercise with a cross-functional group consisting of front-line staff and senior management. The main objectives of the pilot are as follows:

- Is the methodology applicable to Regional processes?
- Does the style of analysis lend itself to the culture of the Region?
- Were any quantifiable gains (in efficiency and effectiveness) achieved as a result of the pilot?

- Can this methodology be applied to other processes within the Region?

The processes, selected by the Corporate Leadership Team (CLT), and being reviewed are:

- a) Home Child Care payments process - this is where Region-contracted home child care providers are submitting attendance records through the Ontario government's OCCMS (Ontario Child Care Management System) to the Region for payment. Payments are based on the number of children, their ages and the number of hours for each child.
- b) Employee expenses process - these are the expense forms filled out by all Regional employees for reimbursement of Regional expenses paid for personally or for such things as meal per diems and mileage, to name just a couple.
- c) GRT work scheduling process - GRT has a "spare board" of employees that are made available to fill in for a variety of vacancies due to illness, emergencies, vacations, etc.

A two-day workshop was held to go through such an exercise and map out potential improvements in each of the three processes. Early indicators of the review suggest that there will be some small process efficiency gains in the GRT scheduling process and it is anticipated that the changes can be made by operational staff in short order.

The larger operational gains were found in the Home Child Care payments process, where the review mapped out over 60 different process steps. The main "non-value added" activities identified were "over-processing", where duties in the program area were being duplicated in Finance. An implementation strategy to realize the process efficiency gains is currently being discussed with key stakeholders.

In Q1, 2015 a debrief with pilot participants as well as other staff experienced with using Lean in their program areas will be performed. The debrief will also include an analysis of whether or not the Region should adopt Lean methodology as an ongoing corporate initiative.

## **2. Region of Waterloo Service Review**

Internal Audit has been engaged to assist with the Region of Waterloo Service Review. Internal Audit, and specifically the Manager, Internal Audit is the Project Manager, for the Service Review.

On December 11, 2014, the Office of the CAO and Internal Audit brought forward a Service Review Update Report (CAO-IAU-15-001) to the Administration and Finance Committee. Details surrounding the status of this review can be found in the 1770572

aforementioned report.

**Proposed Activities for 2015:**

The primary focus for Internal Audit during the first half of 2015 will be the completion of the Service Review, which is currently scheduled for late June, 2015. The Internal Audit work plan for the remainder of the year may be influenced by the results and recommendations of the Service Review. Currently, the Internal Audit activities scheduled for 2015 include the following:

- Program review of Grand River Transit – Fleet.
- Completion of the Lean Methodology Pilot.
- Compliance audit of purchase card use.
- Overtime and mileage payments amounts review
- Logical Access Controls – Internal control review to assess appropriate access controls over key systems.

In addition to these items, ad hoc consultation and review assignments will be accommodated as the need arises and as circumstances change.

**Corporate Strategic Plan:**

Focus Area 5.3: 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:** David A. Young, Manager, Internal Audit

**Approved By:** Michael L. Murray, Chief Administrative Officer



**Report:** COR-FSD-15-02

## **Region of Waterloo**

### **Corporate Services**

### **Financial Services & Development Financing**

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**To:** Chair Sean Strickland and Members of the Audit Committee

**Date:** February 3, 2015

**File Code:** F26-01

**Subject:** 2014 Year-End Audit Plan

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#### **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 2014 fiscal year (ending December 31, 2014) marks the fourth year of the contract term. Elaine Read, the Audit Partner who oversaw the 2013 Audit, will be conducting the 2014 Audit. This year Deloitte will be performing 16 audits for the Region of Waterloo. The complete list is attached as Appendix A to this report.

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 Financial Services and Development Financing Division of the Corporate Services Department co-ordinates the year-end process and sets the necessary deadlines to ensure the timely completion of the financial statements. The 2014 Audited Financial Statements are scheduled to be presented to Audit Committee on May 5, 2015.

Key dates for the 2014 year-end process are as follows:

January 5-9, 2015	Preliminary Audit work by Deloitte
February 3, 2015	Audit Committee – Representatives from Deloitte will present an overview of the proposed 2014 financial statement audit work plan
March 4, 2015	2014 General Ledger Closed
March 23 – April 17, 2015	Annual Audit by Deloitte
April 14, 2015	Year End Periodic Financial Report (PFR) to Administration and Finance Committee
May 5, 2015	Presentation of 2014 Financial Statements to Audit Committee
May 26, 2015	Administration & Finance Committee Approval of Financial Statements
June 3, 2015	Regional Council Approval of Financial Statements

**Corporate Strategic Plan:**

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

**Financial Implications:**

The total cost of all audit work relating to the 2014 fiscal year is estimated at \$138,000. This amount is provided for in the Region's annual operating and capital budgets, as required.

**Other Department Consultations/Concurrence:**

Nil

**Attachments:**

Appendix A – List of Regional Audits

**Prepared By:** Peter Holling, Manager, Accounting & Supply Services

**Approved By:** Craig Dyer, Commissioner of Corporate Services/Chief Financial Officer

**Appendix A – List of Regional Audits**

<b>Deloitte Audit</b>	<b>Financial Year –end</b>
Regional Municipality of Waterloo (consolidated)	Dec 31, 2014
Regional Municipality of Waterloo Trust Fund (Sunnyside Home)	Dec 31, 2014
Regional Municipality of Waterloo Sinking Fund	Dec 31, 2014
Waterloo Region Heritage Foundation	Dec 31, 2014
Region of Waterloo Arts Fund	Dec 31, 2014
Sunnyside Home Annual Reconciliation Report – year end settlement	Dec 31, 2014
Sunnyside Community Support Service – year end settlement	Mar 31, 2015
Sunnyside Affordable Housing – financial & program compliance	Dec 31, 2014
Public Health Cost Shared Programs year end settlement	Dec 31, 2014
Provincial Offences Court Administration and Prosecution Program Ministry Submission	Dec 31, 2014
Healthy Babies Healthy Children Program year end settlement	Dec 31, 2014
Homelessness Partnering Initiative – compliance with federal funding agreement	Mar 31, 2015
Employment Ontario Youth Employment Settlement- year end settlement	Mar 31, 2015
Children’s Services Financial Statements –year end settlement	Dec 31, 2014
Transfer Payment Annual Reconciliation – Ministry of Community and Social Services /Ministry of Children & Youth Services- year end settlement	Dec 31, 2014
Rapid Transit – Financial and compliance audits required by the Federal Contribution Agreement and Provincial Transfer Payment Agreement	Mar 31, 2015



# Region of Waterloo

## 2014 Audit service plan

For the year ended December 31, 2014  
For presentation to the Audit Committee  
February 3, 2015

Instilling  
confidence

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

Dear Audit Committee Members:

## **2014 Audit service plan for the year ending December 31, 2014**

We are pleased to present our 2014 audit service plan for Region of Waterloo and its subsidiaries (the “Region”) for the year ending December 31, 2014. This plan describes our audit scope and strategy, our protocols for communication with the audit committee and management, and other services we provide for the Region.

Our engagements in 2014 will include:

- an audit of the Region’s consolidated financial statements (the “Financial Statements”) as at and for the year ending December 31, 2014 prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”) and conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAS);
- audits for Light Rail Transit (“LRT”) to support the requirements of the Transfer payment agreements with the Province of Ontario and the Federal government. These audits are outlined in a detailed audit plan for Rapid Transit and include an annual audit of expenditures and a compliance audit supporting compliance with the significant components of the agreements;
- various program audits as agreed upon in our proposal for services.

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

Yours very truly,



Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

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# At a glance

Our audit addresses financial statement risks through targeted procedures that are responsive to the nature of these risks, including changes in the Region and the business environment. Our procedures include identifying and analyzing issues and facts relevant to our audit conclusions and providing objective challenges to management's judgments and assumptions.

Our audit approach involves consideration of the following:

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<b>Audit scope and terms of engagement</b>	<p>The audit service plan considers several factors which are discussed in detail in the body of the report including:</p> <ul style="list-style-type: none"><li>• Risk assessment;</li><li>• Internal control matters; and</li><li>• Use of the work of experts.</li></ul> <p>The terms and conditions of our engagement are included in the engagement letter, which is to be signed on behalf of the Committee and management.</p>
<b>Independence</b>	<p>We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditors to the Region.</p> <p>We are independent of the Region and we will reconfirm our independence in our final report to the Committee.</p>
<b>Materiality</b>	<p>We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement.</p> <p>Our preliminary estimate of materiality and performance materiality for 2014 have been set at \$18,100,000 and \$13,580,000 (2013 - \$18,100,000 and \$13,580,000) respectively based on consolidated expenses.</p> <p>We will report to the Committee all uncorrected misstatements greater than a threshold of \$800,000 (2013 - \$800,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian Generally Accepted Auditing Standards (GAAS), we will request that misstatements, if any, be corrected.</p>
<b>Audit risks</b>	<p>Our audit scope reflects the risks that we have identified and our planned response to them.</p> <p>Refer to the body of our report in the Risk assessment section for further discussion of identified risks of material misstatement and related audit responses.</p>
<b>Complete engagement reporting</b>	<p>Upon the satisfactory completion of our audit, including the receipt of written representations from management, we will provide you with an audit report on your Financial Statements.</p> <p>We will also issue other reports to assist you in fulfilling your responsibilities, as required by applicable auditing standards. Appendix 2 summarizes the required communications between Deloitte and the Committee.</p>

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# Risk assessment

We compile information from a variety of sources, including discussions with management and the 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;  
 Results of procedures relating to internal control; and  
 Areas of significant judgment and risk.

During our risk assessment procedures, we identified significant risks that require special audit consideration. These risks, along with our planned responses (including both internal control and financial statement procedures), are listed below. In performing our risk assessment, we have considered the risks identified by management in performing their risk assessment.

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 significant risks to financial reporting that we identified 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.

Areas of audit focus	Our proposed audit response
<p><b>Accounts payable and accrued liabilities</b>  <b>Description:</b> Accounts payable and accrued liabilities may be understated due to improper cut-off.</p>	<ul style="list-style-type: none"> <li>• Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities.</li> <li>• Test the supporting assumptions for accruals.</li> <li>• Review the outcome of prior year estimates and accruals.</li> </ul>
<p><b>Actuarially determined liabilities</b>  <b>Description:</b> Actuarial liabilities may be misstated due to improper inputs used in valuation. In addition, the financial statement disclosure may not contain all required items.</p>	<ul style="list-style-type: none"> <li>• Review actuary report, including related assumptions.</li> <li>• Review related financial statement note disclosure for accuracy and completeness.</li> <li>• Communicate with actuary on our reliance on their report for audit purposes.</li> </ul>
<p><b>Contingencies and commitments</b>  <b>Description:</b> Contingent liabilities are not properly accrued for and commitments and contingencies are not disclosed in the financial statements in 2014 with a specific focus on commitments related to the Rapid Transit plan.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Review legal claims with the Region's internal legal department</li> <li>• Review Council minutes and Audit Committee minutes for evidence of contingent liabilities and commitments</li> <li>• Confirm that contingencies and commitments are disclosed in the financial statements in accordance with PSAS. For 2014, verify that commitments related to the Rapid Transit plan are identified and disclosed.</li> </ul>
<p><b>Estimates</b>  <b>Description:</b> Management estimates are not calculated in accordance with Canadian PSAS or properly supported.</p>	<ul style="list-style-type: none"> <li>• Assess the reasonableness of estimates by testing the supporting assumptions used for the estimates.</li> <li>• Review the outcome of prior year estimates to assess for bias.</li> </ul>

Areas of audit focus	Our proposed audit response
<p><b>Payroll</b></p> <p><b>Description:</b> Payroll expense is not accurately recorded.</p>	<ul style="list-style-type: none"> <li>• Test the supporting assumptions for payroll accruals.</li> <li>• Perform analytical testing on payroll expenditures and investigate any significant variances.</li> </ul>
<p><b>Obligatory Reserve Funds</b></p> <p><b>Description:</b> Revenue from obligatory reserve funds are not recorded in accordance with the Region's accounting policies.</p>	<ul style="list-style-type: none"> <li>• Test the revenue recognized in obligatory reserve fund balances and ensure revenues are recognized in accordance with the Region's accounting policies and PSAS.</li> </ul>
<p><b>Revenue/deferred revenue</b></p> <p><b>Description:</b> Revenue is overstated through the recognition of revenue that should be deferred to a subsequent period with a focus on large projects funded during the year including Rapid Transit.</p>	<ul style="list-style-type: none"> <li>• Review grants, 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.</li> <li>• Review Rapid Transit funding agreements and submissions to verify the terms and conditions and assess whether revenue is recognized in the correct period.</li> </ul>
<p><b>Taxation revenue/User fees</b></p> <p><b>Description:</b> Management's estimate of allowance for doubtful accounts is understated.</p>	<ul style="list-style-type: none"> <li>• Confirm Regional levy with the local cities.</li> <li>• 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.</li> </ul>
<p><b>Tangible capital assets</b></p> <p><b>Description:</b> Assets recorded are not capital in nature and assets disposed of by the Region of Waterloo have not been recorded.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Test a sample of construction in progress additions for large capital projects including the LRT and verify costs are valid and accurate.</li> <li>• Test the disposal schedule prepared by management for reasonability and test selected transactions.</li> </ul>
<p><b>Management override of controls</b></p> <p><b>Description:</b> Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively</p>	<ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements.</li> <li>• Obtain an understanding of the business rationale for significant transactions that we become aware of that are outside of the normal course of business for the Region, or that otherwise appear to be unusual given our understanding of the Region and its environment. We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.</li> </ul>

## Consideration of fraud

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

The following table explains our respective responsibilities towards fraud.

Your responsibilities	Our responsibilities
<ul style="list-style-type: none"> <li>• The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including the responsibility for establishing and maintaining internal controls over the reliability of financial reporting, ensuring the effectiveness and efficiency of operations, the identification of fraud risks and compliance with applicable laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• We are required to obtain representations from management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.</li> <li>• As independent auditors, we will obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</li> </ul>

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

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.

Evaluate whether the Region's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.

Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the 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 fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Committee is aware of tips or complaints regarding the Region's financial reporting (including those received through the audit committee's internal whistleblower program, if such a program exists) and, if so, the audit committee's responses to such tips and complaints.

If we suspect fraud involving management, we will communicate these suspicions to the Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

# Audit scope

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## 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 that are noted during the audit.

The audit enables us to express an opinion on whether the Financial Statements are prepared, in all material respects, in accordance with PSAS. 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 PSAS will be in accordance with our findings.

### Internal control matters

We will inform the Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

### 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:

a deterioration in the quality of the Region's accounting records during the current year engagement compared to the prior-year engagement;  
the identification of significant deficiencies in the Region's internal control that result in the expansion of our audit procedures;  
the identification, during our audit, of a significant level of proposed audit adjustments;  
the occurrence of significant new issues or changes, such as:

- New accounting issues;
- Changes in accounting policies or practices from those used in prior years;
- Events or transactions not contemplated;
- 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; and

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 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 Committee.

## Audit timing

We meet with management to agree to a detailed reporting calendar for the year including the year-end audit, Rapid Transit audits and other program audits to ensure deliverables are prepared timely and deadlines are met. The schedule is set to ensure that audit procedures start early in the year in advance of the year-end audit such that issues are identified prior to the start of our year-end fieldwork. For the current year, our interim audit procedures were performed in early January 2015. The 2014 year-end consolidated audit schedule is as noted below.

Interaction	September	October	November	December	January	February	March	April	May	June	July	August
Audit Committee meeting to present Audit Service Plan						•						
Interim fieldwork					•							
Year-end fieldwork							•	•				
Annual year-end review meeting with the management team									•			
Final Audit Committee meeting									•			

# 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.



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 Internal Audit; and
- Coordinating 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 Committee as well as areas of concern identified by the 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 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, 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 Region, as well as employee fraud if management or employees are involved in actions that defraud 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 control over financial reporting (ICFR), 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 will assess the design and implementation 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 us 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 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 tests 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 below the reporting threshold set, will be reported to management and the Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

## Use of the work of experts

The Deloitte Audit is distinguished by the use of a broad range of industry and functional experts who are integral to the audit team and carry a deeper understanding of specific topics. These experts augment the core engagement audit team in understanding business processes and related risks, and help the audit engagement team apply an appropriate level of professional skepticism to challenge significant management assumptions.

## 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 Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix 2 summarizes the required communications between Deloitte and the Committee.

Deloitte's client service principles include providing management and the 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 Committee for their consideration.

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 on areas of high risk or 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.

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 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 refine our client service objectives to ensure that we remain focused, responsive and proactive in meeting your needs while fulfilling our professional responsibilities.

# Appendix 2 – 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.

Required communication	Timing of communication
1. Our responsibilities under Canadian GAAS.	Audit plan presentation
2. Our audit strategy and scope.	Audit plan presentation
3. Matters related to going concern.	Audit results presentation
4. Management judgments and accounting estimates.	Audit results presentation
5. Audit adjustments.	Audit results presentation
6. Uncorrected misstatements and disclosure items.	Audit results presentation
7. Significant accounting policies.	Audit results presentation
8. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	Audit results presentation
9. Our views about significant qualitative aspects of the Region's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	Audit results presentation
10. Our responsibility for other information in documents containing audited Financial Statements, any procedures performed, and the results.	Audit results presentation
11. Disagreements with management.	Ongoing as needed and during the Audit results presentation
12. Our views about significant matters that were the subject of consultation with other accountants.	Audit results presentation
13. Major issues discussed with management prior to our retention.	Audit results presentation
14. Significant difficulties, if any, encountered dealing with management related to the performance of the audit.	Ongoing as needed and during the Audit results presentation

Required communication	Timing of communication
15. Significant deficiencies in internal control if any, encountered during the audit of the financial statements.	Ongoing as needed and during the Audit results presentation
16. Material written communications between management and us.	Audit results presentation
17. All relationships between the Region and us that, in our professional judgment, may reasonably be thought to bear on independence.	Audit results presentation
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.	Audit results presentation
19. Illegal or possible illegal acts.	Ongoing as needed and during the Audit results presentation
20. Fraud or possible fraud identified through the audit process.	Ongoing as needed and during the Audit results presentation
21. Significant transactions inconsistent with ordinary business, including related party transactions.	Ongoing as needed and during the Audit results presentation
22. Non-compliance with laws and regulations that come to our attention.	Ongoing as needed and during the Audit results presentation
23. Limitations placed on our scope.	Ongoing as needed and during the Audit results presentation
24. Written representations we are requesting.	Audit results presentation
25. Modifications to our opinion.	Ongoing as needed and during the Audit results presentation

# Appendix 3 – 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 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.

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# Appendix 4 – Standard-setting update

## Public sector accounting standards

### **Section PS 3260, Liability for Contaminated Sites**

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.

Fiscal years beginning on or after April 1, 2014. Earlier adoption is encouraged.

### **Consequential Amendments Resulting from the Issue of Section PS 3450, Financial Instruments, including a new Section PS 3041, Portfolio Investments**

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.

Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2016 for governments

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

### **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.

Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2016 for governments

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.

At its December 12-13, 2013 meeting, the PSAB completed its review of the application of Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*, to governments, and confirmed that the principles are fundamentally sound. In addition, in response to a request for additional time by governments to implement these standards, the PSAB approved an amendment to the transitional provisions to extend the effective date by one year to April 1, 2016 from April 1, 2015.

### **Amendments to Section PS 3450, Financial Instruments: Transition**

January 15, 2015

On October 10, 2014, the PSAB issued an ED clarifying aspects of the scope of application, and adding new guidance and transitional provisions to Section PS 3450, *Financial Instruments*. The proposals do not intend to change the scope of application of Section PS 3450 by governments or government organizations.

The PSAB expects to finalize the amendments to Section PS 3450 in Q2/2015.



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