



Media Release: Friday, November 20, 2015, 4:30 p.m.

Regional Municipality of Waterloo

Audit Committee

Agenda

Wednesday, November 25, 2015

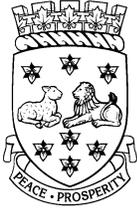
5:30 p.m.

Room 218

150 Frederick Street, Kitchener, Ontario

-
- 1. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”**
 - 2. Reports**
 - 2.1 [CAO-IAU-15-08](#), Update Regarding Internal Audit and Corporate Performance (For Information) 2**
 - 2.2 [COR-FSD-15-21](#), 2015 Year-End Audit Plan (For Information) 8**
 - 3. Presentations**

Elaine Read, Deloitte LLP Re: Region of Waterloo 2015 Audit Service Plan ([Attachment distributed separately](#))
 - 4. Information/Correspondence**
 - 5. Other Business**
 - 6. Next Meeting – April 25, 2016**
 - 7. Adjourn**



Report: CAO-IAU-15-08

Region of Waterloo

Office of the Chief Administrator

Internal Audit

To: Chair Sean Strickland and Members of the Audit Committee

Date: November 25, 2015 **File Code:** A35-01

Subject: **Update Regarding Internal Audit and Corporate Performance**

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 policies and 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 2015, Internal Audit's activities included compliance reviews, control consultations, and other internal reviews. Activities in these three categories are briefly described below. In 2016, the internal audit group will be integrated into a newly created "corporate performance" group. The corporate performance function and associated 2016 work plan are described later in this report.

Compliance Reviews:

Purchase Card Review

One compliance review was conducted in 2015, which was the Purchase Card Review. This review assesses compliance against the Regional policy and related guidelines. Internal Audit is currently in the late stages of the review. The final memo will be brought forward to the Corporate Leadership Team for information purposes in December 2015.

This Internal Audit review found that compliance with the Region's Purchase Card policy and guidelines was excellent. No significant issues were noted within the scope of compliance. In the course of evaluating compliance with the Purchase Card policy, an opportunity to close a potential internal control gap in the Region's employee expense and purchase card payment review procedures was identified.

Internal audit has made some recommendations to enhance the review of employee per diem expense claims and P-card statements to ensure that there is no potential for duplicate claims for meal expenses to be reimbursed through both P-card and expense claims.

Control Consultations:

Two control consultations were performed in 2015:

- Overtime Review.
- Cash Handling Review in Licensing & Enforcement Services.

Overtime Review

Internal Audit is currently in the process of conducting an internal control review of the

Region's overtime pay management practices within the following six (6) divisions:

- Transit.
- Transportation.
- Waste Management.
- Water Services.
- Emergency Medical Services.
- Seniors' Services.

These divisions were chosen based on payroll data obtained between the 2010-2014 fiscal years. The divisions selected represent the six highest annual dollar totals for overtime.

The main objective of the review is to assess whether or not the divisions are properly managing the use of overtime through a formal monitoring process and using relevant objective data to address the root causes of such overtime. Internal audit will conduct interviews with relevant staff from each of the divisions to assess management's ability to meet the above objective.

The Overtime Review will be completed in December. A summary report of the results of the review along with recommendations will be provided to the Corporate Leadership Team in January 2016.

Cash Handling Review in Licensing & Enforcement Services

Internal Audit participated in a review with Senior Management in Licensing and Enforcement Services and Finance to discuss current cash handling processes in this area and how to improve these processes. This area has approximately \$220,000 flowing through each year in the form of cash payments for various regional licenses.

Based on this review, it was agreed that additional control procedures were warranted, given the amounts involved, and some straightforward and practical control measures were suggested, these were:

- Issue a separate cash drawer for each staff that handles cash during the day.
- Establish a secure area for daily deposits and cash pick-ups.
- Establish end-of-day count procedures to reconcile cash receipts to electronic records via new POS (point of sale) terminals.
- Finance to develop Region-wide cash handling policy (based on best practices in other municipalities).

Other Engagements:

Internal Audit was engaged to assist with two other large reviews in 2015: 1) Lean Methodology Pilot and 2) Region of Waterloo Service Review.

Lean Methodology Pilot

In 2014, Internal Audit was engaged in a pilot project to review three distinct processes using 'Lean Methodology'. One objective of this pilot project was to determine the usefulness and applicability of "Lean" for broader use across the organization. Two of these processes (Home Child Care and GRT Work Scheduling) had significant process changes as a result of the Pilot and many of the recommendations were implemented in Q1 of 2015.

In Q2, 2015 a debrief with pilot participants as well as other staff experienced with using Lean in their program areas was conducted and the consensus was that Lean can and should be adopted as a corporate analytical tool. All participants indicated that operational processes have been much improved and that further Lean initiatives will be ongoing.

The next steps for the Region will be to determine how best to implement a Lean Program at the Region. This will be one of tasks of the new Corporate performance group described later in this report.

Region of Waterloo Service Review

In late 2014, Regional Council initiated a comprehensive "Service Review" of the Region's programs and services. The overall purpose of the service review was to ensure the Region's services provide the best value to the community. The Region engaged consulting firm KPMG to conduct the Service Review, and the Region's Manager of Internal Audit was the Region's project manager throughout the project.

KPMG completed their final report and presented their recommendations to the Region's Administration and Finance Committee on September 15, 2015 (Report CAO-IAU-15-06). As outlined in that report, KPMG identified a number of "opportunities for improvement", many of which were either underway or which required additional investigation by Regional staff. In addition, five areas were identified by KPMG and Council for more detailed analysis and KPMG made a number of recommendations regarding each of those areas. At the Regional Council meeting on October 21, 2015, Council made decisions regarding KPMG's Recommendations.

As a matter of next steps, KPMG identified a number of “opportunities for improvement”, ranging from minor process changes to more significant changes in program and service delivery. The Region had already been implementing some of these opportunities independently of the Service Review (e.g. expanding e-service, updating our taxi regulations, developing a smart card payment system for transit). Other opportunities will require further investigation to determine if they are feasible, and if they will actually result in more efficient, effective service (e.g. more collaboration with the area municipalities on service delivery, moving to a 3 year budget cycle, expanding the use of e-payment technology).

Internal Audit will be directly involved in following-up on several of these opportunities, and will also track and report on the progress of all of the follow-up items identified in Appendices 1 and 2 of the September 15, 2015 staff report.

Creation of Corporate Performance Group

The creation of a small Corporate Performance and Innovation Team was included as part of the organizational review and restructuring completed in 2014. Implementation of this part of the reorganization was deferred pending completion of the Service Review and the Lean pilot project described earlier in this report. Now that these projects are completed, the implementation of the Corporate Performance group is planned for January 1, 2016.

This group will integrate the Region’s current internal audit, program review and performance measurement functions. It will also take on responsibility for identifying and promoting opportunities to improve the efficiency and effectiveness of Regional programs, and for encouraging and facilitating innovation within the organization. This enhanced centralized focus on performance and innovation recognizes the need and opportunity to focus on performance and promote innovation to help the Region prepare for and respond to financial and service delivery challenges in the years ahead.

The group will be part of the Human Resources and Citizen Service (HRC) department, and the new Manager of Corporate Performance will report to the Commissioner of HRC. Initially the staff in this group will include the new manager and the 2 existing Internal Audit positions. The manager and Internal Audit staff will also maintain a direct reporting line to the CAO on any internal audit related matters – to ensure the continued impartiality of the internal audit function. Including this group within the HRC department will facilitate the integration of their work on corporate performance with the ongoing service improvement work led by the citizen service group in HRC.

Initial activities for the corporate performance group in 2016 will include the following:

- Develop and implement a Lean program which can be used by all Regional programs.
- Monitor the status of the Service Review follow-up items and report periodically to Council on the status of all of these items.
- Work with various program areas to assist with the necessary follow-up on Service Review items (e.g. review accounts receivable processes; review employee lifecycle processes; cost-benefit analysis of some services at Sunnyside Home).
- Evaluate current performance measurement programs (e.g. OMBI), and determine how to better link performance measurement and performance improvement initiatives.
- Evaluate how to link current service improvement activities with other corporate performance initiatives.
- Internal audits and reviews including purchase card review, accounts payable payment controls review, and information technology access controls review.

Corporate Strategic Plan:

The 2015 activities and proposed 2016 actions described in this report are consistent with Focus Area 5.4: Ensure Regional programs and services are efficient, effective and provide value for money, and specifically action 5.4.2 “Create an office of corporate performance to enhance the organization’s focus on performance measurement and performance improvement.”

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-15-21

Region of Waterloo

Corporate Services

Financial Services & Development Financing

To: Chair Sean Strickland and Members of the Audit Committee

Date: November 25, 2015 **File Code:** F26-01

Subject: 2015 Year-End Audit Plan

Recommendation:

For Information

Summary:

Nil

Report:

In January 2012, the Region awarded a five year contract for audit services to Deloitte LLP (Deloitte). The 2015 fiscal year (ending December 31, 2015) marks the final year of the contract term. Elaine Read, the Audit Partner who oversaw the 2014 Audit, will be conducting the 2015 Audit. This year Deloitte will be performing 18 audits for the Region of Waterloo. The complete list is attached as Appendix A to this report. Appendix B to this report lists the audits that were completed for year-end 2014 including the approvals obtained, the organization that requested the audit as well as any outstanding issues.

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 required deadlines to ensure the timely completion of the financial statements. The 2015 Audited Financial Statements are scheduled to be presented to Audit Committee on April 26, 2016.

Key dates for the 2015 year-end process are as follows:

November 25, 2015	Audit Committee – Representatives from Deloitte will present an overview of the proposed 2015 financial statement audit work plan
Nov 30 – Dec 4, 2015	Preliminary Audit work by Deloitte
March 4, 2016	2015 General Ledger Closed
March 21 – April 15, 2016	Annual Audit by Deloitte
April 26, 2016	Presentation of 2015 Financial Statements to Audit Committee
May 3, 2016	Administration & Finance Committee Approval of Financial Statements
May 11, 2016	Regional Council Approval of Financial Statements

Corporate Strategic Plan:

To ensure Regional programs and services are efficient and effective and provide value for money.

Financial Implications:

The total cost of all audit work relating to the 2015 fiscal year is estimated at \$152,000. This amount is included in the Region's annual operating and capital budgets, as required.

Other Department Consultations/Concurrence: Nil

Attachments:

Appendix A – List of 2015 Regional Audits

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

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

Appendix A – List of 2015 Regional Audits

Description	Prepared for	Financial Year –end
Regional Municipality of Waterloo (consolidated)	Audit Committee & Regional Council	Dec 31, 2015
Regional Municipality of Waterloo Trust Fund (Sunnyside Home)	Audit Committee & Regional Council	Dec 31, 2015
Regional Municipality of Waterloo Sinking Fund	Audit Committee & Regional Council	Dec 31, 2015
Waterloo Region Heritage Foundation	Heritage Foundation Board	Dec 31, 2015
Region of Waterloo Arts Fund	Arts Fund Board	Dec 31, 2015
Sunnyside Home Annual Reconciliation Report – year end settlement	Ministry of Health & LTC	Dec 31, 2015
Sunnyside Community Support Service – year end settlement	Ministry/LHIN	Mar 31, 2016
Sunnyside Affordable Housing – financial & program compliance	Ministry of Municipal Affairs & Housing	Dec 31, 2015
Region of Waterloo Community Housing Inc.	ROWCHI Board	Dec 31, 2015
Public Health Cost Shared Programs year end settlement	Ministry of Health & LTC	Dec 31, 2015
Provincial Offences Court Administration and Prosecution Program Ministry Submission	Ministry of the Attorney General	Dec 31, 2015
Healthy Babies Healthy Children Program year end settlement	Ministry of Health & LTC	Dec 31, 2015
Youth Employment Fund	Ministry of Training / Colleges & Universities	Sep 30, 2015
Homelessness Partnering Initiative – compliance with federal funding agreement	Employment & Social Development Canada	Mar 31, 2016

Description	Prepared for	Financial Year –end
Employment Ontario Youth Employment - year end settlement	Ministry of Training / Colleges & Universities	Mar 31, 2016
Children's Services Financial Statements –year end settlement	Ministry of Education	Dec 31, 2015
Transfer Payment Annual Reconciliation – Ministry of Community and Social Services /Ministry of Children & Youth Services- year end settlement	Ministry of Community & Social Services	Dec 31, 2015
Rapid Transit – Financial and compliance audits required by the Federal Contribution Agreement and Provincial Transfer Payment Agreement	Province & Federal Government	Mar 31, 2016



Deloitte.

2015 Audit service plan
Region of Waterloo

For the year ending December 31, 2015
To be presented to the
Audit Committee

Instilling
confidence





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November 25, 2015

Private and confidential

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

Dear Audit Committee Members:

2015 Audit service plan

We are pleased to present our 2015 audit service plan for the Region of Waterloo ("the Region"), which describes our audit scope and strategy, our audit approach and our planned communications with you.

Engagements to be completed in 2015 will include:

- audit of the Region of Waterloo's consolidated financial statements (the "Financial Statements") for the year ended December 31, 2015 prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS");
- audits for Rapid Transit ("RT") to support the requirements of the Transfer payment agreements with the Province of Ontario and the Federal government. These audits include an annual audit of expenditures and a compliance audit supporting compliance with the significant components of the agreements;
- audit of Region of Waterloo Community Housing Inc. for the year ended December 31, 2015 prepared in accordance PSAS; and
- various program audits consistent with previous years as agreed upon in our proposal for services.

We are providing this audit service plan to the Audit Committee ("the Committee"). It is intended solely for the use of the Committee to assist you in discharging your 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 to answering any questions that you may have.

Yours very truly,

Chartered Professional Accountants
Licensed Public Accountants

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2015 Audit plan at-a-glance

Audit objectives

- Perform high quality audits, enabling us to express opinions on the 2015 Financial Statements.
- Understand and be responsive to the expectations of the Committee and management
- Communicate regularly and openly with the Committee and management in accordance with professional standards focusing on audit risks and matters of special interest.
- Issue independent auditor's reports as required.
- Deliver services that assist the Region in meeting current and future accounting and regulatory requirements.

Key aspects of service distinction

- Enhance the value of our communications.
- Have frank, open and timely communications.
- Make and meet our commitments to the Region.
- Assemble the right team.
- Provide valuable insights from our audits.

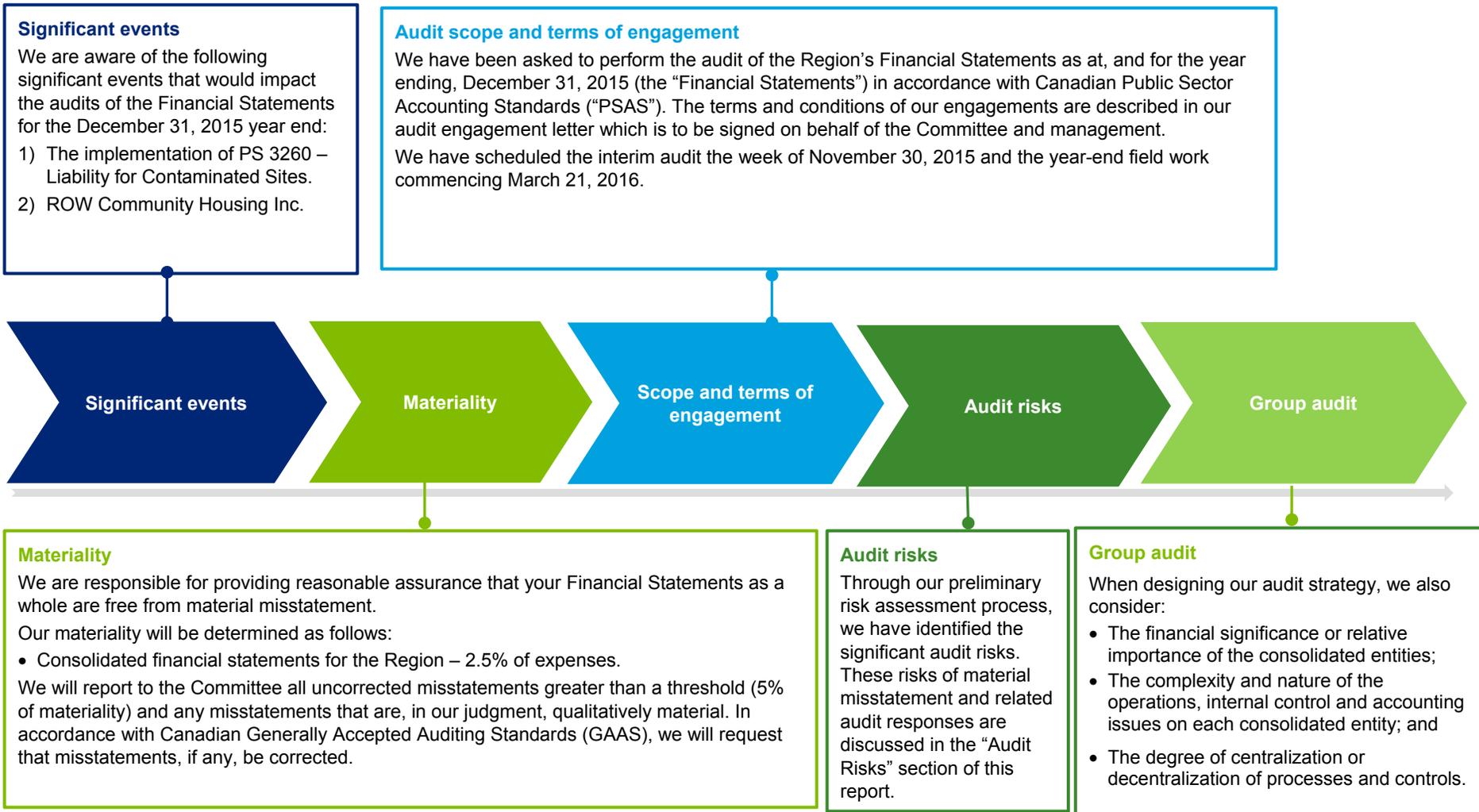


Risk areas

- Revenue recognition
- Management override of controls
- Implementation of PS 3260 – Liability for Contaminated Sites
- Rapid transit
- Consolidation and reporting
- Accounting estimates and actuarially determined liabilities
- Contingencies and commitments
- Tangible capital assets

Key team members	Role
Elaine Read	Engagement Partner
Adam Cross	Audit Manager
Jennifer Gruber	Audit Manager
Brittany Nasso	Senior
Jim Pryce	ERS Partner
Tony Ha	ERS Manager

Our audit explained



Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking those involved in the financial reporting process about inappropriate or unusual activity.
2. Testing a sample of journal entries throughout the period as well as adjustments made at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from management's effort to manage results.
5. Evaluating whether the judgements and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask the Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Region and their role in the oversight of management's antifraud programs.

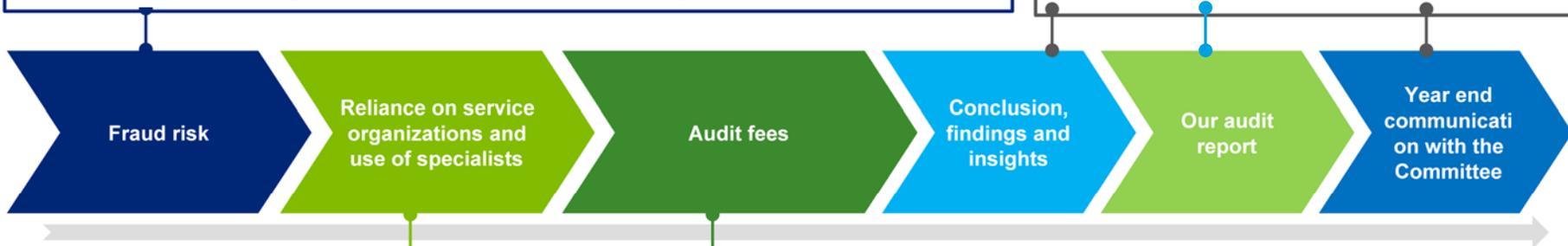
If we suspect fraud involving management, we will immediately inform the Committee of our suspicions and discuss the nature, timing, and extent of audit procedures necessary to complete the audits.

Complete engagement reporting

Under GAAS, we are required to communicate certain matters to the Committee. The primary reports and formal communications through which we will address these matters are:

- This Audit Service Plan;
- Year End Communication; and
- Our Independent auditor's report on the Financial Statements.

Further details on communication requirements can be found in Appendix 2.



Reliance on service organizations

We intend to use the work of the Region's actuary, School Boards' Co-operative Inc. in their determination of the Region's post employment and worker's compensation benefits. We will review and test any data and assumptions used, ensure the disclosure in the financial statements is adequate and that the actuary is in good standing with the Canadian Institute of Actuaries.

Audit fees

With regards to the Region's financial statements, the fees billed for our audit is the amount as specified in our letter to you dated November 3, 2011 (our response to your proposal P2011-44).

We will add HST to our billings.

Audit risks

During our risk assessment, we identified some areas of audit risk that will require special audit consideration. These areas of risk, together with our planned responses, are described below.

The following tables set out certain areas of audit risk that we identified during our preliminary planning activities, including 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.

Revenue recognition*

Audit risk

Assurance standards include the presumption of a fraud risk involving improper revenue recognition. (Revenue/deferred revenue).

There is a risk that revenue from obligatory reserve funds are not recorded in accordance with the Region's accounting policies.

There is a risk that management's estimate of the allowance for doubtful accounts is understated for revenue from taxation revenue and user fees.

Our proposed audit response

- Significant revenue streams are a presumed area of audit risk. We will test the design and implementation of controls in these revenue streams and perform detailed testing in these areas;
- Substantive testing to determine if restricted contributions (i.e., development charges, obligatory reserves), and government transfers have been recognized as revenue in the appropriate period by verifying the terms and conditions of the agreements (Revenue vs. deferred revenue);
- Confirm Regional levy with the local cities; and
- 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.

Management override of controls*

Risk identified

Assurance standards include the presumption of a significant risk of management override of controls.

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.

Our proposed audit response

To address the risk of management override of controls we will:

- Engage in periodic fraud discussions with certain members of senior management and others;
- Consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates;
- Test the supporting assumptions for accruals;
- Review the outcome of prior year estimates and accruals;
- Evaluate the business rationale for any significant unusual transactions;
- Evaluate the Region's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process; and
- Test journal entries that exhibit characteristics of possible management override of controls, identified using manual techniques.

*Significant risks

Implementation of PS 3260 – Liability for Contaminated Sites**

Risk identified

PS 3260 - Liability for Contaminated Sites is effective for the year ended December 31, 2015. There is a risk that the new standard has not been appropriately implemented and disclosed due to the complexities of the new standard.

Our proposed audit response

- Obtain inventory of all sites and management's analysis and assessment of applicable sites.
- Test for completeness.
- Test sites to criteria in PS 3260.
- Test valuation of liability for relevant sites.
- Test accounting applied for adopting the new standard (i.e. prospective or retrospective application).
- Review related financial statement disclosures for accuracy and completeness.

** See appendix 4 for further information on PS 3260.

Rapid Transit

Risk identified

There is a risk that revenue related to Rapid Transit has not been recognized as revenue in the appropriate period based on the terms and conditions of the agreements.

There is a risk that commitments related to the Rapid Transit plan have not been properly disclosed in the financial statements.

There is a risk that the Region has not complied with the terms of the funding agreements by ensuring the audits; both financial and compliance, have been completed.

Our proposed audit response

- Review Rapid Transit funding agreements and submissions to verify the terms and conditions and assess whether revenue is recognized in the correct period.
- Verify that commitments related to the Rapid Transit plan are identified and disclosed through review of meeting minutes and confirmation with the legal department.
- Confirm that the Region is up to date and meeting the compliance requirements pursuant to the funding agreements.

Consolidation and reporting

Risk identified

There is a risk that new entities related to the Region have not been accurately consolidated.

Our proposed audit response

- Consider new entities related to the Region and whether they meet the criteria for control which would require consolidation.
- Evaluation of the consolidation to ensure the accuracy of consolidation accounting.
- Evaluate whether disclosure requirements have been met.

Management estimates and actuarially determined liabilities

Audit risk

Estimates require management judgments (i.e. payroll accruals, landfill closure and post closure liability, contingent liabilities, estimated accrued liabilities, employee future benefits, useful lives of tangible capital assets etc.). There is a risk of bias in the exercise of management judgment.

There is the risk that actuarial liabilities may be misstated due to improper inputs used in the valuation. In addition, the financial statement disclosure may not contain all required items.

Our proposed audit response

- Review of actuary report, including related assumptions.
- Review related note disclosure for accuracy and completeness.
- Obtain documentation on management's controls over the development of accounting estimates for any significant management estimates and assess risk.
- Focused review of calculations and support.
- Discussions with management.
- Analytic review of related accounts.
- Assess outcome of retrospective review of estimates from prior years.
- Test the operating effectiveness of payroll controls and perform analytical testing on payroll expenditures and investigate any significant variances.
- Test the supporting assumptions for payroll accruals.

Contingencies and commitments

Risk identified

There is a risk that contingent liabilities are not properly accrued for and commitments and contingencies are not disclosed in the financial statements in 2015.

Our proposed audit response

- 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.
- Review legal claims with the Region's internal legal department.
- Review Council minutes and Audit Committee minutes for evidence of contingent liabilities and commitments.
- Confirm that contingencies and commitments are disclosed in the financial statements in accordance with PSAS.
- Review ROWCHI transaction to ensure that any contingencies and commitments have been properly identified and disclosed in both the consolidated financial statements of the Region and the standalone statements of ROWCHI.

Tangible capital assets

Risk Identified

There is a risk that tangible capital assets recorded are not capital in nature and assets disposed of by the Region of Waterloo have not been recorded.

Our proposed audit response

- 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.
- Test a sample of construction in progress additions for large capital projects including the RT and verify costs are valid and accurate.
- Test the disposal schedule prepared by management for reasonability and test selected transactions.

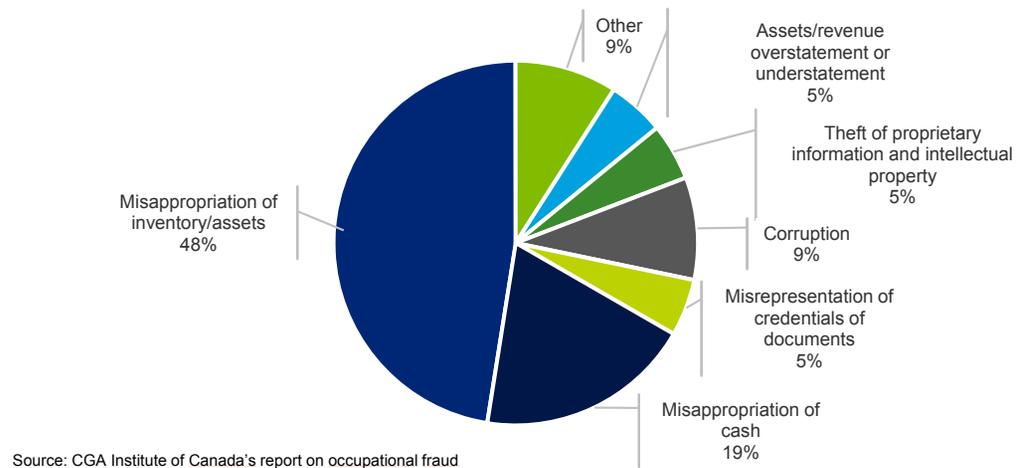
We will inform you of any significant changes to the areas of audit risk discussed above and the reasons for those changes as part of our year end communication, or earlier if deemed necessary.

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 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 skepticism 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.

We have begun the process of co-ordinating discussions regarding fraud and error with certain members of management. We are also required to make certain inquiries of the Committee regarding the risk of fraud at the Region. In that context, we would like to hear your comments on the following:

- The Committee's views about the susceptibility of the Region to fraud, both in the context of fraudulent financial reporting and the misappropriation of assets;
- Whether the Committee has knowledge of any actual, suspected or alleged fraud;
- The Committee's role in exercising oversight of management's antifraud programs;
- Whether the Committee has received any tips or complaints regarding financial reporting and, if so, the Committee's responses to such tips and complaints; and
- Whether the Committee is aware of violations or possible violations of laws or regulations.



To facilitate our discussion, we have highlighted in the diagram above the areas where fraud manifests itself most frequently and have listed some common fraud risk scenarios below:

1. Fictitious revenue transactions.
2. Improper capitalization of expenses.
3. Manipulation of management estimates (e.g. provisions, valuation of assets).
4. Understating loans and payables.
5. Journal entry fraud.
6. Awarding contracts to parties related to individuals involved in the decision making process.
7. Splitting orders to avoid obtaining quotes or to get around delegation limits.
8. Authorizing orders to a particular supplier in return for bribes.
9. Giving and accepting payments to favour or not favour other transactions or relationships.
10. Submitting for payment false invoices from fictitious or actual suppliers.
11. Creation of fictitious bank accounts.
12. Fictitious (or ghost) employees on the payroll.
13. Falsifying timesheets or overtime worked to achieve fraudulent overtime payments.
14. Improper changes in salary levels.
15. False, duplicate or inflated expense claims submitted.
16. Improper use of company credit cards.
17. Inadequate application (software) controls resulting in unauthorized access.
18. Theft, sale, transfer or abuse of proprietary or confidential information.

Appendices

Appendix 1 – Audit approach

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.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we've developed our audit plan and the audits are 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's 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
- Coordinating our activities with external parties and experts and/or Deloitte specialists.

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

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 takes 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 risk.

The risks that we have identified to date, and which will be addressed when conducting the audits, are summarized in the "Audit risks" section. As we perform our audits, we will update our risk assessment. We will inform the Committee of any significant changes to our risk assessment, and any additional risks that we identified, in our year end communication, or earlier if deemed necessary.

Consideration of the risk of fraud

Maintaining an attitude of professional skepticism means that we carefully consider the reasonableness of the responses we receive to our inquiries from the Committee, and evaluate other information obtained from them in light of the evidence we obtain during the audits. 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 audits, particularly the reliability of management representations.

Because of the inherent limitations of internal control, 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.

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

- The primary responsibility for the prevention and detection of fraud rests with management and the Committee, 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.

Our responsibilities

- We are required to obtain representations from management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.

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 results; and
- 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 and, if so, the Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audits, including, but not limited to, violations or possible violations of laws or regulations.

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 audits.

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 audits; 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 design and implementation of controls relevant to 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 the Region'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 the audits include 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.

Tests of controls

As part of our audits, 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 audits.

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 clearly trivial (the threshold has been set at 5% of materiality), will be reported to management and the Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

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; and
- An annual internal inspection process for audit engagements.

Use of the work of specialists

The Deloitte audits are distinguished by the use of a broad range of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists 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.

For the 2015 audits, we will use Deloitte computer assurance specialists to assist us in performing our audit procedures to test the general computer controls.

Our specialists are actively involved in the planning and risk assessment process, and will be available to the audit team and the Region's management year-round to discuss ongoing risk assessments, industry developments and other matters of interest.

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 audits was sufficient to support our opinion; and
- The misstatements identified during the audits do not result in the Financial Statements being materially misstated.

Independence

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 auditor to the Region.

We continue to be independent of the Region and we will reconfirm our independence, in writing, to the Committee as part of our year-end communication document.

Complete engagement reporting

After the satisfactory completion of appropriate audit procedures, we will provide our Independent auditor's report on the Region's Financial Statements.

We also provide a report to the Committee to assist you in fulfilling your 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 that come to our attention during the audit. We will report these insights and suggestions to the appropriate members of management and/or the 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 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.

5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what the Region already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data.

Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audits, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results, and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of the Region's own technologies to gain further efficiencies.

Technology	Description	Benefits
Engagement Management System	Deloitte's audit software, incorporating audit-specific templates, reference materials, support documents, and management insights.	Rapid and effective electronic transfer of information among the audit team members.
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance.	The extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters.
Deloitte OnLine	A secure, interactive knowledge-sharing and project collaboration platform for our engagement teams and clients.	Allows information, leading practices, and ideas to be disseminated; supports efficient access, interactive productivity, and communication.

Audit analytics

Traditional audit procedures depend on sampling large populations and many manual testing procedures. Embedding audit analytics in our Audit strategy provides more insights into process improvements and data integrity as well as potentially identifying insights into the data that could not be gathered through traditional sampling methods. We can leverage audit analytics in our audits which will bring greater coverage and more precise focus on the most risky transactions by selecting all or a large part of the data, and profiling that data into risk categories, and testing higher risk areas.

Appendix 2 – Communication requirements

Required communication	Reference
Audit service plan	
1. Our responsibilities under GAAS, including forming and expressing an opinion on the Financial Statements.	CAS 260.14
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a) Timing of the audits; b) Significant risks, including fraud risks; c) Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk; and d) Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audits. 	CAS 260.15
3. Significant transactions outside of the normal course of business, including related party transactions.	CAS 260 App. 2, CAS 550.27
Year end communication	
4. Fraud or possible fraud identified through the audit process.	CAS ¹ 240.40-.42
5. Significant accounting policies, practices, unusual transactions, and our related conclusions.	CAS 260.16 a.
6. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	CAS 260.16 a.
7. Matters related to going concern.	CAS 570.23
8. Management judgments and accounting estimates.	CAS 260.16 a.
9. Significant difficulties, if any, encountered during the audits.	CAS 260.16 b.
10. Material written communications between management and us, including management representation letters.	CAS 260.16 c.
11. Other matters that are significant to the oversight of the financial reporting process.	CAS 260.16d.
12. Modifications to our Independent Auditor's Reports.	CAS 260.A18

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference
13. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns.	CAS 260.A19
14. Significant matters discussed with management.	CAS 260.A.19
15. Illegal or possible illegal acts that come to our attention.	CAS 250.23
16. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the Financial Statements.	CAS 265
17. Uncorrected misstatements and disclosure items.	CAS 450.12-13

Appendix 3 – Financial reporting update

The following public sector accounting standards are set to be effective for fiscal years after December 31, 2015:

Title	Description	Effective date
Section PS 3420 - Inter-entity transactions	This Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.	This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Section PS 2200 - Related party disclosures	This Section defines a related party and establishes disclosures required for related party transactions.	This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Section PS 3210 - Assets	This Section provides guidance for applying the definition of assets and establishes general disclosure standards for assets; but does not include standards for recognition and disclosure of specific types of assets, which are dealt with in other Handbook Sections.	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Section PS 3380 - Contractual rights	This Section defines and establishes disclosure standards on contractual rights; but does not include disclosure standards for specific types of contractual rights; and does not include those contractual rights to exchange one asset for another where revenue does not arise.	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Section PS 3320 - Contingent assets	This Section defines and establishes disclosure standards on contingent assets; but does not include disclosure standards for specific types of contingent assets.	This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Section PS 3430 - Restructuring transactions	This Section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.	Restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.
Section PS 3450 - Financial instruments	This Section establishes standards on how to account for and report all types of financial instruments including derivatives.	This section is effective for: (i) Government organizations – fiscal years beginning on or after April 1, 2012; and (ii) Governments – fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted.
Section PS 1201 - Financial statement presentation	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements.	It is effective for (i) government organizations for fiscal years beginning on or after April 1, 2012; and (ii) governments for fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted.

Appendix 4 – What is PS 3260: Liability for Contaminated Sites?

A new accounting standard requiring recognition of liabilities for remediation of “contaminated sites”

- In 2012, the Auditor General reported that the federal government faced up to \$7.7 billion in environmental liabilities related to 22,000 actual, suspected or closed contaminated sites. For more than half of these sites, the severity and priority of clean-up had not been assessed due to a lack of information.
- Similar challenges have been identified at the provincial and municipal level across Canada.
- For this reason, PS 3260 was developed.
- PS 3260: Liability for Contaminated Sites is a new PSAS standard that will require the Region to record liabilities and disclose related information in its financial statements related to the cost of remediating contaminated sites when certain conditions are met.
- It is effective for years beginning on or after Apr 1, 2014. For the Region, this means that the total number of contaminated sites and expected remediation cost for these sites as at Dec 31, 2015 must be determined and then updated for each yearend in the future. There is an option to apply the standard prospectively or retrospectively.
- PS 3260 applies to any of the Region’s assets that are not in productive use or operations of other entities that are not in productive use for which the Region has taken responsibility.

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