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Municipality of North Grenville

December 17, 2018

Mayor Nancy Peckford and Members of Council of the
Municipality of North Grenville
285 County Road #44
P. O. Box 130
Kemptonville, ON K0G 1J0

Dear Mayor and Members of Council:

Re: Audit Planning Letter for the Year Ending December 31, 2018

We have prepared this Audit Planning Letter in connection with our audit of the consolidated financial statements of the Municipality of North Grenville and its related entities ("the Municipality") for the year ending December 31, 2018.

Our purpose in writing is to ensure effective two-way communication between us in our role as auditors and yourselves with the role of overseeing the financial reporting process. In this letter we will:

- a) Address our responsibilities as independent auditors and provide information about the planned scope and timing of our audit.
- b) Request a response to some audit questions and any additional information you may have that could be relevant to our audit.

Auditor Responsibilities

The respective responsibilities of ourselves and of management in relation to the audit of the consolidated financial statements are set out in the engagement letter dated October 14, 2016.

Planned Scope and Timing of Our Audit

Our objective as auditors is to express an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with Canadian public sector accounting standards.

In developing our audit plan, we worked with management to understand the nature of the Municipality and to identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error. Our audit plan has been designed to focus on the identified areas of risk.

Materiality

The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the consolidated financial statements. For the current period, we have determined a materiality amount of \$250,000.

We determine performance materiality (from materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures.

We also determine an audit misstatement posting threshold (from materiality) in order to accumulate misstatements identified during the audit.

The materiality amount will be reassessed prior to the end of the engagement to ensure it remains appropriate.

Significant Changes During the Year

We did not note any significant changes in entity operations and personnel, accounting and control systems and/or accounting and auditing standards when planning the audit for the year.

Internal Control

To help identify and assess the risks of material misstatement in the consolidated financial statements, we obtain an understanding of internal control relevant to the audit. This understanding is used in the design of appropriate audit procedures. It is not used for the purpose of expressing an opinion on the effectiveness of internal control. Should we identify any significant deficiencies in the internal control and accounting systems, we will communicate them to you in our audit findings report.

Significant Risks and Other Areas of Focus

In planning our audit, we identify significant financial reporting risks and other areas of focus that, by their nature, require special audit consideration. By focusing on these areas, we establish an overall audit strategy and effectively target our audit procedures. The significant risks and other areas of focus we have identified and our proposed audit response is outlined below:

Significant Risks	Why	Proposed Audit Response
<i>Revenue recognition and completeness</i>	<i>Professional standards presume there are risks of fraud in revenue recognition in all entities.</i>	<i>Perform analytical procedures. Recalculate tax revenue using approved tax rates (provided in municipal by-laws) and assessments (produced by MPAC). Compare grants received to grants earned with reference to the related expenses to ascertain that appropriate amount of revenue recognized. Test other revenues, as/where applicable. Review of cut-off procedures.</i>
<i>Management override of controls</i>	<i>Professional standards presume the risk of management override is present in all entities and requires the performance of specific procedures to address this presumed risk.</i>	<i>Inquire of management. Review/test journal entries. Review of related-party transactions and management estimates.</i>

Other Areas of Focus	Why	Proposed Audit Response
<i>Tangible capital assets</i>	<p><i>Assets recorded may not be capital in nature.</i></p> <p><i>Assets disposed of may not have been recorded.</i></p>	<p><i>Test additions and disposals.</i></p> <p><i>Review of amortization policy and calculations.</i></p> <p><i>Review of construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.</i></p> <p><i>Discuss any impairment with management.</i></p>
<i>Employee future benefits liability</i>	<p><i>The liability may be misstated due to improper inputs used in valuation.</i></p> <p><i>Consolidated financial statement disclosure may not contain all required items.</i></p>	<p><i>Obtain actuarial valuation/report and review assumptions used by actuary.</i></p> <p><i>Communicate with actuary regarding auditor reliance on actuarial valuation/report.</i></p> <p><i>Review note disclosure.</i></p>
<i>Accounts payable, accrued liabilities, expenses</i>	<i>Accounts payable, accrued liabilities and expenses may be understated due to improper cut-off.</i>	<p><i>Perform analytical procedures.</i></p> <p><i>Perform tests of controls.</i></p> <p><i>Select a sample of expenses to vouch to supporting documentation.</i></p> <p><i>Perform a search for unrecorded liabilities at year-end.</i></p> <p><i>Examine significant accrued liabilities and test supporting assumptions.</i></p> <p><i>Review the outcome of prior year estimates and accruals.</i></p>
<i>Landfill liability</i>	<i>The liability may be misstated due to improper inputs used in valuation.</i>	<p><i>Obtain report and review assumptions used by Municipality to determine the landfill liability.</i></p> <p><i>Review note disclosure.</i></p>
<i>Contaminated sites liability</i>	<i>There is a risk of material misstatement related to the completeness and accuracy of the liability and related expenses.</i>	<i>Review completeness of management's analysis of potentially contaminated sites.</i>
<i>Accounts/taxes receivable</i>	<p><i>Accounts/taxes receivable may be over/understated due to improper cut-off.</i></p> <p><i>The allowance for doubtful accounts may be insufficient.</i></p>	<p><i>Perform analytical procedures.</i></p> <p><i>Perform tests of controls.</i></p> <p><i>Confirm a sample of receivable balances.</i></p> <p><i>Review aging reports.</i></p> <p><i>Examine payments received subsequent to year-end.</i></p>

Other Areas of Focus	Why	Proposed Audit Response
Contingencies	Contingent liabilities may not be properly accrued for and commitments and contingencies may not be disclosed in the consolidated financial statements.	Send legal inquiry letter(s) to Municipality's solicitor(s). Review Council and Committee meeting minutes.
Estimates	Management estimates may not be calculated in accordance with Canadian public sector accounting standards or be properly supported.	Test supporting assumptions for estimates. Review outcome of prior year estimates and accruals.
Payroll	Payroll expense may not be accurately recorded.	Perform analytical procedures. Perform tests of controls. Reconcile salaries/wages general ledger accounts to T4 Summary.
Obligatory reserve funds	Revenue from obligatory reserve funds may not be recorded in accordance with the Municipality's accounting policies.	Test revenue recognized to ensure in accordance with the Municipality's accounting policies and Canadian public sector accounting standards.

If there are specific areas that warrant our particular attention during the audit or where you would like us to undertake some additional procedures, please advise us accordingly.

Uncorrected Misstatements

Where we identify uncorrected misstatements during our audit, we will communicate them to management and request that they be corrected. If not corrected by management, we will then request that you correct them. If not corrected by you, we will also communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Timing

The proposed timing of our audit (as discussed with management) is as follows:

Key Deliverables	Expected Date(s)
Conduct interim audit field work	Fall 2018
Conduct year-end audit field work	March 2019
Present audit findings report, management letter and draft consolidated financial statements to Mayor and Council	Spring 2019
Approval of consolidated financial statements by Mayor and Council	Spring 2019
Provide consolidated financial statements including our audit opinion	Spring 2019

Engagement Team

Our engagement team planned for your audit will include the following personnel:

Name	Role	Contact Details
Howard A. Allan, FCPA, FCA	Partner	hallan@allanandpartners.com
Serena Fortin, CPA, CA	Manager	sfortin@allanandpartners.com
Jessica Rothwell, BBA	Senior	jrothwell@allanandpartners.com
Shawn Hunt, B Comm	Audit Assistant	shunt@allanandpartners.com

Audit Findings

At the conclusion of our audit, we will prepare an audit findings report to assist you with your review of the consolidated financial statements. This report will include our views and comments on matters such as:

- significant matters, if any, arising from the audit that were discussed with management;
- significant difficulties, if any, encountered during the audit;
- qualitative aspects of the Municipality's accounting practices, including accounting policies, accounting estimates and consolidated financial statement disclosures;
- uncorrected misstatements; and
- any other audit matters of governance interest.

Audit Questions and Requests

Fraud

Professional standards require that during the planning of our audit we obtain your views on the risk of fraud. We make similar inquiries to management as part of our planning process. Responses to these questions will assist us in planning our overall audit strategy and audit approach accordingly. We have prepared the following comments to facilitate our audit planning:

Required Discussion	Auditor Response	Questions to Mayor & Council
Details of existing oversight processes with regards to fraud.	Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes as follows: <ul style="list-style-type: none">• Discussions at Council meetings and our attendance at those meetings, when required/requested;• Review of related party transactions; and• Consideration of tone at the top.	What oversight, if any, do you provide over management's processes for identifying and responding to fraud risks? Are there any new processes or changes in existing processes relating to fraud that we should be aware of? (Management's processes could include policies, procedures, programs or controls that serve to prevent, detect and deter fraud.)
Knowledge of actual, suspected or alleged fraud (including misappropriation of assets or manipulation of the consolidated financial statements affecting the entity).	Currently, we are not aware of any fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the Municipality?

Other Matters

Please bring to our attention any significant matters or financial reporting risks of which you are aware that may not have been specifically addressed in our proposed audit plan. This could include such matters as future plans, contingencies, events, decisions, non-compliance with laws and regulations, potential litigation, specific transactions (such as with related parties or outside of the normal course of business) and any additional sources of audit evidence that might be available.

Fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures. The fees are based on the assumptions described in the engagement letter.

We recognize your significant role in the oversight of the audit and would welcome any observations on our audit plan.

This Letter was prepared for the sole use of those charged with governance of the Municipality to carry out and discharge their responsibilities. The content should not be disclosed to any third party without our prior written consent, and we assume no responsibility to any other person.

Yours truly,



Allan and Partners LLP
Chartered Professional Accountants
Licensed Public Accountants