

# COMMITTEE AGENDA



TO **Audit Committee**

DATE November 4, 2013

LOCATION Council Chambers, Guelph City Hall, 1 Carden Street

TIME 10:00 a.m.

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## DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

**CONFIRMATION OF MINUTES** – September 18, 2013 Open and Closed Meeting Minutes

## PRESENTATIONS (Items with no accompanying report)

a) None.

## CONSENT AGENDA

*The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.*

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
AUD-2013.14 Deloitte Audit Service Plan – December 31, 2013	<ul style="list-style-type: none"><li>Elaine Read, &amp; Adam Cross, Deloitte</li></ul>		✓
AUD-2013.15 Status Update on the Implementation of PS 3260 – Liability for Contaminated Sites			

Resolution to adopt the balance of the Audit Committee Consent Agenda.

## ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

- 1) delegations (may include presentations)
- 2) staff presentations only
- 3) all others.

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**STAFF UPDATES AND ANNOUNCEMENTS**

**ADJOURNMENT**

**NEXT MEETING** – February 4, 2014 (*tentative*)



**The Corporation of the City of Guelph  
Audit Committee  
Wednesday, September 18, 2013 at 5:00 p.m.**

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**Attendance**

Members: Chair Guthrie, Mayor Farbridge, Councillors Furfaro, Kovach (*arrived at 5:07 p.m.*) and Wettstein

Staff: Mr. A. Horsman, Executive Director, Finance & Enterprise/Chief Financial Officer; Ms. L. Alonzo, Internal Auditor; Ms. T. Johnston, Manager, Financial Reporting & Accounting; Ms. T. Agnello, Deputy Clerk; and Ms. D. Black, Council Committee Coordinator

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**Call to Order (5:00 p.m.)**

Chair Guthrie called the meeting to order.

**Disclosure of Pecuniary Interest and General Nature Thereof**

There were no disclosures.

**Confirmation of Minutes**

1. Moved by Mayor Farbridge  
Seconded by Councillor Furfaro

That the open and closed meeting minutes of the Audit Committee held on June 12, 2013 be confirmed as recorded.

*VOTING IN FAVOUR: Mayor Farbridge, Councillors Guthrie, Furfaro, and Wettstein (4)  
VOTING AGAINST: (0)*

CARRIED

**Extracted Consent Agenda Item**

The following item was extracted:

**AUD-2013. 9 Procurement Controls and Compliance Audit Results**

*Councillor Kovach arrived at the meeting. (5:07 p.m.)*

The Internal Auditor explained audit processes and timelines. Discussion ensued regarding audit thresholds, the purchasing policy review and communication of report results.

2. Moved by Mayor Farbridge  
Seconded by Councillor Wettstein

That the Audit Committee Report CAO-A-1307, Internal Audit Report – Procurement Controls and Compliance, dated September 18, 2013” be received.

*VOTING IN FAVOUR: Mayor Farbridge, Councillors Guthrie, Furfaro, Kovach and Wettstein (5)*  
*VOTING AGAINST: (0)*

CARRIED

### **Extracted Consent Agenda Item**

The following item was also extracted:

#### **AUD-2013.11 Internal Audit 2013 Work Plan Update**

#### **Balance of Consent Items**

3. Moved by Councillor Kovach  
Seconded by Mayor Farbridge

That the balance of the Audit Committee September 18, 2013 Consent Agenda, as identified below, be adopted:

#### **AUD-2013.10 2013 Audit Committee Interim Work Plan Status Report**

That FIN-13-33 2013 Audit Committee Interim Work Plan Status Report be received.

#### **AUD-2013.12 Litigation Status Update**

THAT the report of Legal and Realty Services regarding the status of City litigation dated September 18, 2013 be received.

#### **AUD-2013.13 Outstanding Motions of the Audit Committee**

1. That report FIN-13-34 dated September 18, 2013, regarding outstanding motions of the Audit Committee, be received.
2. That the 6 motions marked as “Completed” or “Addressed”, previously passed by the Audit Committee of Council, be removed from the outstanding motion list, based on reasons provided.

*VOTING IN FAVOUR: Mayor Farbridge, Councillors Guthrie, Furfaro, Kovach and Wettstein (5)*  
*VOTING AGAINST: (0)*

CARRIED

### **Extracted Consent Items**

#### **AUD-2013.11 Internal Audit 2013 Work Plan Update**

Ms. Alonzo, Internal Auditor, explained the work scope timelines in the internal audit 2013 Work Plan schedule.

4. Moved by Mayor Farbridge  
Seconded by Councillor Wettstein

That the Audit Committee approve Report CAO-A-1306, Internal Audit Work Plan Update Report and Appendix "A" dated September 18, 2013.

*VOTING IN FAVOUR: Mayor Farbridge, Councillors Guthrie, Furfaro, Kovach and Wettstein (5)*  
*VOTING AGAINST: (0)*

CARRIED

### **Authority to Resolve into a Closed Meeting**

5. Moved by Councillor Furfaro  
Seconded by Mayor Farbridge

That the Audit Committee now hold a meeting that is closed to the public with respect to Sec. 239(2) (b) of the *Municipal Act* with respect to personal matters about an identifiable individual.

CARRIED

### **Closed Meeting (5:21 p.m.)**

The following matter was considered:

#### **AUD-2013.C1 External Auditor Performance Review**

### **Rise from Closed Meeting (5:29 p.m.)**

6. Moved by Councillor Kovach  
Seconded by Councillor Wettstein

That the Committee rise from its closed meeting.

CARRIED

### **Open Meeting (5:30 p.m.)**

### **Staff Updates and Announcements**

Mr. Horsman, Executive Director, Finance & Enterprise/Chief Financial Officer advised the that principals of the external auditor have changed.

**Adjournment** (5:32 p.m.)

7. Moved by Mayor Farbridge  
Seconded by Councillor Kovach

That the committee meeting be adjourned.

CARRIED

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Tina Agnello – Deputy Clerk

**AUDIT COMMITTEE  
CONSENT AGENDA**

**November 4, 2013**

Members of the Audit Committee.

**SUMMARY OF REPORTS:**

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Audit Committee Consent Agenda will be approved in one resolution.

**A Reports from Administrative Staff**

<b>REPORT</b>	<b>DIRECTION</b>
<p><b>AUD-2013.14 DELOITTE AUDIT SERVICE PLAN – DECEMBER 31, 2013</b></p> <p>That the Audit Service Plan for the Year Ended December 31, 2013 attached in Appendix A to Report FIN-13-45 be received for information.</p>	Receive
<p><b>AUD-2013.15 STATUS UPDATE ON THE IMPLEMENTATION OF PS 3260 – LIABILITY FOR CONTAMINATED SITES</b></p> <p>That Report FIN-13-46 dated November 4, 2013 entitled "Status Update on the Implementation of PS 3260 – Liability for Contaminated Sites" be received.</p>	Receive

attach.

# STAFF REPORT



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TO Audit Committee

SERVICE AREA Finance and Enterprise Services

DATE November 4, 2013

**SUBJECT Deloitte's Audit Service Plan – December 31, 2013**

REPORT NUMBER FIN-13-45

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## EXECUTIVE SUMMARY

### PURPOSE OF REPORT

To present Audit Committee with Deloitte's audit plan for the City of Guelph's 2013 consolidated financial statements.

### KEY FINDINGS

Staff has reviewed Deloitte's audit service plan, and recommend proceeding as planned.

### FINANCIAL IMPLICATIONS

None noted. The external audit fees were agreed upon in advance through the RFP process and have been budgeted for through the annual operating budget.

### ACTION REQUIRED

That the Audit Service Plan for the Year Ended December 31, 2013 attached in Appendix A to Report FIN-13-45 be received for information.

## RECOMMENDATION

1. That the Audit Service Plan for the Year Ended December 31, 2013 attached in Appendix A to Report FIN-13-45 be received for information.

## BACKGROUND

Annually, the Consolidated Financial Statements of the City of Guelph are required to be audited by a 3<sup>rd</sup> party auditor and the results of this audit are reported back to the Audit Committee. It is the auditor's duty to communicate the planned audit approach as well as any findings that are discovered throughout the audit to the Audit Committee. Deloitte is the external auditor for the term from 2010 through 2014 (as approved by Council by-law (2010)-19094).



# STAFF REPORT



## REPORT

Attached in Appendix A is Deloitte's Audit Service Plan for the 2013 Consolidated Financial Statement audit.

The audit fieldwork is scheduled to begin in November 2013 for an interim visit and finish in April 2014 with the final fieldwork visit. The results of the audit will be reported back to this Committee by Deloitte in June 2014. Approval of the final consolidated financial statements by Council is also expected in June 2014 at which point the statements will be made available to the public.

Audit Partner, Elaine Read, from Deloitte will be presenting the attached audit plan to the Committee and will be available for questions about the external audit approach at that time.

## CORPORATE STRATEGIC PLAN

2.3 Ensure accountability, transparency and engagement

3.2 Be economically viable, resilient, diverse and attractive for business

## DEPARTMENTAL CONSULTATION

Internal Audit was consulted in the preparation of this report.

## FINANCIAL IMPLICATIONS

None noted. The external audit fees were agreed upon in advance through the RFP process and have been budgeted for through the annual operating budget.

## COMMUNICATIONS

None required.

## ATTACHMENTS

ATT-1 Deloitte 2013 Audit Service Plan

"original signed by Jade Surgeoner"

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### Report Author

Jade Surgeoner

Senior Corporate Analyst, Financial Reporting

"original signed by Tara Baker"

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### Approved By

Tara Baker

Manager, Financial Reporting  
and accounting

"original signed by Al Horsman"

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### Recommended By

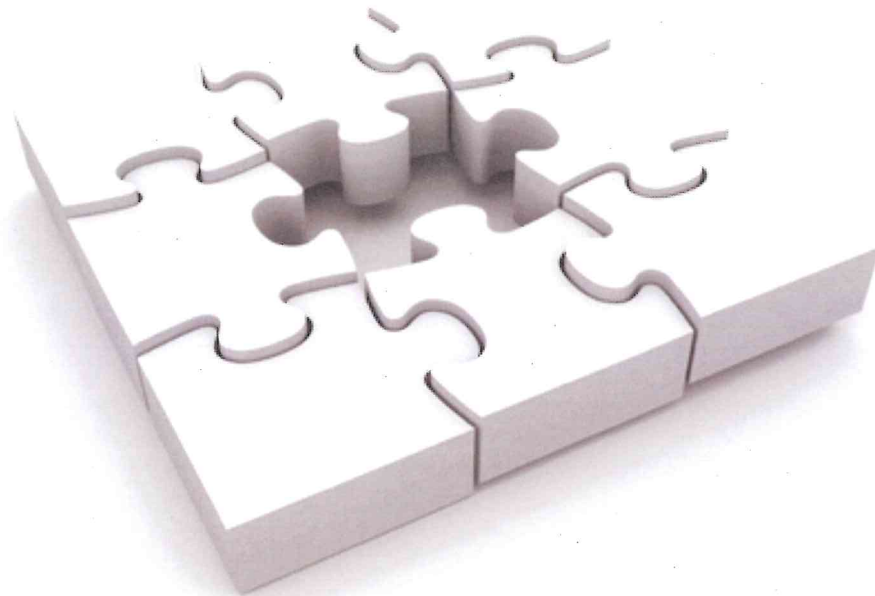
Albert Horsman

Executive Director Finance & Enterprise/CFO  
519-822-1260 x5606  
al.horsman@guelph.ca



# City of Guelph

## 2013 Audit Service Plan



For the year ending December 31, 2013  
Presented to the Audit Committee  
November 4, 2013



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November 4, 2013

To the Chair and members of the Audit Committee of the City of Guelph

Dear Audit Committee Members:

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

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

Our engagement will include:

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

Our responsibilities under Canadian GAAS are described in more detail in our audit engagement letter dated November 4, 2013.

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

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

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

Yours very truly,

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

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# Executive summary

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

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

## Audit service plan – Key elements

<b>Audit scope</b>	The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope.
<b>Materiality</b>	<p>Materiality is the magnitude of misstatements, including omissions, in the Financial Statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement.</p> <p>Our performance materiality is determined on the basis of consolidated revenue. Our preliminary estimate of performance materiality for the year ending December 31, 2013 is \$5,600,000 (2012, \$5,400,000).</p> <p>We will report to the Audit Committee all uncorrected misstatements greater than a clearly trivial amount of \$320,000, (2012, \$300,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements, if any, be corrected.</p>
<b>Audit risks</b>	<p>Our audit scope reflects the risks that we have identified at the City and our planned audit response to them.</p> <p>The more significant of the risks that we identified as part of our strategic audit planning, together with our planned audit response, are set out in the body of this report.</p>
<b>Fraud risk</b>	<p>In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:</p> <ol style="list-style-type: none"> <li>1. Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.</li> <li>2. Evaluate whether the selection and application of accounting policies by your organization, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.</li> <li>3. Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures.</li> </ol> <p>We will inquire directly of the Audit Committee regarding its views about the risk of fraud, whether it has knowledge of any actual or suspected fraud affecting the City and the role it exercises in the oversight of management's antifraud programs.</p> <p>If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.</p>
<b>Internal control matters</b>	<p>We will obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all such controls are relevant to the audit. It is a matter of professional judgment whether a control, individually or in combination with others, is relevant to the audit.</p> <p>We will communicate in writing significant deficiencies in internal control identified during the audit to the Audit Committee on a timely basis.</p>



## Audit service plan – Key elements

<p><b>Group audit</b></p>	<p>When designing our audit strategy, we also considered:</p> <ul style="list-style-type: none"> <li>• the financial significance or relative importance of the consolidated entities (listed in Appendix 2) to your organization as a whole;</li> <li>• the complexity and nature of the operations, internal controls and accounting issues at the consolidated entities;</li> <li>• the degree of centralization or decentralization of processes and controls including, the extent of relevant enterprise-level controls; and</li> <li>• the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at each of the consolidated entities.</li> </ul> <p>For the City of Guelph, both Guelph Hydro Inc. and The Elliot are audited by KPMG LLP. Referral instructions will be sent to each of these engagement teams outlining items such as risks and materiality. Any issues arising from these audits will be communicated to the Audit Committee in the audit results presentation.</p> <p>We will report instances where our evaluation of the work of component auditors gives rise to a concern about the quality of that auditors' work and any limitations on the group audit, where access to information may have been restricted.</p>
<p><b>Use of the work of experts</b></p>	<p>Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist them with more complex technical, accounting, auditing and reporting issues.</p>
<p><b>Audit team</b></p>	<p>The engagement team that will serve the City of Guelph 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.</p> <p>The key audit team members serving the City are set out on page 9.</p> <p>Our team also includes high-quality technical specialists and other professionals. We are committed to continuing to serve the City with quality and distinction.</p>
<p><b>Engagement letter</b></p>	<p>The terms and conditions of our engagement are included in the engagement letter.</p>
<p><b>Complete engagement reporting</b></p>	<p>Upon the satisfactory completion of our audit, we will provide you with an audit report on your consolidated financial statements.</p> <p>We will also provide reports to the Audit Committee to assist it in fulfilling its responsibilities, as required by applicable auditing standards. Appendix 4 summarizes the required communications between Deloitte and the Audit Committee.</p>
<p><b>Other matters</b></p>	
<p><b>Audit fees</b></p>	<p>Our fees are in accordance with our response to the 2010 request for proposal. An analysis of these fees is included in our detailed audit plan. The fees for the December 31, 2013 consolidated year-end audit are as presented in our proposal for audit services of \$41,400 (2012 \$40,400).</p> <p>Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from the City staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS.</p>
<p><b>Independence</b></p>	<p>We have developed important safeguards and procedures to protect our independence and objectivity. We are independent of the City and we will reconfirm our independence in our final report to the Audit Committee.</p>
<p><b>Management representations</b></p>	<p>We will obtain written and oral representations from management to complement our audit procedures. These representations are intended to confirm the information that is provided to us and reduce the possibility of misunderstanding.</p> <p>We will provide the Audit Committee with a copy of the written representations to be provided by management in our final report.</p>

## Other matters

### New financial reporting standards

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

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

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

- Section PS 3410 (Revised), *Government Transfers*.
- Section PS 3510, *Tax Revenue (early adopted by the City in 2012)*.

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

- Section PS 3260, *Liability for Contaminated Sites*.

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

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

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

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

## Materiality

Our overall materiality level is used in our assessment of significant accounts and locations where audit effort is necessary and is based on the consolidated results of operations for the City. Our performance materiality for planning and determining the audit scope for 2013 has been initially set at \$5,600,000 (2012 - \$5,400,000). We will design our work so as to consider material items appropriately and to detect potential adjustments that, individually or in combination with others, would be material to the Financial Statements. In accordance with Canadian GAAS, we will request the correction of any misstatements.

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

## Risk assessment

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

- key business developments and transactions (internal and external);
- current business, regulatory and accounting pronouncements and developments;
- key management strategies and business plans;
- prior years' audit results; and
- areas of significant judgment and risk.

Our audit planning activities and our preliminary identification of audit risks enables us to set the scope of our audit and to design audit procedures tailored to the identified risks to financial reporting. The table below sets out the more significant risks to financial reporting that we have identified, with management's support, during our preliminary planning activities. The table also includes our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk's occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the City.



The results of our audit planning and risk assessment drive the scope and timing of the auditing procedures:

Significant areas of audit risk	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 to assess for bias.</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>• Ensure appropriate accounting treatment has been applied.</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</b>  <b>Description:</b> Contingent liabilities are not properly accrued for or disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• We will contact the City of Guelph's external law firms to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition.</li> <li>• We will review Council minutes and Audit Committee minutes for evidence of contingent liabilities.</li> </ul>
<p><b>Council and senior management expenses</b>  <b>Description:</b> Council and Senior management may expense items not in line with the City of Guelph's expense policy.</p>	<ul style="list-style-type: none"> <li>• Test a sample of expense reports and VISA statements for validity and proper approval.</li> </ul>
<p><b>Estimates</b>  <b>Description:</b> Management estimates are not calculated in accordance with GAAP 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>
<p><b>Payroll</b>  <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>Reserves and Reserve Funds</b>  <b>Description:</b> Transfers to and from reserves and reserve funds have been completed without council approval.</p>	<ul style="list-style-type: none"> <li>• Test the change in reserve and reserve fund balances and verify material transactions to determine if transfers have been approved by Council.</li> </ul>
<p><b>Revenue / deferred revenue</b>  <b>Description:</b> Revenue is overstated through the recognition of revenue that should be deferred to a subsequent period.</p>	<ul style="list-style-type: none"> <li>• Test a sample of grant charges, contributions or other monies received during the year and verify the terms and conditions to assess whether the amount should be recorded as revenue or as deferred revenue.</li> </ul>
<p><b>Taxation revenue</b>  <b>Description:</b> Management's estimate of allowance for doubtful accounts is understated.</p>	<ul style="list-style-type: none"> <li>• Recalculation of a sample of assessments based on verified property value and tax rates.</li> <li>• Evaluate management's estimate of the allowance for doubtful accounts to ensure it is reasonable and consistent with the City'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>  <b>Description:</b> Assets recorded are not capital in nature and assets disposed of by the City of Guelph 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>• Assess the disposal schedule prepared by management for reasonability and test selected transactions.</li> </ul>

## Group audit considerations

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

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

Based on our analysis of these risks, we have determined the scope of work we consider necessary to provide an appropriate basis for our audit opinion on the consolidated financial statements.

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

## Audit scope uncertainty

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

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

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

# The Deloitte client service commitment

## Seamless and effective delivery focused on your specific needs

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

## Our approach to client service excellence

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

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

## Our client service principles

### We will:

#### **make** and meet our commitments to you by...

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

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

- anticipating your needs; and
- understanding the unique characteristics of your business industry and operating circumstances.



■ **provide** value and build trust through technical competence and consistent results by...

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

■ **demonstrate** professionalism through effective interaction and communications by...

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

■ provide a **no surprises** experience by...

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

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

# Highly-talented team

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



**Peter Barr**

Lead Client Service Partner

Peter is responsible for helping the Audit Engagement Partner coordinate our group audits for the City. He has served the City of Guelph 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 City. 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 City since 2005.



**Scott Lamb**

Tax Partner

Scott leads the tax team and provides insight to the City on emerging tax issues. He has served the City since 2010.

# 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 City of Guelph. Our risk-based audit approach is:

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

There are four key phases within our systematic approach:

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

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

### 1. Initial planning

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

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

#### The Deloitte audit difference

Heightened attention to the effectiveness of our procedures yields improved efficiency of the overall audit.

A better audit planning process features increased partner and manager involvement in risk assessment and the pinpointed identification of the underlying risk of material misstatement for significant account balances and disclosures.

Improved design of control and substantive tests provides:

#### Tailored procedures

Better linkage between identified risks of material misstatement, controls that respond to the risks, and substantive testing.

Focus on risks and the elimination of testing that offers little additional audit assurance.

Development of a sampling methodology that is risk-based and easy to implement enables us to perform appropriate, but not excessive, audit procedures.

Increased on-the-job training enhances our professionals' understanding of the objectives of specific audit tests and their ability to make well-reasoned professional judgments.



## Understanding your business and accounting processes

Our audit will take into account specific items of particular interest raised by the Audit Committee as well as areas of concern identified by the Audit Committee or management.

## 2. Assessing and responding to engagement risk

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

### Risk assessment

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

### Consideration of the risk of fraud

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

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

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

#### Benefits of pinpointing risk

Professional standards and our policies require an audit response for each significant account and relevant assertion. Performing our risk identification at this level helps us pinpoint risk and develop a well-tailored, integrated response for both significant and normal risk areas.

#### Client service

Helps us identify opportunities to refine our assessment of risks and controls.

Enables value-added feedback on industry insights, business issues, and risks that could have an impact on your business.

#### Quality

Focuses our use of the right specialists to address audit areas of specific risk

Drives an approach that covers both controls and substantive responses.

Facilitates the identification of more effective methods of auditing.

#### Efficiency

Creates a targeted response for significant risk areas and normal risk areas, aligning audit effort with the risk.

Facilitates the identification of more efficient methods of auditing, including opportunities to integrate testing procedures.

## Information technology

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

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

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

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

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

## 3. Developing and executing the audit plan

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

### Audit procedures

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

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

### Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of Internal Control over Financial Reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

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



## Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls testing and are designed to enable us to obtain reasonable assurance that the Financial Statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the Financial Statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at \$320,000), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

## Use of work of experts

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

## 4. Reporting and assessing performance

### Perform post-engagement activities

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

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

### Complete engagement reporting

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

We also provide reports to the Audit Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix 4 summarizes the required communications between Deloitte and the Audit Committee.

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

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

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

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

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

# Appendix 2 - Sources of audit evidence in a group audit

This section indicates where we will perform full-scope audits, limited-scope audits and review engagements.

Business unit	Location and notes
<b>Full-scope audits</b>	
City of Guelph	Guelph, City Hall – Deloitte
Wellington-Dufferin- Guelph Public Health	Fergus – Deloitte
Guelph Downtown Business Improvement Association	Guelph – Deloitte
Guelph Junction Railway	Guelph, City Hall – Deloitte
Guelph Municipal Holdings Inc.	Guelph, City Hall – Deloitte
Guelph Hydro Inc.	Guelph – KPMG LLP
The Elliot	Guelph – KPMG LLP

# Appendix 3 - Communication calendar

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

Interaction	September	October	November	December	January	February	March	April	May	June	July	August
<b>Audit execution – meetings with Audit Committee</b>												
Audit Committee meeting to present Audit Service Plan			●									
Interim fieldwork			●									
Final fieldwork								●	●			
Final Audit Committee meeting											●	
Annual year-end issues meetings											●	
<b>Client feedback</b>												
Audit continuous improvement meetings				●							●	
Annual client feedback process												●



# Appendix 4 - Communication requirements

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

Required communication	Timing of communication
1. Our responsibilities under Canadian GAAS.	November 2013
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.	November 2013
3. Management judgments and accounting estimates.	June 2014
4. Financial statement adjustments.	June 2014
5. Audit adjustments.	June 2014
6. Uncorrected misstatements and disclosure items.	June 2014
7. Significant accounting policies.	June 2014
8. Critical accounting policies and practices.	June 2014
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	June 2014
10. Our views about significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	June 2014
11. Our responsibility for other information in documents containing audited Financial Statements (e.g., Annual Report), any procedures performed, and the results.	As available
12. Disagreements with management.	June 2014
13. Our views about significant matters that were the subject of consultation with other accountants.	June 2014
14. Major issues discussed with management prior to our retention.	June 2014
15. Significant difficulties, if any, encountered dealing with management related to the performance of the audit.	June 2014
Significant deficiencies in internal control, if any, identified by us during the interim period in the conduct of the audit of the financial statements.	June 2014
16. Material written communications between management and us.	June 2014
17. All relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on independence.	June 2014
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.	June 2014
19. Illegal or possibly illegal acts.	June 2014
20. Fraud or possible fraud identified through the audit process.	June 2014

Required communication	Timing of communication
21. Significant transactions inconsistent with ordinary business, including related party transactions.	June 2014
22. Non-compliance with laws and regulations that come to our attention.	June 2014
23. Communication in writing to the City Council regarding any areas we became aware of where the oversight of the City of Guelph's external financial reporting and internal control over financial reporting by the City of Guelph's Audit Committee may be ineffective.	June 2014
24. Limitations placed on our scope.	June 2014
25. Written representations we are requesting.	June 2014
26. Modifications to our opinion(s).	June 2014

# Appendix 5 - Standard-setting update

## Public sector accounting standards

Final standards	Effective Date
<p><b>Amendments to the Transition Provisions of Section PS 2601, Foreign Currency Translation, and Section PS 3450, Financial Instruments</b></p> <p>At its meeting on March 21-23, 2012, the PSAB approved amendments to the transition provisions of Section PS 2601, <i>Foreign Currency Translation</i>, and Section PS 3450, <i>Financial Instruments</i>. In addition to approving the proposed amendments of the ED, which were supported by commentators, an additional amendment was made by the PSAB to clarify that the measurement provisions of the new Sections are to be applied prospectively. On October 3, 2012, the PSAB issued a Basis of Conclusions document with respect to these amendments.</p>	Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.
<p><b>Consequential Amendments Resulting from the Issue of Section PS 3450, Financial Instruments, including a new Section PS 3041, Portfolio Investments</b></p> <p>At its meeting on December 15-16, 2011, the PSAB approved these amendments to the PSA Handbook, including a new Section PS 3041, <i>Portfolio Investments</i>, and the withdrawal of Section PS 3030, <i>Temporary Investments</i>, and Section PS 3040, <i>Portfolio Investments</i>. In response to respondents' feedback, some clarifications to the amendments were made in finalizing the changes. On April 3, 2012, the PSAB issued a Background Information and Basis for Conclusions document in respect of the new Section PS 3041.</p>	Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.
<p><b>Financial Instruments: Income on Externally Restricted Assets</b></p> <p>At its meeting on December 13-14, 2012, the PSAB approved these amendments to Section PS 3450, <i>Financial Instruments</i>. In doing so, PSAB revised certain wording in the ED, but did not consider it necessary to re-expose the revisions as they did not represent significant changes. The amendments align the reporting of income on externally restricted assets that are financial instruments in Section PS 3450 with the requirements in Section PS 3100, <i>Restricted Assets and Revenues</i>, and address transitional issues that can arise when Section PS 3450 is adopted. Responses to the ED supported the proposed changes.</p>	Fiscal years beginning on or after March 1, 2013. Earlier adoption is permitted as of the beginning of the fiscal year in which this Section is first applied.
<p><b>Handbook Improvements</b></p> <p>At its meeting on December 15-16, 2011, the PSAB approved a series of final "Handbook Improvement" changes clarifying various Sections of the PSA Handbook as a result of (i) the issue of new Section PS 3450, <i>Financial Instruments</i>, and (ii) recent changes to Canadian assurance standards that warrant more specific guidance on what constitutes the date of completion of financial statements.</p>	Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.
<p><b>Introduction to Public Sector Accounting Standards - Government Not-for-Profit Organizations</b></p> <p>The Introduction to Public Sector Accounting Standards was amended to require that, for purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270.</p>	Fiscal years beginning on or after January 1, 2012.
<p><b>Section PS 1201, Financial Statement Presentation</b></p> <p>This new Section PS 1201 replaces existing Section PS 1200, <i>Financial Statement Presentation</i>, and includes a new statement of rereasurement gains and losses. The new statement will report: (i) unrealized gains and losses associated with financial instruments in the fair value category; (ii) exchange gains and losses associated with monetary assets and monetary liabilities denominated in a foreign currency that have not been settled; (iii) amounts reclassified to the statement of operations upon derecognition or settlement; and (iv) other comprehensive income reported when a public sector entity includes the results of its government business enterprises and government business partnerships in the summary financial statements.</p>	Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.



Final standards	Effective Date
<p><b>Section PS 2601, Foreign Currency Translation</b></p> <p>This new Section PS 2601 replaces existing Section PS 2600, Foreign Currency Translation. Major changes from Section PS 2600 include: (i) elimination of deferral and amortization of unrealized gains and losses arising from foreign currency translation before settlement; (ii) withdrawal of hedge accounting as it is unnecessary under the new treatment of unrealized gains and losses; and (iii) separating realized and unrealized foreign exchange gains and losses and reporting them in different statements.</p> <p>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.</p>	<p>Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.</p>
<p><b>Section PS 3260, Liability for Contaminated Sites</b></p> <p>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.</p>	<p>Fiscal years beginning on or after April 1, 2014.</p>
<p><b>Section PS 3410 (Revised), Government Transfers</b></p> <p>In December 2010, the PSAB approved a final standard to replace existing Section PS 3410, which establishes standards on how governments should account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.</p>	<p>Fiscal years beginning on or after April 1, 2012.</p>
<p><b>Section PS 3450, Financial Instruments</b></p> <p>This new accounting standard Section PS 3450 provides comprehensive guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.</p> <p>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.</p>	<p>Fiscal years beginning on or after April 1, 2012 for government organizations, and April 1, 2015 for governments.</p>
<p><b>Section PS 3510, Tax Revenue</b></p> <p>This new Section PS 3510 establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements.</p>	<p>Fiscal years beginning on or after April 1, 2012.</p>

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# STAFF REPORT



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TO Audit Committee

SERVICE AREA Finance and Enterprise Services

DATE November 4, 2013

**SUBJECT Status update on the implementation of PS 3260 – Liability for Contaminated Sites**

REPORT NUMBER FIN-13-46

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## EXECUTIVE SUMMARY

### PURPOSE OF REPORT

To provide Audit Committee with a status update on the implementation of PS 3260 – Liability for Contaminated Sites.

### KEY FINDINGS

A preliminary inventory listing of potentially contaminated sites has been generated. The listing includes sites where a wide range of due diligence procedures have been performed, and staff are now in the process of forming a committee to develop a framework to help classify, value (cost), and account for the risk associated with the various sites.

### FINANCIAL IMPLICATIONS

The financial implications for 2013 are nil. The impact when PS 3260 is implemented in 2015 will likely be an increase in the City's liabilities and expenses. The expense will be a non-cash item that will be adjusted outside the operating budget process. A strategy on the City's approach to funding these liabilities will need to be developed over the course of 2014 to ensure appropriate financial planning relating to contaminated sites.

### ACTION REQUIRED

THAT Report FIN-13-46 dated November 4, 2013, entitled "Status update on the implementation of PS 3260 – Liability for Contaminated Sites" be received.

## RECOMMENDATION

1. THAT Report FIN-13-46 dated November 4, 2013, entitled "Status update on the implementation of PS 3260 – Liability for Contaminated Sites" be received.

# STAFF REPORT

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## BACKGROUND

Effective for year ended December 31, 2015, the City is required to be compliant with the accounting standard, PS 3260 – Liability for Contaminated Sites. This section establishes a standard for municipalities to account for and report on liabilities associated with the remediation of contaminated sites.

## REPORT

Included in report 12-04 'Preliminary Overview on PS 3260' which was presented to Audit Committee on April 11, 2012, staff proposed the implementation of this standard be addressed through a phased approach.

**Phase 1 - Identification:** Complete a full review of city property to identify potential contaminated sites through discussions with appropriate personnel from each department. Gather documentation on analysis and valuations that have already been completed to date. **COMPLETED**

**Phase 2 - Resource Planning:** Review each potential site and create a resource planning document that outlines expected staff and financial resources. **IN PROGRESS**

**Phase 3 - Assessment & Computation:** Perform a detailed review and assessment on a site by site basis documenting rationale and computation of liability. Contract out any external consulting work as previously identified.

**Phase 4 – Recognition:** Finalize the computation for the liability for contaminated sites. Provide report to Audit Committee that summarizes the analysis and computation of the liability for contaminated sites prior to its inclusion on the 2015 financial statements.

Staff proceeded with the phased approach as planned. Over the past few months finance staff have been working with the relevant departments to identify all potentially contaminated sites in which the City could be responsible for remediation costs under PS 3260.

### Next Steps:

There is a preliminary list of all sites, and we are now in the process of putting together an internal steering committee to develop a framework to classify, and account for the risk associated with the various sites. The steering committee will be drafting a policy which will be presented to Audit Committee in 2014 related to the recognition criteria in order to ensure that the properties are being assessed on a consistent basis. This policy will be developed with guidance from the external auditors, as well through consultation with other municipalities, and the province.

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# STAFF REPORT

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## **CORPORATE STRATEGIC PLAN**

5.3 Open, accountable and transparent conduct of municipal business.

## **DEPARTMENTAL CONSULTATION**

Consultation with all City departments will occur throughout the implementation process. Now that we have a preliminary inventory listing, a committee will be set up consisting of legal, finance, engineering, and other relevant individuals to work on Phase 3 and 4 of the implementation.

## **FINANCIAL IMPLICATIONS**

The financial implications for 2013 are nil. The impact when PS 3260 is implemented in 2015 will likely be an increase in liabilities and expenses. The expense will be a non-cash item that will be adjusted outside the operating budget process. A strategy on the City's approach to funding these liabilities will need to be developed to ensure appropriate financial planning relating to contaminated sites.

## **COMMUNICATIONS**

None noted

## **ATTACHMENTS**

None

"original signed by Jade Surgeoner"

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### **Report Author**

Jade Surgeoner  
Senior Financial Analyst, Financial Reporting

"original signed by Tara Baker"

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### **Approved By**

Tara Baker  
Manager, Financial Reporting  
and Accounting

"original signed by Al Horsman"

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