

The Corporation of the City of Richmond Hill

For the year ended December 31, 2021

Report to the Audit Committee
Audit strategy

November 9, 2021

Melanie Dugard, CPA, CA

Principal

T 416-607-7303

E Melanie.Dugard@ca.gt.com

Allison Frizzell, CPA, CA

Senior Manager

T 416-607-2638

E Allison.Frizzell@ca.gt.com



Contents

| | |
|---------------------------------|---|
| Executive summary | 1 |
| Audit plan and risk assessment | 2 |
| Team, timing and communications | 6 |
| Technical updates – highlights | 7 |

Appendices

| |
|--------------------------------------|
| Appendix A – Overview and approach |
| Appendix B – Engagement letter |
| Appendix C – Accounting developments |
| Appendix D – Auditing developments |

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the consolidated financial statements of The Corporation of the City of Richmond Hill (the "City") for the year ended December 31, 2021. This communication will assist the Audit Committee in understanding the terms of the audit engagement, our proposed audit strategy and the level of responsibility assumed by us.

The information in this document is intended solely for the information and use of the Audit Committee, Council, and management. It is not intended to be distributed to or used by anyone other than these specified parties.

We have obtained our engagement letter dated December 18, 2020, which outlines our responsibilities and the responsibilities of management.

Approach

Our audit approach requires that we establish an overall strategy that focuses on risk areas. We identify and assess risks of material misstatement of the

consolidated financial statements, whether due to fraud or error. The greater the risk of material misstatement associated with an area of the consolidated financial statements, including disclosures, the greater the audit emphasis placed on it in terms of audit verification and analysis. Where the nature of a risk of material misstatement is such that it requires special audit consideration, it is classified as a significant risk.

Independence

We have a rigorous process where we continually monitor and maintain our independence. The process of maintaining our independence includes, but is not limited to:

- Identification of threats to our independence and putting into place safeguards to mitigate those threats. For example, we evaluate the independence threat of any non-audit services provided to the City
- Confirming the independence of our engagement team members

We have identified no information regarding our independence that in our judgment should be brought to your attention.

Audit plan and risk assessment

We have planned our audit in accordance with our approach summarized in Appendix A.

Materiality

The purpose of our audit is to provide an opinion as to whether the consolidated financial statements are prepared, in all material respects, in accordance with Canadian public sector accounting standards as at December 31, 2021. Therefore, materiality is a critical auditing concept and as such we apply it in all stages of our engagement.

The concept of materiality recognizes that an auditor cannot verify every balance, transaction or judgment made in the financial reporting process. During audit planning, we made a preliminary assessment of materiality for the purpose of developing our audit strategy, including the determination of the extent of our audit procedures. We have set our planning materiality at 3% of total revenues.

During execution of the audit, we will consider whether materiality should be re-assessed due to changes or events identified. At completion, we will consider not only the quantitative assessment of materiality, but also qualitative factors, in assessing the impact on the consolidated financial statements, our audit opinion and whether matters should be brought to your attention.

Considerations

The following is a summary of matters that relate to changes to the City and its environment that were considered in preparing our audit plan.

| Matter | Discussion and impact |
|----------------------|---|
| Laws and regulations | <p>During the course of the audit, we will perform specified audit procedures to help identify instances of non-compliance with laws and regulations that may have a material effect on the consolidated financial statements. An audit of financial statements is not designed to detect all instances of non-compliance with laws and regulations and does not represent an audit of the City's compliance with applicable laws and regulations.</p> <p>While we have not identified any instances of non-compliance, we would like to know if you are aware of any instances of non-compliance.</p> |
| Fraud | <p>We are responsible for obtaining reasonable assurance that the consolidated financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected and this is particularly true in relation to fraud. The primary responsibility for the prevention and detection of fraud rests with those charged with governance and management.</p> <p>During our audit planning, we will enquire of management as to their views on the risks of fraud and their processes for identifying and assessing fraud risks. At this time, we are not aware of any fraud-related matters that could affect our audit approach. However, we would like to obtain your input on the following areas:</p> <ul style="list-style-type: none">• How you oversee management's processes for identifying and responding to the risks of fraud and the related internal controls that management has put in place• Whether you are aware of any actual, suspected or alleged fraud affecting the City |

Significant risks

We identified the following significant risks on which we plan to focus our attention:

| Area of risk | Why there is a risk | Planned audit response |
|-------------------------------------|--|--|
| Fraud risk from revenue recognition | <p>There is a presumed risk of fraud in revenue.</p> <p>The risk primarily relates to User Charges and other fee revenue recognized.</p> | <ul style="list-style-type: none">• Perform an analytical review related to user charges in revenue and corroborate explanations as required.• Perform tests of details on user charges and other fee revenues.• Verify the completeness of revenue and receivables by reviewing management's estimate for the year-end accrual. |

| Area of risk | Why there is a risk | Planned audit response |
|--|--|--|
| Fraud risk from management override | Manipulation to financial results can occur through journal entries. | <ul style="list-style-type: none"> • Perform data analytics and tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases • Evaluate the business rationale for significant transactions that are or appear to be outside the normal course of business |

Other audit risks

Other areas we have identified where we plan to focus our attention are as follows:

| Area of risk | Why there is a risk | Planned audit response |
|---|---|---|
| Taxation revenue and receivables | Recorded tax revenues and receivables may not be valid due to fraud or error. | <ul style="list-style-type: none"> • Test the existence of taxation and other receivables at December 31, 2021. • Recalculate the net taxable assessment based on verified assessment rolls and approved levies. • Assess the adequacy of allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of the underlying property. |
| Purchases and payables | The accrued liabilities may be understated due to inaccurate estimates. | <ul style="list-style-type: none"> • Perform an analytical assessment of expenses based on expectations and corroborate large variances by testing the underlying data or discussions with personnel outside of the finance group. • Review supporting documentation and management estimates with respect to the completeness and accuracy of significant year-end accruals. |
| Provisions for employee benefits | Provision may be misstated based on assumptions used. | <ul style="list-style-type: none"> • Review assumptions used by management, and any available independent reports. • Compare assumptions and rates to industry for reasonability • Review qualifications of actuary and confirmed their independence for audit purposes. |

| Area of risk | Why there is a risk | Planned audit response |
|--------------------------------|---|---|
| Employee compensation expenses | Accrued liabilities may be understated for payroll-related costs, and expenses may be understated. | <ul style="list-style-type: none"> Review the calculation of salary and wage accruals to determine if the amounts were calculated appropriately. Perform analytical assessment of employee-related expenses based on expectations. Perform tests of details on employee-related expenses. |
| Grants and subsidies | Allocation of grants may not be appropriate and recognition of revenue may not meet grant conditions. | <ul style="list-style-type: none"> Review the allocation of funds between fiscal periods to determine if it is appropriate and teste of revenue recognition in accordance with grant terms and conditions. Review grant terms to determine if any deferrals, receivables or payables are appropriate. |
| Commitments and contingencies | Commitments and contingencies may be misstated or undisclosed. | <ul style="list-style-type: none"> Verify the accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers. Examine supporting documentation and discussions with management. |
| Tangible capital assets | Valuation of additions, including contributed assets, as well as appropriateness of amortization. | <ul style="list-style-type: none"> Review supporting documentation for capital asset additions with respect to the validity of the additions, on a test basis. Review disposals to determine if any gain/loss is calculated appropriately. Recalculate depreciation expense. Review capital project costs to determine if any additional costs should be capitalized. |

Team, timing and communications

Timing and communications

We are committed to delivering exceptional client service and executing our audit in the most effective, efficient and timely manner. The planned timing of our audit work and the deliverables we will provide to the Audit Committee are as follows:

| Stage or deliverable | Timing/Status |
|---|------------------------|
| Meet with the Audit Committee and presentation of Report to the Audit Committee – Initial Communication on Audit Planning | November 9, 2021 |
| Audit planning | November 15 – 26, 2021 |
| Date for all confirmations | December 31, 2021 |
| Year-end fieldwork | April 11 – May 6, 2022 |
| Meeting with the Audit Committee and presentation of Report to the Audit Committee – Communication of Audit Results | July 2022 |

In our communication of audit results, we will report on the following matters:

- Our views on significant accounting practices
- Significant difficulties, if any, encountered during the audit
- Misstatements, other than trivial errors
- Actual or suspected fraud or illegal acts
- Significant deficiencies in internal control
- Other significant audit matters, as applicable

Team

| Engagement team member | Contact information |
|---|---|
| Melanie Dugard CPA, CA Principal | P +1 416-607-7303 E Melanie.Dugard@ca.gt.com |
| Allison Frizzell CPA, CA Senior Manager | P +1 416-607-2638 E Allison.Frizzell@ca.gt.com |
| Gumaran Nithiyanandan CPA, CA Manager | P +1 416-777-4505 E Gumaran.Nithiyanandan@ca.gt.com |
| Steve Selevko Senior Accountant | P +1 416-607-2764 E Steve.Selevko@ca.gt.com |

Technical updates – highlights

Accounting

Accounting standards issued by the Accounting Standards Board that may affect the City in the current year and future years include:

- Section PS 3400 Revenues
- Section PS 3280 Asset retirement obligations
- Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation, Section PS 1201 Financial statement presentation, and PS 3041 Portfolio investments

We would highlight to you that Section PS 3280 Asset retirement obligations will take effect for fiscal years beginning on or after April 1, 2022, although earlier adoption is permitted. We note that a number of our public sector clients are starting to invest time in establishing a plan for implementation of this standard. This section establishes standards on how to account for and report a liability for asset retirement obligations, which are legal obligations associated with the retirement of a tangible capital asset.

Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use.

Further details of the changes to accounting standards are included in the Appendices.

Assurance

CAS 315 *Identifying and assessing the risks of material misstatement* (“CAS 315 Revised”) will be effective for our audit of the City’s consolidated financial statements for the year ending December 31, 2022. CAS 315 *Revised* includes many changes to the requirements related to planning an audit and completing the risk assessment process, which are designed to make the risk assessment process more robust and improve consistency of application in practice. Since the risk assessment process is fundamental to an audit, it is anticipated that we will need to incur some additional planning time in the year this new standard is implemented and there could also be resulting changes to audit responses. Furthermore, to address the requirements of CAS 315 *Revised*, we may need to hold more in-depth discussions with management about certain areas or obtain new types of supporting information during planning. The table below summarises the key changes to the standard and their anticipated effects on the audit.

| Area | Change | Effect |
|----------------------------------|--|---|
| Inherent risk factors | Five new risk factors have been introduced to aid in risk assessment: subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud. | New risk factors may need to be documented. Where new risk factors are identified, the audit team will need to consider and document how they impact the overall risk assessment. |
| Spectrum of inherent risk | A “spectrum of inherent risk” has been defined. When completing the risk assessment, risks of material misstatement are positioned at the lower or higher end of the spectrum based on the likelihood and magnitude of possible misstatement, with the upper end representing significant risks. | Applying the spectrum of inherent risk concept may result in changes to the risk assessment and the associated responses. For example, new significant risks may be identified, and the standards contain specific requirements for work that must be performed in response to significant risks. |
| IT system and controls | There is a great deal more emphasis on understanding IT systems, particularly the IT general controls that address risks arising from the IT system. | The engagement team may need to work with management to obtain and document more information about the IT system and controls. |
| Control activities | There is more focus on controls relevant to the audit, including those related to journal entries, and on what work needs to be performed to determine the design and implementation of those controls. | Additional time may need to be incurred to identify and assess relevant controls. The approach to determining the design and implementation of internal controls may need to be updated. |
| Others | <p>Other relevant changes include:</p> <ul style="list-style-type: none"> • Requiring inherent risk and control risk to be assessed separately, whereas the current standard permits a combined assessment • Enhanced requirements and documentation relating to the exercise of professional skepticism • Separate focus on understanding the applicable financial reporting framework • Distinguishing between direct (assertion level) and indirect (pervasive level) control components • A new “stand-back” test requiring teams to reconsider when material classes of transactions, account balances and disclosures are not assessed as significant | Risk assessments may need to be updated and additional documentation will need to be incorporated to comply with the revised requirements. |

Further details of the changes to assurance standards are included in the Appendices. If you have any questions about these changes we invite you to raise them during our next meeting. We will be pleased to address your concerns.

Appendix A – Overview and approach

Our audit is planned with the objective of obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, so that we are able to express an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with Canadian public sector accounting standards. The following outlines key concepts that are applicable to the audit, including the responsibilities of parties involved, our general audit approach and other considerations.

Roles and responsibilities

| | |
|------------------------------------|---|
| Role of the audit committee | <ul style="list-style-type: none">• Help set the tone for the organization by emphasizing honesty, ethical behaviour and fraud prevention• Oversee management, including ensuring that management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting• Oversee the work of the external auditors including reviewing and discussing the audit plan |
| Role of management | <ul style="list-style-type: none">• Prepare financial statements in accordance with Canadian public sector accounting standards• Design, implement and maintain effective internal controls over financial reporting processes, including controls to prevent and detect fraud• Exercise sound judgment in selecting and applying accounting policies• Prevent, detect and correct errors, including those caused by fraud• Provide representations to external auditors• Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements |
| Role of Grant Thornton LLP | <ul style="list-style-type: none">• Provide an audit opinion that the financial statements are in accordance with Canadian public sector accounting standards• Conduct our audit in accordance with Canadian Generally Accepted Auditing Standards (GAAS)• Maintain independence and objectivity• Be a resource to management and to those charged with governance• Communicate matters of interest to those charged with governance• Establish an effective two-way communication with those charged with governance, to report matters of interest to them and obtain their comments on audit risk matters |

Audit approach

Our understanding of the City and its operations drives our audit approach, which is risk based and specifically tailored to The Corporation of the City of Richmond Hill.

The five key phases of our audit approach



| Phase | Our approach |
|--------------------------------------|--|
| 1. Planning | <ul style="list-style-type: none">• We obtain our understanding of your operations, internal controls and information systems• We plan the audit timetable together |
| 2. Assessing risk | <ul style="list-style-type: none">• We use our knowledge gained from the planning phase to assess financial reporting risks• We customize our audit approach to focus our efforts on key areas |
| 3. Evaluating internal controls | <ul style="list-style-type: none">• We evaluate the design of controls you have implemented over financial reporting risks• We identify areas where our audit could be more effective or efficient by taking an approach that includes testing the controls• We provide you with information about the areas where you could potentially improve your controls |
| 4. Testing accounts and transactions | <ul style="list-style-type: none">• We perform tests of balances and transactions• We use technology and tools, including data interrogation tools, to perform this process in a way that enhances effectiveness and efficiency |
| 5. Concluding and reporting | <ul style="list-style-type: none">• We conclude on the sufficiency and appropriateness of our testing• We finalize our report and provide you with our observations and recommendations |

Our tailored audit approach results in procedures designed to respond to an identified risk. The greater the risk of material misstatement associated with the account, class of transactions or balance, the greater the audit emphasis placed on it in terms of audit verification and analysis.

Throughout the execution of our audit approach, we will maintain our professional skepticism, recognizing the possibility that a material misstatement due to fraud could exist notwithstanding our past experiences with the City and our beliefs about management's honesty and integrity.

Internal control

Our audit will include gaining an understanding of the City's internal control over financial reporting. Our understanding will focus on processes associated with the identified risk areas, as described in this report. We use this understanding to determine the nature, extent and timing of our audit procedures.

Our understanding may also result in valuable internal control findings for your consideration. Note that the auditor's objectives with regards to internal control are different from those of management and those charged with governance. For example, we primarily target controls that relate to financial reporting and not those that relate to the City's operations or compliance which may also be relevant to its objectives. Therefore, management and those charged with governance cannot solely rely on our findings to discharge their responsibilities in this area.

Quality control

We have a robust quality control program that forms a core part of our client service. We combine internationally developed audit methodology, advanced audit technology, rigorous review procedures, mandatory professional development requirements, and the use of specialists to deliver high quality audit services to our clients. In addition to our internal processes, we are subject to inspection and oversight by standard setting and regulatory bodies. We are proud of our firm's approach to quality control and would be pleased to discuss any aspect with you at your convenience.

IDEA Data Analysis Software

We apply our audit methodology using advanced software tools. IDEA Data Analysis Software is a powerful analysis tool that allows audit teams to read, display, analyze, manipulate, sample and extract data from almost any electronic source. The tool has the advantages of enabling the audit team to perform data analytics on very large data sets in a very short space of time, while providing the checks, balances and audit trail necessary to ensure that the data is not corrupted and that the work can be easily reviewed. SmartAnalyzer, an add-on to IDEA, further improves the efficiency and effectiveness of the audit by providing automated routines for certain common analytical tasks, such as identifying unusual and potentially fraudulent journal entries. Grant Thornton continues to invest in developing industry-leading audit data analytical tools.

Appendix B – Engagement Letter

December 18, 2020

The Corporation of the City of Richmond Hill
225 East Beaver Creek Road
Richmond Hill, ON L4B 3P4

Grant Thornton LLP
Suite 200
15 Allstate Parkway
Markham, ON
L3R 5B4
T +1 416 366 0100
F +1 905 475 8906

Attention: Mr. David Dexter, Director of Financial Services and Treasurer

Dear Mr. Dexter,

Thank you for reappointing Grant Thornton LLP (“Grant Thornton”, “we”, “us”, or “our”) to perform the audit of the consolidated financial statements and other related services for The Corporation of the City of Richmond Hill (the “City”, “you” or “your”) for the year ending December 31, 2020 (collectively, the “Services”). The purpose of this letter and the attached [Schedule A](#) (the “Engagement”) is to outline the nature of the Services and the terms under which you are engaging us to perform those Services.

Objective, scope and limitations

You have requested that we audit the consolidated financial statements of The Corporation of the City of Richmond Hill, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this Engagement by means of this letter agreement.

Our audit will be conducted with the objectives of obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to error or fraud, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The sole purpose of the Engagement is for us to conduct an audit of the City pursuant to the requirements of the statute pursuant to which the City is formed.

The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Requests for additional services may arise while we are performing the Services that are specifically identified in this Engagement, including general business advice. The provision of additional services by us does not relieve management of their responsibility for determining what actions the City should take and performing adequate research and/or due diligence in relation to their decisions, including obtaining separate formal written advice from us in relation to complex or significant matters. Unless covered under a separate engagement letter, this Engagement will cover any such additional services we provide you, which will be billed at our standard hourly rates for the type of services requested. Notwithstanding anything to the contrary herein, we shall bear no responsibility in the event that management makes significant decisions on the basis of advice provided by us that is not formal written advice (for greater certainty, e-mail does not constitute formal written advice for the purposes of this section).

Our responsibilities

We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the auditor in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the consolidated financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

Management's responsibilities

Our audit will be conducted on the basis that the City's management acknowledge and understand that they have responsibility:

- a) for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards;
- b) for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; and
- c) to provide us with:
 - i. Access to all information of which the City's management is aware, that is relevant to the preparation of the consolidated financial statements such as records, documentation and other matters;
 - ii. Additional information that we may request from the City's management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from the City's management written confirmation concerning representations made to us in connection with the audit. Those representations will include:

Financial statements

- a) communicating that all responsibilities, as set out in the terms of this Engagement, for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards in particular the consolidated financial statements are fairly presented;
- b) communicating its belief that significant assumptions used in making accounting estimates, including those measured at fair value are reasonable;
- c) acknowledging that all events subsequent to the date of the consolidated financial statements and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed;

Completeness of information

- d) providing us with and making available complete financial records and related data, and copies of all minutes of meetings of council and committees of council;
- e) acknowledging that all transactions have been recorded and are reflected in the consolidated financial statements;
- f) providing us with information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements;
- g) providing us with information relating to any illegal or possibly illegal acts, and all facts related thereto;
- h) acknowledging that all related party relationships and related party transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards;

Fraud and error

- i) the design and implementation of internal controls to prevent and detect fraud and error;
- j) an assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud;
- k) providing us with information relating to fraud or suspected fraud affecting the City involving:
 - i. management;
 - ii. employees who have significant roles in internal control; or
 - iii. others, where the fraud could have a material effect on the consolidated financial statements;
- l) providing us with information relating to any allegations of fraud or suspected fraud affecting the City's consolidated financial statements communicated by employees, former employees, analysts, regulators, or others;
- m) communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A list of the uncorrected misstatements will be attached to the representation letter;

Recognition, measurement and disclosure

- n) providing us with its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the consolidated financial statements;
- o) providing us with any plans or intentions that may affect the carrying value or classification of assets or liabilities;
- p) providing us with an assessment of all areas of measurement uncertainty known to management that are required to be disclosed in accordance with MEASUREMENT UNCERTAINTY, CPA CANADA HANDBOOK – ACCOUNTING Section;

- q) acknowledging that no subsequent events occurred that require adjustment to the accounting estimates and disclosures included in the consolidated financial statements.
- r) providing us with information relating to claims and possible claims, whether or not they have been discussed with the City's legal counsel;
- s) providing us with information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
- t) providing us with information on whether or not the City has satisfactory title to assets, liens or encumbrances on assets, and assets pledged as collateral;
- u) providing us with information relating to compliance with aspects of contractual agreements that may affect the consolidated financial statements;
- v) providing us with information concerning subsequent events; and

Written confirmation of significant representations

- w) providing us with written confirmation of significant representations provided to us during the Engagement on matters that are:
 - i. directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements; and
 - ii. not directly related to items that are material to the consolidated financial statements but are significant, either individually or in the aggregate, to the Engagement.

The City's management agrees to make available draft consolidated financial statements, including appropriate note disclosures and any accompanying other information in time to allow for the audit to be completed within the proposed timeframe. In addition, the City's management agrees to inform us of any factors or circumstances that come to their attention during the period from the date of the auditor's report to the date consolidated financial statements are issued that may impact the consolidated financial statements; including their disclosures.

It is agreed that for any electronic distribution of your consolidated financial statements and our report thereon, the City's management is solely responsible for the accurate and complete reproduction of the consolidated financial statements and our report thereon.

While the report may be sent to the City electronically by us for your convenience, only the signed (electronically or manually) report constitutes the City's record copy.

If the City's management intends to publish or otherwise reproduce our report (or otherwise make reference to Grant Thornton LLP) in a document(s) that contains other information (including in a document(s) that will be used in connection with a public offering of securities), the City's management agrees to (a) provide Grant Thornton with a draft of such document(s) to read, and (b) obtain our approval for inclusion of our report in such document(s), before the document(s) are finalized and distributed. The City's management also agrees that if our name is to be used in connection with the consolidated financial statements, it will attach our auditors' report when distributing the consolidated financial statements to any third parties. The City's management agrees to provide us with adequate notice of the preparation of such document(s).

We look forward to full cooperation from your staff during our audit.

Reporting

Unless unanticipated difficulties are encountered, our report will be substantially in the following form:

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Richmond Hill

Opinion

We have audited the consolidated financial statements of The Corporation of the City of Richmond Hill (the "City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Richmond Hill as at December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Location], Canada
Date

Chartered Professional Accountants
Licensed Public Accountants

The form and content of our report may need to be amended in the light of our audit findings.

Fees

Fees are based on the time required by the individuals assigned to perform the Services defined herein. Individual hourly rates vary according to the degree of responsibility involved and experience and skill required.

Any fee estimates by Grant Thornton take into account i) the agreed-upon level of preparation and assistance from your personnel; and ii) the hourly rates for our professionals that will be providing the Services. Grant Thornton undertakes to advise the City's management on a timely basis should this preparation and assistance not be provided, or should any other circumstances arise which cause actual time to exceed that estimate.

Other services

Depending on the nature and significance of requests for additional services, we may issue a separate engagement letter to cover the additional services and/or provide a fee estimate before we invest significant professional time in providing the additional services. As noted above, in the absence of such a separate engagement letter, the provisions of this Engagement shall apply to the additional services, which will be billed at our standard hourly rates for the types of services requested unless otherwise specified in a fee estimate.

City consent to production

The City hereby acknowledges that we may from time to time receive requests or orders from professional (provincial institutes) or other regulatory or governmental authorities (including the Canada Revenue Agency) to provide them with information and copies of documents in our files including working papers and other work-product relating to the City's affairs. The City consents to us providing or producing, as applicable, these documents and information without further reference to, or authority from, you.

When a regulatory authority requests access to our working papers and other work-product relating to the City's affairs, we will, on a reasonable efforts basis, refuse access to any document over which the City has expressly informed us at the time of delivery that the City asserts privilege, except where disclosure of documents is required by law or requested by a provincial Institute/Order of Canadian Chartered Professional Accountants pursuant to its statutory authority in which event the City expressly consents to such disclosure. The City must mark any document over which it asserts privilege as privileged and inform us of the grounds for the City's assertion of privilege (such as whether it claims solicitor-client privilege or litigation privilege).

We may also be required to provide information relating to the fees that we collect from the City for the provision of audit services, other accounting services and non-audit services, and the City consents to the disclosure of that information as may be required by the regulatory authority.

The City agrees to reimburse us, upon request, at our standard billing rates for our professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

Release and indemnification

You agree to release, indemnify and hold harmless Grant Thornton, its affiliates and their respective directors, officers, partners, principals, employees, consultants and contractors from any and all claims, liabilities, costs and expenses (including any and all legal expenses incurred by Grant Thornton) arising out of or based upon:

- a) any misstatement or omission in any material, information or representation supplied or approved by you;
- b) any third party claim relating to or arising out of this Engagement; or
- c) any other matter related to or arising out of this Engagement, except to the extent finally determined to have resulted from the negligence, wilful misconduct or fraudulent behaviour of Grant Thornton.

Limitation of liability

In any action, claim, loss or damage arising out of the Engagement, you agree that Grant Thornton's liability will be several, and not joint and several and you may only claim payment from Grant Thornton of its proportionate share of the total liability based on its degree of fault as finally determined. Any action against us must be commenced on or before the date which is the earlier of i) eighteen months from the completion of the Services; and ii) the date by which an action must be commenced under any applicable legislation other than limitation legislation.

The total liability assumed by Grant Thornton for any claim, loss or damage arising out of or in connection with the Engagement, regardless of the form of action, claim, loss or damage be it tort, contract or otherwise, shall in no event exceed the aggregate of the professional fees paid to Grant Thornton for that portion of the Services that has given rise to the claim. In addition, Grant Thornton shall not under any circumstances be liable for any special, indirect or consequential damages, including without limitation, lost profit or revenue, or similar damages.

Standard terms and conditions

This letter and our standard terms and conditions attached as [Schedule A](#), shall form the basis of the Engagement.

Survival of terms

This engagement letter will continue in force for subsequent audits unless terminated by either party by written notice prior to the commencement of the subsequent audit.

Acceptance of engagement letter

Please confirm your acceptance of this Engagement by signing below and returning this letter to us.

We are proud to serve you and we appreciate your confidence in our work. If you have any questions about the contents of this letter, please raise them with us.

Yours sincerely,
Grant Thornton LLP

Melanie Dugard, CPA, CA

Principal

The services and terms as set forth in this letter are agreed to.

The Corporation of the City of Richmond Hill

By:

(Signature)

(Name)

(Title)

(Date)

Schedule A

Terms and conditions

Except as otherwise specifically stated in the Engagement, the following general terms and conditions apply to and form part of the Engagement.

Responsibilities – Grant Thornton shall use all reasonable efforts to complete the Services within the time-frame, if any, stipulated in the Engagement. Grant Thornton shall not be liable for failures or delays in performance of the Services that arise from causes beyond its control, including the untimely performance by the City of its obligations and responsibilities as set out in the Engagement.

In addition, Grant Thornton reserves the right, in whole or in part, to decline the performance of any Service(s) if, in the sole discretion of Grant Thornton, the performance of any of the Services may cause Grant Thornton to be in violation of any applicable law, regulations, professional standards or obligations or which may otherwise result in damage to Grant Thornton's reputation.

Information and announcements – The City shall cause to be provided or provide Grant Thornton with all material information in its possession or control or to which it has access and such other information as Grant Thornton deems relevant for the purposes of the Engagement. The City shall also provide where applicable, access to its directors, officers or professional advisers as required to complete the Services. The City undertakes that if anything occurs after the supply of any such information or documents which would render same inaccurate, untrue, unfair or misleading it will promptly notify Grant Thornton and take all such steps as Grant Thornton may require to correct such information or documents.

Unless otherwise contemplated or permitted by the Engagement, any advice, reports (including the audit report), compiled or reviewed financial statements, discoveries, information or opinions, whether written or oral, rendered or provided by Grant Thornton to the City (and/or its affiliates) ("Deliverables"), or any communications between Grant Thornton and the City (and/or its affiliates) in connection with the Engagement may not be disclosed to any third party without the prior written consent of Grant Thornton with the exception of any applicable Canadian taxing authorities and the City's financial institution. Any Deliverables shall be solely for the benefit of the City and not for the benefit of any third party and may be relied upon only for the purpose for which the Deliverable is intended as contemplated or defined within the Engagement. Grant Thornton recognizes no responsibility whatsoever, other than that owed to the City as at the date on which the Deliverable is given to the City by Grant Thornton, for any unauthorized use of or reliance on any Deliverables. Unless otherwise expressly provided for

within the Engagement or upon written consent of Grant Thornton, no Deliverables shall be used or relied on by the City as expert evidence or included as evidence in any litigation or court proceeding. Notwithstanding any term within the Engagement and by way of an exception to this paragraph, nothing within the Engagement shall prohibit the disclosure by the City or Grant Thornton to any person or to the Minister of National Revenue of the details or structure of any transaction or series of transactions contemplated by the Deliverables, if (i) the transactions or series of transactions would constitute an avoidance transaction, as defined by section 245(2) of the *Income Tax Act* (Canada) ("ITA"), or series of transactions including an avoidance transaction under which a tax benefit to the City results or would result but for section 245 of the ITA; or (ii) the transaction or series of transactions would be considered to be a general tax avoidance transaction as defined by any other applicable legislation.

The City acknowledges that the Services will involve analysis, judgement and other performance from time to time in a context where the participation of the City or others is necessary, where answers often are not certain or verifiable in advance and where facts and available information change with time. Accordingly, the City agrees that the evaluation of the Services provided by Grant Thornton shall be based solely on Grant Thornton's substantial conformance with any standards or specifications expressly set forth within this Engagement and applicable professional standards, and any claim of non-conformance (and applicably of such standards) must be clearly and convincingly shown. Unless the City or Grant Thornton agree otherwise in writing, Grant Thornton shall have no responsibility to update any of the Services or Deliverables after their completion, and any such updates will be billed at Grant Thornton's then current hourly rates.

Independence – In the event, the City is (i) an entity that is registered with the United States Securities and Exchange Commission; or (ii) an affiliate of a registrant, and a provision(s) contained within the Engagement would be prohibited by, or impair the independence of, any member firm of Grant Thornton International Ltd ("Grant Thornton International") under any law or regulation applying to the City, such provision(s) shall not apply to the Engagement to the extent that is necessary to avoid the prohibition against or impairment of the referenced independence of the respective Grant Thornton International member firm.

Independent contractor – Grant Thornton shall provide all services as an independent contractor and nothing in this Engagement shall be construed as to create a partnership, joint venture or other similar relationship with the City or any other party. Neither the City nor Grant Thornton shall have the right, power or authority to obligate or bind the other in any manner.

Subcontracting – The City agrees that Grant Thornton may authorize, allow or require its affiliates and contractors to assist in the performance of the Services and to share in Grant Thornton's rights under the Engagement, including any protections available thereunder, provided that such party(ies) shall commit (as applicable) to be bound by the obligations set forth in the Engagement.

Grant Thornton International Ltd – Grant Thornton is a Canadian member of Grant Thornton International Ltd., a global organization of member firms in over 100 countries. Member firms are not members of one international partnership or otherwise legal partners with each other. There is no common ownership, control, governance, or agency relationship between member firms.

Assisting Firms – Unless otherwise stipulated within the Engagement, this Engagement is with Grant Thornton. In the course of providing the Services, we may at our sole discretion, draw upon the resources of or subcontract a portion of the Services to another entity (including a partnership) which may carry on business under the name which may include within its name "Grant Thornton" or be another member firm of the worldwide network of Grant Thornton International Ltd. member firms (hereinafter "GT Affiliates").

Unless a GT Affiliate is directly contracted by you to provide any of the Services which are subject to this Engagement, the provision of those Services remain the responsibility of Grant Thornton and the City agrees that it will not bring any claim, whether in contract, tort (including negligence) or otherwise against any GT Affiliate in respect of this Engagement or the Services defined herein. In these circumstances, any GT Affiliate that deals with you for the purpose of completing the Services does so on behalf of Grant Thornton. The provisions of this clause have been stipulated for the benefit of GT Affiliates. GT Affiliates will have the right to rely on this clause as if they were parties to the Engagement and will have the right (subject to the discretion of the courts) to a stay in proceedings if you bring any claim against any GT Affiliates in breach of this clause.

Non-solicitation – The City agrees that it shall not solicit for employment or hire any of the partners, principals, employees or consultants of Grant Thornton who are involved in the performance of the Services during the term of the Engagement and for a period of twelve (12) months thereafter.

Confidentiality – All information which Grant Thornton receives from the City or the City's directors, officers, agents, advisors or counsel in connection with the Engagement and which is for the time being confidential ("Confidential Information"), will be held in strict confidence, provided that Grant Thornton shall be free to, without the requirement to seek any further consent or authorization from the City, make disclosures (a) as a

result of any applicable law, court or other order binding upon it, under the laws of, or pursuant to any governmental action (including requests and orders), regulatory requirement, or professional standard obligations (including disclosure to a provincial institute of chartered professional accountants); (b) of such information to any professional advisers, consultants and contractors, including GT Affiliates it may consult in connection with the Engagement and the performance of the Services; and (c) as set out in the Engagement.

Grant Thornton may disclose Confidential Information to GT Affiliates for the purposes of fulfilling its professional obligations to manage conflicts of interest and to maintain auditor independence. Confidential Information may also be disclosed as part of compliance reviews or to implement standardized performance measurement, client relationship management and documentation systems within the global Grant Thornton network. The Confidential Information disclosed may include ownership information and information about related entities and such information may be stored, processed and accessed from locations outside of Canada.

Notwithstanding anything to the contrary contained within the Engagement, Grant Thornton shall not be obligated to treat as confidential, or otherwise be subject to any restrictions on use, disclosure or treatment as contained within the Engagement, of any information disclosed by the City which, (i) is rightfully known by Grant Thornton on a non-confidential basis prior to its disclosure by the City; (ii) is independently developed by Grant Thornton without reference to or use of the City's Confidential Information; (iii) is or later becomes publicly available without violation of the Engagement; or (iv) is lawfully obtained by Grant Thornton from another party.

Working papers/reports – The advice or opinions of Grant Thornton, including all materials, reports, information, data, and work created, developed or performed by Grant Thornton during the course of the Engagement ("the Grant Thornton Materials") shall belong to Grant Thornton, with the exception of final tax returns, original contracts, other documents of title held to the City's order and any documents the return of which the City has stipulated, on or prior to their release to Grant Thornton (the "City Materials"). Notwithstanding the foregoing, (i) Grant Thornton may retain a copy of the City Materials (including Confidential Information) as required by Grant Thornton, in its sole discretion, to meet any obligations imposed by professional standards; and (ii) nothing shall require the return, erasure or destruction of back-ups made in accordance with Grant Thornton's document-retention procedures.

Conflict of interest – Grant Thornton, its associated entities and GT Affiliates are involved in a wide range of financial advisory activities out of which conflicting interests or duties may arise. Within Grant Thornton, its

associated entities and GT Affiliates, practices and procedures are maintained to restrict the flow of information and thereby manage or assist in managing such conflicts in a proper manner. Nothing within this Engagement will be interpreted to preclude Grant Thornton, its associated entities and GT Affiliates from engaging in any transaction or representing any other party at any time or in any capacity, provided that Grant Thornton shall not, knowingly provide services to another party under circumstances which would place Grant Thornton in a direct conflict of interest during the term of the Engagement without the City's prior written consent. In the event Grant Thornton becomes conflicted, as determined in its discretion, Grant Thornton shall be permitted, but not obligated to, terminate this Engagement without any additional liability to the City, upon fourteen (14) days prior written notice.

Access to and disclosure of information – Grant Thornton is committed to the protection of personal information. During the course of planning, performing and reporting the result of the Services, Grant Thornton, its employees, partners, contractors, consultants, and GT Affiliates may need to obtain, use and disclose City information (including Confidential Information and personal information) in the possession of, or under the control of the City. The City acknowledges this potential use and/or disclosure and agrees that it is responsible for obtaining, where required under applicable law or regulation, a court order or consent from any third party in order to permit Grant Thornton, its employees, partners, contractors, consultants, and/or GT Affiliates, to access, obtain, use and/or disclose City information (including Confidential Information and personal information) accessed by us or provided to us by the City or a party authorized by the City for the purposes of completing the Services, and/or other disclosure so defined within the Engagement or for those additional purposes as more fully explained within Grant Thornton's privacy policy, as it may be amended from time to time and available at www.grantthornton.ca.

Electronic communication – Grant Thornton and the City may need to electronically transmit confidential information to each other and to other entities engaged by either party during the Engagement. Electronic methods include, but are not limited to telephones, cellular telephones, electronic mail and facsimiles. These technologies provide for a fast and convenient way to communicate. However, all forms of communications have inherent security weaknesses and the risks of compromised confidentiality cannot be eliminated. Notwithstanding the inherent risks, the City agrees to the use of such electronic methods to transmit and receive information (including confidential information), between Grant Thornton and the City and between Grant Thornton and outside specialists, contractors or other entities engaged by either Grant Thornton or the City. The City further agrees that Grant

Thornton shall not be liable for any loss, damage, expense, inconvenience or harm resulting from the loss, delay, interception, corruption or alteration of any electronic communication due to any reason whatsoever.

The City also agrees that Grant Thornton professionals shall be authorized to connect their computers to the City's IT network, subject to any specific restrictions the City provides to Grant Thornton. Connecting to the City's IT network or the internet via this network, while at the City's premises, will be primarily for the purpose of conducting normal business activities, and those relating to the completion of the Services.

Taxes – All fees and other charges payable to Grant Thornton do not include any applicable federal, provincial, or other goods and services tax or sales tax, or any other taxes or duties whether presently in force or imposed in the future. All sums payable to Grant Thornton hereunder shall be paid in full without withholding or deduction.

Billing – All invoices issued by Grant Thornton hereunder are due within 30 days of the invoice date. Interest will be charged on all overdue accounts at a rate of 1.5% per month (18% per annum) until paid. Fees paid or payable to Grant Thornton under this Engagement are non-refundable and shall not be subject to set-off. Unless otherwise directed by Grant Thornton, all fees, expenses and other sums will be billed and payable in Canadian Dollars.

Termination – Either the City or Grant Thornton may terminate the Engagement upon fourteen (14) days prior written notice to the other party. In addition to the foregoing, Grant Thornton may also terminate the Engagement in the event of a breach of any term of the Engagement by the City which is not cured by the City within ten (10) days of receipt of written notice as to the breach. Upon termination for any reason, the parties shall return each other's confidential information, except that Grant Thornton may retain one copy for its working papers and one copy of the City Data may also be retained by Grant Thornton even if same may contain confidential information of the City. In addition to its rights of termination provided herein and notwithstanding anything to the contrary in the Engagement, Grant Thornton shall also have the right (i) upon five (5) days prior written notice to the City, to suspend or terminate its Services in the event the City fails to pay Grant Thornton any amount due to it under the terms of the Engagement; or (ii) immediately upon written notice to the City, terminate its Services in the event Grant Thornton discovers any information which Grant Thornton determines, in its sole discretion, may affect its reputation, integrity or independence. In the event of termination, the City agrees to compensate Grant Thornton for all time expended and costs incurred up to and including the date of termination.

Severability – Each provision of this Engagement is severable and if any provision (in whole or in part) is or becomes invalid or unenforceable or contravenes any applicable regulations or laws, the remaining provisions and the remainder of the affected provision (if any) will not be affected.

Assignment – No assignment shall be made by either party of their respective obligations under this Engagement without the prior written consent of the other party.

Publication – Under no circumstances without the express prior written consent of Grant Thornton, shall the City disclose, release, use, make reference to, or quote Grant Thornton's name, logo or any Deliverable (whether written or verbal) within any press release, press conference, website update, media release or any other form of public disclosure ("Disclosure Document") other than for litigation purposes, but only to the extent and in the manner that such use is contemplated by the Engagement. In the event the City wishes to seek Grant Thornton's consent as required by the Engagement, the City shall provide to Grant Thornton a copy of such Disclosure Document for prior approval, which approval may be unreasonably withheld. Notwithstanding the terms of this paragraph, the City is not prohibited from disclosing details or structure of any avoidance transaction as defined by section 245(2) of the ITA or series of transactions, including an avoidance transaction relevant to this Engagement to the any person or the Minister of National Revenue.

City representations, warranties and covenants – The City represents, warrants and covenants to Grant Thornton that:

- a. the execution, delivery and performance of the Engagement has been duly authorized and does not, and with the passage of time, will not conflict with or violate any contractual, statutory, common law, legal, regulatory or other obligation by which the City is bound; and
- b. the Engagement is the legal, valid and binding obligation of the City, enforceable in accordance with its terms.

Grant Thornton representations, warranties and covenants – Grant Thornton represents, warrant and covenants to the City that Grant Thornton will provide the Services described within the Engagement in a professional and competent manner. Grant Thornton makes no other representation or warranties and explicitly disclaims all other warranties and representations whether expressed or implied by law, usage of trade, course of dealing or otherwise.

Surviving provisions – The City's obligations in respect of confidentiality, payment of fees and expenses, limitation of liability and Release and Indemnification as outlined within the Engagement and these terms and conditions shall survive termination of the Engagement.

Governing law and forum – The Engagement, including these terms and conditions shall be governed by and construed in accordance with the laws of the Province in which the Engagement was signed by Grant Thornton.

Other matters – The failure of either party to insist on strict performance of the Engagement, or to exercise any option herein, shall not act as a waiver of any right, promise or option, but the same shall be in full force and effect. No waiver of any term or provision or of any breach or default shall be valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any other term or provision or any subsequent breach or default of the same or similar nature.

Complete agreement – This Engagement, including these terms and conditions and any schedules, sets forth the entire understanding of the parties relating to the subject matter hereof and supersedes and cancels any prior communications, understandings, and agreements between the parties. This Engagement may not be amended or modified except in writing between the parties and shall inure to the benefit of and be binding upon the parties and their respective successors and assigns.

Appendix C – PSAS

Accounting developments

Public Sector Accounting Standards

Effective date

Section PS 1150 *Generally Accepted Accounting Principles*

Section PS 1150 has been amended to require public sector entities to look to accounting pronouncements published by the International Public Sector Accounting Standards Board (IPSASB) as the first accounting framework to consult in situations not covered by primary sources of GAAP. When a standard from the IPSASB exists, it must be consulted first before standards issued by other bodies authorized to issue accounting standards.

This amendment would only be applied only to new transactions or other events after the effective date for which the entity has no existing accounting policy. It also does not require the revision of existing accounting policies.

Fiscal years beginning on or after April 1, 2021.

Section PS 3450 *Financial instruments* and Section PS 2601 *Foreign currency translation*

PS 2601 *Foreign currency translation* has been amended:

- To provide an irrevocable accounting policy election for all financial assets and financial liabilities arising from a foreign currency transaction. This election allows a public sector entity to elect on initial recognition to recognize their exchange gains and losses on a financial asset or financial liability directly in the statement of operations. If this election is not chosen, unrealized foreign exchange gains and losses are included in remeasurement gains and losses until they are realized, upon which they are reclassified to the statement of operations
- to require for financial assets and financial liabilities in the fair value category, that the exchange gain or loss component of the change in fair value is separated and recognized directly in the statement of operations in cases where the above accounting policy election was made and amounts subject to this election would not be considered remeasurement gains and losses

For those public sector entities that applied PS 2601 to fiscal years beginning on or after April 1, 2012, the election may be made on a one-time basis, at the beginning of the fiscal year, for existing financial assets and financial liabilities arising from a foreign currency transaction. For any financial asset or financial liability for which this election is made, cumulative unrealized exchange gains and losses arising at the date of the election are recognized as an adjustment to the accumulated surplus or deficit at the beginning of the fiscal year in which this election is applied. Disclosure is required to indicate the use of this election and any adjustment to the accumulated surplus or deficit in the year of application.

As a result of accounting policy election in PS 2601 noted above, PS 3450 has also been amended to require the disclosure of the carrying amounts of financial assets and financial liabilities in which exchange gains and losses are recognized directly in the statement of operations

For those public sector entities that applied PS 2601/PS 3450 to fiscal years beginning on or after April 1, 2012, the election in paragraph PS 2601.19A may be made on a one-time basis, at the beginning of the fiscal year, for existing financial assets and financial liabilities arising from a foreign currency transaction. This election may be applied no later than the fiscal year beginning on or after April 1, 2022. Earlier application is permitted.

Section PS 3160 Public Private Partnerships

New Section PS 3160 *Public Private Partnerships* establishes standards on how to account for public private partnerships between public and private sector entities where infrastructure is procured by a public sector entity using a private sector partner that is obligated to design, build, acquire or better infrastructure; finance the infrastructure past the point where the infrastructure is ready for use and operate and/or maintain the infrastructure. Infrastructure typically includes items such as tangible capital assets (i.e., complex network systems), but may also include items that are intangible in nature. The main features of the new Section are:

Fiscal years beginning on or after April 1, 2023.

Earlier adoption is permitted.

- The infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is also recognized when the public sector entity recognizes an asset.
- The infrastructure asset and corresponding liability are initially measured at the cost of the infrastructure asset.
- Subsequent measurement of the infrastructure asset is based on the asset cost amortized in a rational and systematic manner over the useful life of the asset.
- Subsequent measurement of the financial liability is at amortized cost using the effective interest method. When all or a portion of the liability represents a performance obligation, revenue is recognized, and the liability reduced in accordance with the substance of the public private partnership agreement (as performance is achieved).
- Retrospective or prospective application is permitted.

Section PS 1000 Financial statement concepts, Section 1201 Financial Statement Presentation, and PSG-8 Purchased intangibles

Section PS 1000 has been amended to remove the prohibition of recognition of purchased intangibles in public sector financial statements. Consequentially, Section PS 1201 has also been amended to remove disclosure requirements for unrecognized purchased intangibles since entities can now recognize purchased intangibles in their financial statements. Entities still reporting in accordance with Section PS 1200 *Financial Statement Presentation* can also adopt the amendments and recognize purchased intangible assets. New Public Sector Guideline, PSG-8 *Purchased intangibles*, has been issued to explain the scope of the intangibles that are allowed to be recognized in the financial statements given this amendment to Section PS 1000. However, it is important to note that no further recognition, measurement, disclosure and presentation guidance has been provided.

Fiscal years beginning on or after April 1, 2023.

Earlier adoption is permitted.

The main features of PSG-8 include:

- A definition of purchased intangibles
- Examples of items that are not purchased intangibles
- References to other guidance in the PSA Handbook on intangibles
- Reference to the asset definition, general recognition criteria and the GAAP hierarchy for accounting for purchased intangibles
- Retrospective or prospective application is permitted.

Section PS 3400 Revenues

NEW

New Section PS 3400 *Revenue* establishes standards on how to account for and report on revenue. It does not apply to revenues for which specific standards already exist, such as government transfers, tax revenue or restricted revenues. The Section distinguishes between revenue that arises from transactions that include performance obligations (i.e., exchange transactions) and transactions that do not have performance obligations (i.e., non-exchange transactions). The main features of the new Section are:

Fiscal years beginning on or after April 1, 2023.

Earlier adoption is permitted.

- Performance obligations are defined as enforceable promises to provide specific goods or services to a specific payer
- Revenue from transactions with performance obligations will be recognized when (or as) the performance obligation is satisfied by providing the promised goods or services to the payer
- Revenue from transactions with no performance obligations will be recognized when a public sector entity has the authority to claim or retain the revenue and identifies a past transaction or event that gives rise to an asset

(NOTE: The effective date was previously April 1, 2022, but as a result of the COVID-19 pandemic, the Public Sector Accounting Board (PSAB) has deferred the effective date by one year.)

Section PS 3280 Asset retirement obligations

NEW

New Section PS 3280 *Asset Retirement Obligations* establishes standards on how to account for and report a liability for asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

Fiscal years beginning on or after April 1, 2022.

Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset

Public Sector Accounting Standards

Effective date

retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use.

As a result of the issuance of Section PS 3280, the Public Sector Accounting Board (PSAB) approved the withdrawal of Section PS 3270 *Solid waste landfill closure and post-closure liability* as asset retirement obligations associated with landfills will be within the scope of PS 3280. PS 3280 does not address costs related to remediation of contaminated sites, which will continue to be addressed in Section PS 3260 *Liability for contaminated sites*. Some consequential amendments have been made to PS 3260 to conform with PS 3280 and further clarify the scope of each standard.

Earlier adoption is permitted.

(NOTE: The effective date was previously April 1, 2021, but as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)

Section PS 3450 *Financial instruments*, Section PS 2601 *Foreign currency translation*, Section PS 1201 *Financial statement presentation*, and PS 3041 *Portfolio investments*

PS 3450 *Financial instruments* is a new Section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Some highlights of the requirements include:

- a public sector entity should recognize a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument
- financial instruments within the scope of the Section are assigned to one of two measurement categories: fair value, or cost / amortized cost
- almost all derivatives are measured at fair value
- fair value measurement is required for portfolio investments in equity instruments that are quoted in an active market
- other financial assets and financial liabilities are generally measured at cost or amortized cost
- until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses when the public sector entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category
- additional disclosures with respect to financial instruments will be required, including the nature and extent of risks arising from a public sector entity's financial instruments

PS 2601 *Foreign currency translation* revises and replaces Section PS 2600 *Foreign currency translation*. Some highlights of the requirements include:

- the deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued
- until the period of settlement, foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations, unless an irrevocable election is made at initial measurement to recognize exchange gains and losses on a financial asset or financial liability directly in the statement of operations.

PS 1201 *Financial statement presentation* revises and replaces Section PS 1200 *Financial statement presentation*. The main amendment to this Section is the addition of the statement of remeasurement gains and losses.

PS 3041 *Portfolio investments* revises and replaces Section PS 3040 *Portfolio investments*.

The issuance of these new sections also includes consequential amendments to:

- *Introduction to accounting standards that apply only to government not-for-profit organizations*
- PS 1000 *Financial statement concepts*
- PS 1100 *Financial statement objectives*
- PS 2125 *First-time adoption by government organizations*
- PS 2500 *Basic principles of consolidation*
- PS 2510 *Additional areas of consolidation*
- PS 3050 *Loans receivable*

NEW

The new requirements are all required to be applied at the same time.

For governments - Fiscal years beginning on or after April 1, 2022.

For government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook - Fiscal years beginning on or after April 1, 2012.

For all other government organizations - Fiscal years beginning on or after April 1, 2022.

Earlier adoption is permitted.

(NOTE: For public sector entities other than government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook, the effective date was previously April 1, 2021, but as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)

- PS 3060 *Government partnerships*
- PS 3070 *Investments in government business enterprises*
- PS 3230 *Long-term debt*
- PS 3310 *Loan guarantees*
- PS 4200 *Financial statement presentation by not-for-profit organizations*

PSG-6 *Including results of organizations and partnerships applying fair value measurement* was withdrawn as a result of the issuance of these sections.

In April 2020, the PSAB issued amendments to clarify aspects of Section PS 3450's application and add new guidance to its transitional provisions.

The amendments introduce changes to the accounting treatment for bond repurchase transactions. Specifically, the amendments no longer require bond repurchase transactions to be treated as extinguishments, unless they are discharged or legally released from the obligation or the transactions meet certain criteria to be considered an exchange of debt.

The amendments also provide clarification on the application of certain areas of Section PS 3450, these include:

- Section PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable
- how a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract is accounted for, and
- derecognition of a financial asset does not occur if the transferor retains substantially all the risks and benefits of ownership

Finally, the amendments have added new guidance to the transitional provisions as follows:

- controlling governments should use the carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization
- any unamortized discounts, premiums, or transaction costs associated with a financial asset or financial liability in the cost/amortized cost category should be included in the item's opening carrying value, and
- in cases where derivatives were not recognized or were not measured at fair value prior to adopting PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses

Strategic plan for not-for-profit organizations in the public sector

Since 2012, government not-for-profit organizations (GNPOs) have been required to adopt PSAS but were given the option of applying the specific GNPO accounting standards in PSAS. Some GNPOs have utilized those standards, while others have not. The PSAB recognized that a “one-size-fits-all” approach may not be appropriate for all stakeholders. As a result, in PSAB's 2017-2022 Strategic Plan, the Board signaled intent to understand the needs and concerns of GNPOs and consider if some standards should be applied differently by them. In 2018, PSAB consulted with over 100 GNPO stakeholders to understand their fiscal and regulatory environment, their financial reporting needs, and their financial reporting perspectives in its first Consultation Paper. Diversity in the financial reporting framework, presentation of net debt and fund accounting, the impact of balanced budget requirements and endowments were some of the items stakeholders raised. In January 2021, PSAB released a second Consultation Paper. The purpose of the paper was to:

- summarize the feedback to Consultation Paper I;
- describe the options considered for a GNPO Strategy;
- describe the decision-making criteria used to evaluate the options; and
- propose a GNPO Strategy.

The deadline to respond to the Consultation paper ended June 30, 2021 and the PSAB is deliberating the feedback received.

International strategy

The PSAB has reviewed its current approach towards International Public Sector Accounting Standards (IPSAS) with the intent of developing options for its International Strategy. At its May 2020 meeting, PSAB decided that it will adapt IPSAS principles when developing future Canadian Public Sector Accounting Standards for the Public Sector Accounting Handbook. PSAB has issued a brief document summarizing its decision and what it means, entitled [*In Brief – A plain and simple overview of PSAB's 2020 decision to adapt IPSAS principles when developing future standards*](#), as well as the [*Basis for Conclusions*](#) on how it reached its decision. This decision will apply to all projects beginning on or after April 1, 2021.

Concepts underlying financial performance

In response to feedback from stakeholders, the PSAB is proposing changes to its conceptual framework and its reporting model with a focus on measuring the financial performance of public sector entities. A conceptual framework is a clear set of related concepts that act as the foundation for the development of standards and the application of professional judgment. In January 2021, PSAB issued four important exposure drafts:

- *The Conceptual Framework for Financial Reporting in the Public Sector* - PSAB has proposed to issue a revised Conceptual Framework that would include 10 chapters:
 - Chapter 1: Introduction to the Conceptual Framework
 - Chapter 2: Characteristics of public sector entities
 - Chapter 3: Financial reporting objective
 - Chapter 4: Role of financial statements
 - Chapter 5: Financial statement foundations
 - Chapter 6: Financial statement objectives
 - Chapter 7: Financial statement information
 - Chapter 8: Elements of financial statements
 - Chapter 9: Recognition and measurement in financial statements
 - Chapter 10: Presentation concepts for financial statements

The proposed Conceptual Framework would replace the existing conceptual framework in Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*

- *Financial Statement Presentation, Proposed Section PS 1202* – PSAB has proposed replacing the existing reporting model standard in Section PS 1201 *Financial Statement Presentation*. The proposed changes would make some significant changes to financial presentation for public sector entities
- *Consequential Amendments Arising from the Proposed Conceptual Framework* – This Exposure Draft will summarize the implications for the rest of the CPA Canada Public Sector Accounting (PSA) Handbook; and
- *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* – This Exposure Draft will summarize the implications for the rest of the PSA Handbook as a result of new proposed Section PS 1202.

The deadline for responses to the exposure drafts was June 30, 2021 and the PSAB is deliberating the feedback received.

Appendix D – Auditing developments

| Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB | Effective date |
|---|---|
| Revisions to CAS 315 <i>Identifying and Assessing Risks of Material Misstatement</i> | Periods beginning on or after December 15, 2021. |
| <p>In July 2018, the IAASB issued an Exposure Draft proposing changes to ISA 315 that could drive more consistent and effective identification and assessment of the risks of material misstatement by auditors. The AASB published an Exposure Draft of the equivalent Canadian standard, which included the same proposed revisions as the ISA with no Canada-specific amendments. The revised CAS 315 has been issued and key amendments to the standard include the following:</p> <ul style="list-style-type: none"> • Focusing on the applicable financial reporting framework in identifying and assessing risks of material misstatement • Updating the understanding of the system of internal control, including clarifying the work effort for understanding each of the components of internal control and "controls relevant to the audit", as well as the relationship between this understanding and the assessment of control risk • Updating aspects relating to IT, in particular to the IT environment, the applications relevant to the audit and general IT controls relevant to the audit • Introducing the new concepts of inherent risk factors, relevant assertions, significant classes of transactions, account balances and disclosures, and the spectrum of inherent risk • Separating the inherent risk and control risk assessments for assertion level risks, enhancing the requirements relating to financial statement level risks, and updating the definition of "significant risks" | |
| Canadian Exposure Drafts issued by the AASB | Effective date |
| Proposed changes to CAS 600 <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i> | The comment period for the Exposure Draft has ended. An effective date for the revised standard has not yet been established. |
| <p>Many audits today are of group financial statements, also known as group audits, and these types of engagements can be very challenging. In April 2020, the IAASB issued an Exposure Draft proposing changes to ISA 600 and related ISAs with the goals of strengthening the auditor's approach to planning and performing group audits and clarifying the interaction of ISA 600 with other ISAs. The AASB has published an Exposure Draft of the equivalent Canadian standard, which includes the same proposed revisions as the ISA with no Canada-specific amendments. The Exposure Draft proposes changes that:</p> <ul style="list-style-type: none"> • Clarify the scope and applicability of the standard • Emphasise the importance of exercising professional skepticism throughout the group audit • Clarify and reinforce that all CASs need to be applied in a group audit situation • Focus the group engagement team's attention on identifying and assessing the risks of material misstatement of the group financial statements and emphasise the importance of designing procedures to respond to those risks • Reinforce the need for robust communication between the group engagement team and component auditors • Include new guidance and considerations relating to testing common controls, addressing access restrictions, establishing materiality and documenting group audits | |