

City of Port Colborne

For the year ended December 31, 2020

Report to the Members of Council
Audit strategy

February 1, 2021

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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 City of Port Colborne (the "municipality") for the year ended December 31, 2020. This communication will assist the Members of Council 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 Corporate and Community Services Sub-Committee 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 August 22, 2018, which outlines our responsibilities and the responsibilities of management. **Appendix B.**

Status of our audit plan

We have substantially completed our initial planning of the audit of the consolidated financial statements of the municipality.

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.

Our approach is discussed further in **Appendix A.**

COVID-19

The potential financial reporting impacts of COVID-19 pandemic are summarized in the first section of our report. These were a particular focus in our risk assessment for the current year. As a result of considering the impact of COVID-19 related circumstances on the municipality, we identified possible audit risks in the areas of financial statements disclosures and subsequent events and other items summarized below.

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 municipality
- Confirming the independence of our engagement team members

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

COVID-19 – Financial reporting impacts

The spread of COVID-19 continues to impact economies around the globe, causing extensive disruptions to many industries and business operations and a level of economic uncertainty that is unprecedented in our time. In addition to the impact on ongoing operations, these events may affect the municipality's financial reporting. While every entity will be impacted differently, the table below summarizes, at a high level, some key COVID-19 related financial reporting considerations that should be considered by most entities.

Matter	Impact	Considerations
Disclosures and subsequent events	<p>Management must consider how the entity's financial statement note disclosures could be impacted by COVID-19. Many entities are now in a "mixed model" scenario where they have a combination of COVID-19 related events that:</p> <ul style="list-style-type: none"> (a) occurred during the reporting period (b) occurred in the subsequent period and are adjusting subsequent events (provide further evidence of conditions that existed at the statement of financial position date); and (c) occurred in the subsequent period and are non-adjusting subsequent events (indicate conditions that arose after the statement of financial position date). <p>Events in categories (a) and (b) are reflected in the recognition and measurement of amounts reported in the financial statements, but may also require the entity to revise existing disclosures and/or add new disclosures (e.g. financial instrument risk, measurement uncertainty, going concern), while significant events in category (c) may need to be disclosed in the subsequent events note.</p> <p>Transparent and carefully worded disclosures will need to be included in the consolidated financial statements to convey how the municipality's financial performance and financial position are impacted by COVID-19, and what new risks and uncertainties exist as a result of the pandemic and its ongoing effects.</p>	<p>Management should review existing disclosures in the consolidated financial statements to determine how they may be impacted by COVID-19 and consider what additional disclosures may be necessary. If the municipality was significantly impacted by circumstances related to COVID-19, either during the current fiscal year or in the subsequent events period, in addition to disclosing information about the specific events in the general notes to the consolidated financial statements (and subsequent events note if applicable), management may also include a note to outline the overall impact of COVID-19 on the municipality to date and to explain what measures the municipality has implemented in response.</p>

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 Public Sector Accounting Standards as at December 31, 2020. 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.

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 municipality and its business environment that were considered in preparing our audit plan.

Matter	Discussion and impact
Laws and regulations	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 municipality's compliance with applicable laws and regulations.

Matter	Discussion and impact
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 enquired of management as to their views on the risks of fraud and their processes for identifying and assessing fraud risks. 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 municipality
Accounting and auditing standards	<p>In addition to the information in the Technical Highlights section, we have highlighted certain new standards and interpretations that are likely to have a significant impact on the financial reporting for the City of Port Colborne in the current year. An overview of these particular standards and interpretations is included in the appendices.</p>

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> <ul style="list-style-type: none"> • The risk primarily relates to revenue recognized under water and sewer, grants and other revenue 	<ul style="list-style-type: none"> • Analytical assessment of revenues based on budgeted expectations • Subsequent receipts testing of receivables as at December 31, 2020 (statistical sample) • Assessing the adequacy of allowances for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining supporting documentation
Fraud risk from management override / segregation of duties	<p>This is a presumed fraud risk.</p> <ul style="list-style-type: none"> • The risk primarily relates to the limited segregation of duties, administrative access to accounting system and the senior finance management's ability to post journal entries 	<ul style="list-style-type: none"> • Test 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	The taxes receivable balances may be invalid and the allowance for uncollectible taxes understated.	<ul style="list-style-type: none"> Recalculation of the net tax revenues based on verified assessment rolls and approved tax rates Subsequent receipts testing of taxes receivable as at December 31, 2020 (statistical sample) Assessing the adequacy of the allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of underlying property
Purchases and payables	Payables may be understated or not recorded in the correct period.	<ul style="list-style-type: none"> Analytical assessment of expenses based on budgeted expectations Reviewing supporting documentation and management estimates with respect to the completeness and accuracy of significant year end accruals Perform a search for unrecorded liabilities
Provisions for employee benefits	Provision and related expense may be understated.	<ul style="list-style-type: none"> Reviewing actuarial reports, method and assumptions used Testing supporting calculations relating to the various amounts and disclosures
Provisions for contaminated sites liability	Provision and related expense may be understated.	<ul style="list-style-type: none"> Reviewing assumptions used by management Testing supporting calculations relating to the various amounts and disclosures
Commitments and contingencies	There is uncertainty regarding contingent liabilities.	<ul style="list-style-type: none"> Verifying the accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers, examination of supporting documentation, and discussions with management

Audit fees

Proposed fees

Service	Current year fees	Prior year fees
Annual audit	\$ 41,200	\$ 40,400
Trust funds audit	800	775
Total*	\$ 42,000	\$ 41,175

*before administrative costs, disbursements and applicable taxes

Deliverables

Deliverable
Discussions and communications regarding planning
Report on the December 31, 2020 consolidated financial statements
Communication of audit strategy and results
Preparation of the internal controls deficiencies letter

Fee considerations

Upfront and periodic discussions are central to our approach in dealing with fees. Our goal is to avoid surprises by having early and frank communication. We wish to provide you with a competitive price and fair value, while also allowing sufficient audit hours to conduct an effective audit and deliver quality service.

We have established a fee for the audit for the year ended December 31, 2020 that is based on the level of activity and the anticipated complexity of the audit of the municipality's consolidated financial statements. If there are any variances to the above plan, we will discuss them with you and agree on any additional fees before costs are incurred, wherever possible. Any unforeseen work outside the scope of this proposal will be billed separately after discussion with appropriate entity officials and/or the audit committee.

The proposed fee is based on receiving the following from management:

- Draft consolidated financial statements including the notes to the financial statements
- All working papers and schedules as outlined in our requirements letter
- Trial balance together with reconciled control accounts
- All books and records when requested
- Use of municipality staff to help us locate information and provide explanations

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 the Members of Council are as follows:

Stage or deliverable	Timing/Status
Planning and interim procedures	January, 2021
Communication of audit planning	January, 2021
Performance of fieldwork	March, 2021
Communication of audit results	April, 2021

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
James Brennan CPA, CA Principal	P +1 905-834-6622 E James.Brennan@ca.gt.com
Chris Guglielmi CPA, CA Manager	P +1 905-834-2970 E Chris.Guglielmi@ca.gt.com
Andrew Filinski Senior Accountant	P +1 905-834-2987 E Andrew.Filinski@ca.gt.com

Technical updates – highlights

Accounting

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

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

Further details of the changes to accounting 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.

Assurance

Auditing standards issued by the Auditing and Assurance Standards Board that may change the nature, timing and extent of our audit procedures on the municipality and our communication with the Members of Council include:

- 701 Communicating Key Audit Matters in the Independent Auditor's Report
- CAS 315 Identifying and Assessing Risks of Material Misstatement
- CAS 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures
- CAS 600 Special Considerations – Audits of Group Financial Statements

Further details of the changes to assurance standards, including management's preliminary comments on their applicability to the municipality, 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 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.

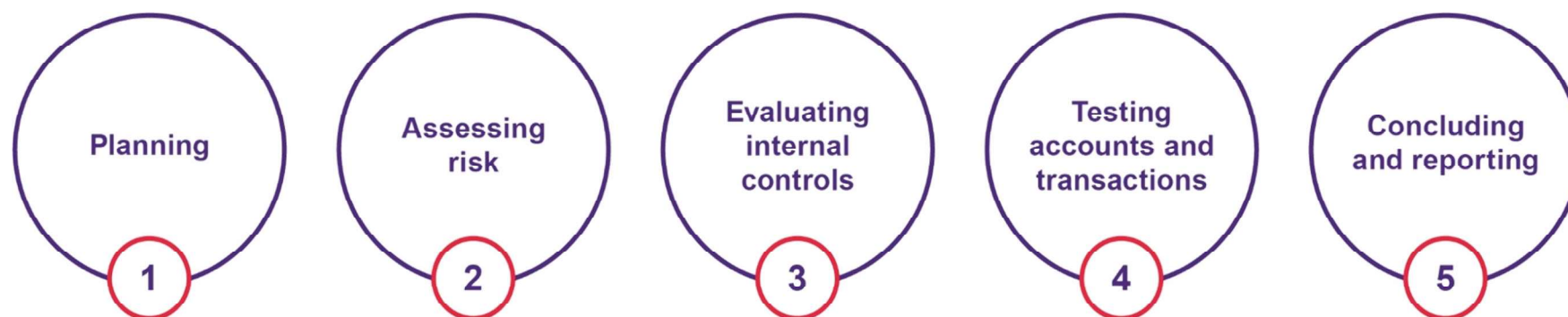
Roles and responsibilities

Role of the Council	<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• Recommend the nomination and compensation of external auditors• Overseeing 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 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 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 municipality and its operations drives our audit approach, which is risk based and specifically tailored to the City of Port Colborne.

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 municipality and our beliefs about management's honesty and integrity.

Internal control

Our audit will include gaining an understanding of the municipality'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 municipality'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

August 22, 2018

City of Port Colborne
66 Charlotte Street
Port Colborne, ON
L3K 3C8

Attention: Mr. Peter Senese, Treasurer

Dear Mr. Senese:

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 City of Port Colborne (“the Municipality”, “you” or “your”) for the years ending December 31, 2018, 2019 and 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 City of Port Colborne, which comprise the consolidated statement of financial position as at December 31, 2018, 2019 and 2020, and the consolidated statements of operations, changes in net financial assets and cash flows for the years 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 Municipality pursuant to the requirements of the statute pursuant to which the Municipality 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.

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 Municipality'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 Municipality 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 Municipality's management and, where appropriate, those charged with governance 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 Municipality'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 Municipality's management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the Municipality from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from the Municipality's management and, where appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit. Those representations will include:

Consolidated 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 Members of Council and committees;
- 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 Municipality 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 Municipality'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, PSA HANDBOOK – ACCOUNTING Section 2130;
- 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 Municipality'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 Municipality is contingently liable;

- t) providing us with information on whether or not the Municipality 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 Municipality'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 Municipality'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 Municipality'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 Municipality electronically by us for your convenience, only the signed (electronically or manually) report constitutes the Municipality's record copy.

If the Municipality'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 Municipality'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 Municipality'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 Municipality's management agrees to provide us with adequate notice of the preparation of such document(s).

Non-audit services directly related to the audit

We will assist the Municipality's management in preparation of the consolidated financial statements. However, the Municipality's management remains at all times responsible for the preparation and fair presentation of the Municipality's consolidated financial statements in accordance with Canadian Public Sector Accounting Standards.

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 Taxpayers of the
Corporation of the City of Port Colborne

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Port Colborne ("the Municipality"), which comprise the consolidated statement of financial position as at December 31, 2018, 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 Port Colborne as at December 31, 2018, 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 Municipality 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 Municipality'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 Municipality or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Municipality'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 Municipality'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 Municipality'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 Municipality 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.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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 Municipality'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. We will provide the services outlined in this letter for fees not to exceed the following:

Report	2018 Fees	2019 Fees	2020 Fees
Audit of the City of Port Colborne consolidated financial statements including the preparation of the consolidated financial statements	\$ 39,600	\$ 40,400	\$ 41,200

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.

Municipality consent to production

The Municipality 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 Municipality's affairs. The Municipality 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 Municipality's affairs, we will, on a reasonable efforts basis, refuse access to any document over which the Municipality has expressly informed us at the time of delivery that the Municipality 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 Municipality expressly consents to such disclosure. The Municipality must mark any document over which it asserts privilege as privileged and inform us of the grounds for the Municipality'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 Municipality for the provision of audit services, other accounting services and non-audit services, and the Municipality consents to the disclosure of that information as may be required by the regulatory authority.

The Municipality 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

James D. Brennan, CPA, CA
Principal

JDB/jf

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

City of Port Colborne

By:

"Signed" "Peter M. Senese"

(Signature)

"Peter M. Senese"

(Name)

"Director of Corporate Services"

(Title)

"August 23/18"

(Date)

Schedule A

Terms and conditions

Except as otherwise specifically stated in the Engagement, the following general terms and conditions apply to and shall 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 Municipality of the Municipality's obligations and responsibilities as set out in the Engagement.

Information and announcements – The Municipality 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 completing the Services contemplated by the Engagement. The Municipality shall also provide where applicable, access to its directors, officers or professional advisers as required by Grant Thornton in order for it to complete the Services. The Municipality 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 shall 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 consolidated financial statements, information or opinions, whether written or oral, rendered or provided by Grant Thornton to the Municipality (and/or its affiliates) ("Deliverables"), or any communications between Grant Thornton and the Municipality (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 taxing authorities and the Municipality's financial institution. Any Deliverables shall be solely for the benefit of the Municipality 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 and/or defined within the Engagement. Grant Thornton recognizes no responsibility whatsoever, other than that owed to the Municipality as at the date on which the Deliverable is given to the Municipality by Grant Thornton, for any unauthorized use of or reliance on any Deliverables.

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 Municipality or any other party. Neither the Municipality nor Grant Thornton shall have the right, power or authority to obligate or bind the other in any manner.

Subcontracting – The Municipality 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 hereunder, 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 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 Municipality 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 – In addition to any further non-solicitation rights as may be defined within the Engagement, the Municipality agrees that it shall not solicit for employment or hire any of the partners, principals, employees or consultants of Grant Thornton or GT Affiliates who are involved in the performance of the Services during the term of the Engagement and for a period of twelve (12) months thereafter, without our express written consent.

Confidentiality – All information which Grant Thornton receives from the Municipality or the Municipality's directors, officers, agents, advisors or counsel in connection with the performance of the Services 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 Municipality, 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 Canadian chartered professional accountants); (b) of such information to any professional advisers, consultants and/or 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 Municipality which, (i) is rightfully known by Grant Thornton on a non-confidential basis prior to its disclosure by the Municipality; (ii) is independently developed by Grant Thornton without reference to or use of the Municipality'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 (if applicable), original contracts, other documents of title held to the Municipality's order and any documents the return of which the Municipality has stipulated, on or prior to their release to Grant Thornton (the “Municipality Materials”). Notwithstanding the foregoing, (i) Grant Thornton may retain a copy of any or all of the Municipality 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 or 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 Municipality'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 Municipality, upon fourteen (14) days prior written notice.

Independence – In the event the Municipality 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 Client, 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.

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 or as otherwise permitted under this Engagement, Grant Thornton, its employees, partners, contractors, consultants, and GT Affiliates may need to obtain, use and disclose Municipality information (including Confidential Information and personal information) in the possession of, or under the control of the Municipality. The Municipality 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 party (including third parties) in order to permit Grant Thornton, its employees, partners, contractors, consultants, and/or GT Affiliates, to access, obtain, use and/or disclose Municipality information (including Confidential Information and personal information) accessed by us or provided to us by the Municipality or a party authorized by the Municipality for the purposes of completing the Services, 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 Municipality 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 external hard drives, 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 Municipality agrees to the use of such electronic methods to transmit and receive information (including confidential information), between Grant Thornton and the Municipality and between Grant Thornton and outside specialists, contractors or other entities engaged by either Grant Thornton or the Municipality. The Municipality 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 Municipality also agrees that Grant Thornton professionals shall be authorized to connect their computers to the Municipality's IT network, subject to any specific restrictions the Municipality provides to Grant Thornton. Connecting to the Municipality's IT network or the internet via this network, while at the Municipality's premises, will be primarily for the purpose of conducting normal business activities, and those relating to the completion of the Services.

Expenses – If applicable, the Municipality will reimburse Grant Thornton for all reasonable out-of-pocket expenses incurred by Grant Thornton in entering into and performing the Services, whether or not it is completed, including but not limited to, travel, telecommunications costs, fees and disbursements of other professional advisers, and other disbursements customary in engagements of this nature. All other out-of-pocket expenses will be charged at cost as incurred by Grant Thornton.

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 Municipality 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 Municipality which is not cured by the Municipality 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 Municipality Materials even if same may contain confidential information of the Municipality. 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 Municipality to suspend or terminate its Services in the event the Municipality fails to pay Grant Thornton any amount due to it under the terms of the Engagement; or (ii) immediately upon written notice to the Municipality 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 Municipality agrees to compensate Grant Thornton for all time expended and costs incurred up to and including the date of termination.

In the event neither the Municipality or Grant Thornton exercise any of their respective rights regarding termination of the Engagement, the Engagement will continue in full force and effect for the year ending noted within the Engagement and until such time as the Engagement is superseded or replaced by another Engagement.

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 – Unless otherwise permitted by the engagement, under no circumstances without the express prior written consent of Grant Thornton, shall the Municipality 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 Municipality wishes to seek Grant Thornton's consent as required by the Engagement, the Municipality shall provide to Grant Thornton a copy of such Disclosure Document for prior approval, which approval may be unreasonably withheld.

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

- a. the execution, delivery and performance of the Engagement has been duly authorized and does not conflict with or violate any contractual, statutory, common law, legal, regulatory or other obligation by which the Municipality is bound; and

- b. the Engagement is the legal, valid and binding obligation of the Municipality, enforceable in accordance with its terms.

Grant Thornton representations, warranties and covenants – Grant Thornton represents, warrant and covenants to the Municipality 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 Municipality's obligations in respect of confidentiality, payment of fees and expenses, Municipality consent to production, release and indemnification, and limitation of liability as outlined within the Engagement 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.

Appendix C – PSAS

Accounting developments

Public Sector Accounting Standards	Effective date
<p>Section PS 3400 <i>Revenues</i></p> <p>New Section PS 3400 <i>Revenue</i> 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:</p> <ul style="list-style-type: none"> • 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 	<p>Fiscal years beginning on or after April 1, 2023.</p> <p>Earlier adoption is permitted.</p>
<p>Section PS 3280 <i>Asset retirement obligations</i></p> <p>New Section PS 3280 <i>Asset Retirement Obligations</i> 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.</p> <p>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.</p> <p>As a result of the issuance of Section PS 3280, the Public Sector Accounting Board (PSAB) approved the withdrawal of Section PS 3270 <i>Solid waste landfill closure and post-closure liability</i> 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 <i>Liability for contaminated sites</i>. Some consequential amendments have been made to PS 3260 to conform with PS 3280 and further clarify the scope of each standard.</p>	<p>Fiscal years beginning on or after April 1, 2022.</p> <p>Earlier adoption is permitted.</p>

Public Sector Accounting Standards**Effective date**

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

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*
 - PS 3060 *Government partnerships*
 - PS 3070 *Investments in government business enterprises*
 - PS 3230 *Long-term debt*
 - PS 3310 *Loan guarantees*
-

*****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.

Public Sector Accounting Standards**Effective date**

- 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, the PSAB’s 2017-2020 Strategic Plan included plans to assess the specific needs of public sector NPO stakeholders. PSAB’s 2018-2019 Annual Plan includes the following specific objectives for implementing its strategy:

- developing a GNPO strategy that meets the public interest; and
- enhancing engagement with users of GNPO financial statements.

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. 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 May 2019, the PSAB issued a Consultation Paper, [Government Not-for-Profit](#), which articulated the results of their consultations and sought stakeholder input in developing a strategy for GNPOs. The comment period for the Consultation Paper ended on September 30, 2019 and PSAB is currently deliberating the responses. As part of their strategic plan for 2020 to 2021, the PSAB approved a second consultation paper, *Government Not-for-Profit Strategy*, in September 2020. The paper is expected to consult on an accounting and reporting framework for GNPOs. The AcSB expects to approve the final GNPO strategy, based on responses to the two consultation papers, outreach, and its international strategy decision.

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. The changes will be made through the following actions:

1. Issuing a revised conceptual framework to replace two Sections in the PSA Handbook:
 - PS 1000 *Financial statement concepts*
 - PS 1100 *Financial statement objectives*
2. Issuing a revised financial statement presentation standard that would replace Section PS 1201 *Financial statement presentation*.

Statement of Concepts, A Revised Conceptual Framework for the Canadian Public Sector

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. It generally considers the following components:

- characteristics of public sector entities
- financial reporting objectives
- role of financial statements
- financial statement foundations
- financial statement objectives
- qualitative characteristics of information and related considerations
- elements of financial statements
- recognition and measurement
- presentation concepts

In September 2020, PSAB approved four important exposure drafts:

- *The Conceptual Framework for Financial Reporting in the Public Sector* - PSAB will propose replacing certain aspects of the existing conceptual framework in Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*
- *Proposed Section PS 1202 Financial Statement Presentation* – PSAB will propose replacing the existing reporting model standard in Section PS 1201 *Financial Statement Presentation*. It is expected that the proposed changes could make some major 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 Financial Statement Presentation, Proposed Section PS 1202* – This Exposure Draft will summarize the implications for the rest of the PSA Handbook.

The PSAB expects to issue the documents in January 2021, with comments due by mid-May 2021. PSAB will also issue a basis for conclusions for each exposure drafts to set out its reasoning for the proposals.

Appendix D – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
<p>Amendments to CAS 701 <i>Communicating Key Audit Matters in the Independent Auditor's Report</i></p> <p>New reporting standards were required to be applied for audits of entities with periods ending on or after December 15, 2018. One of the updated standards, CAS 701, dealt with the requirements when the auditor would be communicating matters judged to be most significant to the audit in the audit report, either because the auditor had chosen to do so or because law or regulation required key audit matters to be described in the auditor's report.</p> <p>In late 2019, the AASB finalized further amendments to the auditor reporting standards such that auditors would be required to communicate key audit matters in the auditor's report for complete sets of general purpose financial statements of entities listed on the Toronto Stock Exchange (TSX) and other listed entities, excluding entities required to comply with National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> ("NI 81-106").</p>	<p>The communication of key audit matters in the auditor's report is required for audits of entities listed on the TSX, other than entities required to comply with NI 81-106, for periods ending on or after December 15, 2020 and for other listed entities, other than entities required to comply with NI 81-106, for periods ending on or after December 15, 2022.</p>
<p>Revisions to CAS 315 <i>Identifying and Assessing Risks of Material Misstatement</i></p> <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 <p>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"</p>	<p>Periods beginning on or after December 15, 2021.</p>
<p>Revisions to CAS 540 <i>Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures</i></p> <p>In June 2018, the IAASB approved a revised version of ISA 540 <i>Auditing Accounting Estimates and Related Disclosures</i>. In revising the standard, the IAASB focused on improving the scalability of the ISA to very simple accounting estimates, as well as the most complex accounting estimates. The standard was also revised to clarify the relationship between ISA 540</p>	<p>The revised standard is effective for audits of financial statements</p>

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
(revised) and the other ISAs and the requirements when using the work of management's expert as audit evidence in testing how management made the accounting estimate. The AASB concluded that the changes to the ISA would be adopted as CASs, with no special amendments being necessary with respect to the Canadian auditing environment.	with periods beginning on or after December 15, 2019.

Canadian Exposure Drafts issued by the AASB	Effective date
<p>Proposed changes to CAS 600 <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i></p> <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 	<p>The comment period for the Exposure Draft has ended. An effective date for the revised standard has not yet been established.</p>