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March 4, 2015

Mayor and Council  
Township of Puslinch  
7404 Wellington Road 34  
Guelph Ontario N1H 6H9

Dear Sir/Madam:

Re: Audit of the Financial Statements of Township of Puslinch  
For the year ended December 31, 2014

The purpose of our report is to summarize certain aspects of the audit that we believe would be of interest to the Mayor and Council and should be read in conjunction with the financial statements and our report thereon.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Mayor and Council in fulfilling its responsibilities.

This report has been prepared solely for the use of the Mayor and Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

### Independence

At the core of the provision of external audit services is the concept of independence. We are communicating all relationships between BDO Canada LLP and its related entities and Township of Puslinch and its related entities that, in our professional judgment, may reasonably be thought to have influenced our independence during the audit engagement.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute/ordre covering such matters as the following:

- holding of a financial interest, either directly or indirectly in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to

- exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the external audit engagement.

We are aware of the following relationships between the municipality and us that, in our professional judgment, may reasonably be thought to have influenced our independence. The following relationships represent matters that have occurred from February 4, 2015 to March 4, 2015.

- We have provided assistance in the preparation of the financial statements, including adjusting journal entries and/or bookkeeping services. These services created a self-review threat to our independence since we subsequently expressed an opinion on whether the financial statements presented fairly, in all material respects, the financial position, results of operations and cash flows of the organization in accordance with Canadian public sector accounting standards.
- We, therefore, required that the following safeguards be put in place related to the above:
  - Management reviewed and approved all journal entries prepared by us, as well as changes to financial statement presentation and disclosure.
  - Someone other than the preparer reviewed the proposed journal entries and financial statements.

### Materiality

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As communicated to you in our Planning Report to the Mayor and Council, preliminary materiality was \$100,000. Final materiality remained unchanged from our preliminary assessment.

We communicated all corrected and uncorrected misstatements identified during our audit to the Mayor and Council, other than those which we determine to be “clearly trivial”. Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encouraged management to correct any misstatements identified throughout the audit process.

### **Auditor's considerations of possible fraud and illegal activities**

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

The scope of the work performed was substantially the same as that described in our Planning Report to the Mayor and Council.

### **Other Matter**

During the course of the audit, management identified items that required the restatement of the prior period balances in the financial statements. These adjustments included reclassification of outstanding cheques to accounts payable, credits in trade and other receivables and taxation write-off accruals. We have restated the prior period amounts and have notified the predecessor auditor of these adjustments to the audited amounts they reported on in the prior year.

### **Management Letter**

We have submitted to management a letter on internal controls and other matters that we feel should be brought to their attention.

During the course of our audit of the financial statements of Township of Puslinch for the year ended December 31, 2014, we identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly an audit would not usually identify all such matters.

The comments and concerns expressed herein did not have a material effect on the Municipality's financial statements and, as such, our opinion thereon was without reservation. However, in order for the Municipality to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honesty or competence of the Municipality's employees.



The key matters we have identified are discussed below:

- Liabilities include significant older security and grading deposits. Management and Council have adopted a policy to recognize deposits over 10 years old as revenue and to transfer the money to a reserve. We recommend that management periodically review all deposits to determine the status.
- The current capital asset policy is very general and broad. This may lead to incorrect classification of assets and inappropriate useful life estimates. We recommend that the capital asset policy be reviewed to ensure that the correct useful lives are being attached to the different asset classes.
- The municipality currently does not use a purchase order system. We recommend that a purchase order system be implemented that requires all non-routine purchases to have a purchase order approved in advance.
- The existing procurement policy allows purchasing up to \$10,000 with limited authorization. We recommend that the procurement policy be reviewed and lower threshold be considered.
- An master authorization list for payroll and purchases indicating who is authorized to sign off on invoices and timesheets for approval does not exist. We recommend that a policy be implemented that contains a list of authorized individuals, as well as their levels of authorization.
- Segregation of duties is lacking surrounding cash handling. We recommend that receipts are issued for all transactions.
- Segregation of duties is lacking in the recreation revenue process. We recommend prenumbered contracts be put in place, so that any missing contracts can be identified. The facility booking module in Keystone can be used to track the recreation bookings instead of using an excel spreadsheet.
- The Township currently pays employees on a weekly basis. In order to improve efficiencies, we recommend implementing bi-weekly payroll for employees.
- Timesheets are not consistently completed and approved for all employees. We recommend that a consistent timesheet policy be implemented across all departments.
- Currently, many financial reports are produced outside of the accounting system (Keystone) using excel. We recommend that Keystone report generating capabilities be reviewed and implemented.
- Capital asset management plans are becoming increasingly critical. As a value added service, BDO has agreed to provide a "peer review" of your plan/process in the upcoming months.

### Management Representations

During the course of the audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base the audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

Management's representations included, but were not limited to:

- matters communicated in discussions with us, whether solicited or unsolicited;
- matters communicated electronically to us;
- schedules, analyses and reports prepared by the entity, and management's notations and comments thereon, whether or not in response to a request by us;
- internal and external memoranda or correspondence;
- minutes of meetings of Council or similar bodies;
- a signed copy of the financial statements; and
- a representation letter from management.

We wish to express our appreciation for the co-operation we received during the audit from the municipality's management and staff who have assisted us in carrying out our work. We would be pleased to discuss with you the contents of this report and any other matters that you consider appropriate.

Yours truly,



Sally J. Slumskie, CPA, CA  
Partner through a corporation  
BDO Canada LLP  
Chartered Professional Accountants, Licensed Public Accountants