



Special Council Meeting  
Agenda

The Agenda for the **SPECIAL COUNCIL MEETING** to be held in the Municipal Hall Conference Room on Monday, June 15, 2009 commencing at 4:30 p.m.

**1. DISTRICT OF MISSION AUDIT RESULTS AND COMMUNICATIONS**

District of Mission Audit Results and Communications – Report to Council  
December 31, 2008

Page 2

**2. ADJOURNMENT**



The District of Mission

# Audit Results and Communications

Report to Council

December 31, 2008



BDO Dunwoody LLP  
Chartered Accountants

600 - 925 West Georgia Street  
Vancouver, BC  
Canada, V6C 3L2  
Telephone: (604) 688-5421  
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April 16, 2009

Members of Council  
The District of Mission  
8645 Stave Lake Street  
Box 20  
Mission, BC  
V2V 4L9

Dear Mayor and Council:

We have completed our audit of the financial statements of the District of Mission for its fiscal year ended December 31, 2008. We take this opportunity to present our findings to you.

The responsibility for producing financial statements and ensuring adequate internal controls and sound business practices is the responsibility of Council through management and is a part of management's overall responsibility for the ongoing activities of the municipality. Policies and procedures developed by the municipality to safeguard its assets and to provide reasonable assurance that errors and irregularities or illegal acts are promptly identified, must be properly monitored to ensure that all staff are complying with the guidelines provided.

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement. Auditors must be completely independent and objective in the application of their testing.

We received full support from management and staff throughout our work and the scope of our audit was not restricted in any way. Our audit opinion, which is bound into the published financial statements, is without reservation indicating that our audit tests and procedures yielded reliable results.

Should you have any questions or concerns in regard to any of the items mentioned in this report, please do not hesitate to contact us at any time.

Yours truly,

BDO DUNWOODY LLP

A handwritten signature in black ink that reads "Bill Cox". The signature is written in a cursive, flowing style.

Per:  
Bill Cox, CA  
On behalf of Bill Cox, Inc.  
Corporate Partner of BDO Dunwoody LLP

# Contents

Audit Approach ..... 2

Audit Findings ..... 3

Audit Reporting ..... 4

Auditor Independence ..... 5

Possible Aggregate Misstatements ..... 6

Appendix A – Management Letter ..... 7

Appendix B – Letter of Representation ..... 12

Appendix C – Audit Planning Letter (for reference) ..... 16



## Audit Approach

The audit followed a "risk-based" approach. This approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit effort in areas that we believe have a higher risk of being materially misstated and do less audit work in areas that are only low risk. The audit risk model in generally accepted auditing standards has changed resulting in an increase in level of audit work.

To assess risk accurately, we need to have a clear understanding of the District's operations and the environment it operates in. Much of our understanding is obtained through discussions with management and staff. We would also appreciate any new information that you could provide to us about your operations, internal controls or anything else that you feel is important to the audit as it may corroborate what we have already learned from management and other sources, or it may be useful for future audit planning. We would also appreciate any insights that you could provide to us on what you perceive to be high risk to the District as that will make future audits more effective and efficient, which will benefit all concerned.

The following sections provide more detail on our audit approach for the year just audited.

### *Audit Scope*

The scope of our audit of the consolidated financial statements of The District of Mission for the year ended December 31, 2008 included the following:

- An audit opinion on the consolidated financial statements of the District of Mission
- An audit opinion on the financial statements of the District of Mission Development Corporation
- Management letter report in regard to audit recommendations of significance (an appendix to this package)
- Corporate income tax returns (first year of this requirement – will be no income tax liability)

### *Requests by Council*

In the course of your duties as Council members, you may be aware of additional areas of concern from an audit perspective that you would like us to address. We want you to know that we welcome discussion on any areas of audit concern that you may have.

### *Overall Audit Strategy*

General audit strategies include a "combined" audit approach or a "substantive" audit approach. In a combined audit approach, we would obtain our assurance from a combination of tests of controls (compliance procedures) and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items). The substantive approach virtually ignores controls and focuses almost exclusively on tests of accounting outputs.

As a result of changes to our professional audit requirements in recent years, auditors must have a good understanding of the control systems. Having said that, the level of understanding required for audit purposes is not sufficient for us to provide opinion on the overall effectiveness of the internal control environment.

So our audit process involved a fair degree of systems work coupled with verification of key balances by substantive means.

## Audit Findings

There are a number of matters that arose during the audit that we would like to bring to your attention, although nothing that negatively impacted the audit. Each of these matters is summarized briefly below. We would be pleased to discuss any of these items in more detail at our upcoming meeting.

### *Fraudulent and Illegal Activities*

Our audit procedures were performed for the purpose of forming an opinion on the financial statements and although they might bring possible fraudulent or illegal activities to our attention, our audit procedures were not designed to detect fraudulent or illegal activities.

In any event, we did not detect any fraudulent or illegal activities, or material misstatements resulting from fraudulent or illegal activities during our audit.

### *Disagreements with Management*

There were no significant disagreements with management.

### *Litigation Proceedings*

We have communicated directly with the District's various legal counsels, who have indicated that there are possible material claim outstanding against the District described the Cedar Connector Expropriation Claims – the amount of which will likely be \$1 million. This has already been identified in our audit in the previous year.

The best estimate of the claim amount (i.e. \$1 million) has been paid to the lawyers reserve and had been previously expensed in the District's accounts.

## Audit Reporting

### *Materiality*

Materiality in an audit is used as a guide for planning the nature and extent of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found and determining the appropriate audit opinion to express.

Since the determination of materiality is a matter of professional judgment, it is primarily dependent on our evaluation of the relative importance of accuracy in the financial statements to the various users of those statements. We have identified taxpayers, Council, the Ministry, various government agencies and (indirectly) the Municipal Finance Authority as the most important users of the District's financial statements. We describe the MFA as having an "indirect" interest because while they do not generally review the financial statements of each municipality in detail, the combined financial status of British Columbia municipalities is of importance to them and they would be particularly concerned with any qualified or denied audit opinions should they occur.

Canadian generally accepted auditing standards require the use of both quantitative and qualitative factors in determining materiality. For the audit of The District of Mission for the year ended December 31, 2008, we have concluded that a materiality level of \$910,000, based on 2% of expenditures, is appropriate for the purposes of the audit.

Our Schedule of Possible Aggregate Misstatements is used to track audit differences to ensure that they do not total greater than materiality. Our actual differences noted were nominal. This is further discussed in a separate section in this report.

### *Auditors' Report*

Our audit testing has shown that any differences from our audit work are not material. Accordingly we have issued an unqualified opinion, the highest form of assurance that we can provide. Our audit report uses standard wording as required by our professional regulations and is bound in with the financial statements.

### *Management Letter*

Our audit provides insight into many of the District's financial operations and control systems. Points that come to our attention along with recommendations for improvement are reported to you in this format. This letter is included as an appendix to this reporting package.

## Auditor Independence

Canadian generally accepted auditing standards (GAAS) require us to communicate to Council, at least annually, all relationships between BDO Dunwoody LLP (and its related entities) and the District of Mission (and its related entities), that, in our professional judgment, may reasonably be thought to bear on our independence for the audit of the District.

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 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 not aware of any relationships between the District and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

GAAS requires that we confirm our independence to Council. Accordingly, we hereby confirm that we are independent with respect to The District of Mission within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of BC as of April 16, 2009.



## Possible Aggregate Misstatements

During the audit we keep a list of differences between the financial statements and our audit findings from third parties or other sources. This list, known as “Possible Aggregate Misstatements”, is totaled to ensure that the differences are not material. Should the list total become close to materiality, it is necessary to do further audit work on the differences to determine if there really is an error in the financial statements. The existence of items on our Possible Aggregate Misstatements listing is normal and does not necessarily mean that the financial statements contain errors.

### *Possible Aggregate Misstatements*

There were no uncorrected misstatements during the 2008 audit.

After considering both quantitative and qualitative factors with respect to the Possible Aggregate misstatements above, we agree with management that the financial statements are fairly stated.

## Appendix A – Management Letter



**BDO Dunwoody LLP**  
Chartered Accountants

600 - 925 West Georgia Street  
Vancouver, BC  
Canada, V6C 3L2  
Telephone: (604) 688-5421  
Telefax: (604) 688-5132  
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April 16, 2009

Mr. Ken Bjorgaard, CGA, MBA, Director of Finance  
The District of Mission  
8645 Stave Lake Street  
Box 20  
Mission, BC  
V2V 4L9

Dear Mr. Bjorgaard:

**Re: Auditor's Management Letter**

While performing our audit work in regard to the annual financial statements we remain alert to items that come to our attention where we feel that our comment on such items would be beneficial. Items raised usually relate to a best-practice that should be considered, a suggestion for enhancing internal control, or a comment on specific business activities. We use the "management letter" to report significant items that have been identified. Items of lower significance are discussed directly with your staff.

We issue a management letter subsequent to virtually every audit. It is important to note that the existence of items to bring to your attention is a normal by-product of an audit. The existence of points does not mean that there are critical problems to be addressed – in fact, if there were critical matters we would not wait to advise you of these. Conversely, the absence of points in a particular year does not mean that your systems and controls are perfect. Our audit plan changes from year to year and items that come to our attention will vary.

### Status of Prior Year Recommendation

There were a few carry-forward points from the prior year's management letter. We track these points to ensure that recommendations are followed up and implemented (or alternatively found to be impractical).

Prior Year Recommendation	Current Status
<p><b>1. Security of Cash Receipts</b></p> <p>It had been noted in prior year that cashier cash register keys were normally left in the cash register and were not removed when the cashier left their post. We had recommended that cashier's registers should be locked and the key taken with the cashier when they leave their post to mitigate the risk of unauthorized access.</p>	<p>We are pleased to note that the District had purchased new cash register drawers. Management has indicated that keys are removed from the cash register drawers and only used in the morning during opening and at the end of the day for closing. During the day the keys are kept secure and separate from the cash register drawer.</p>

### *Current year observations:*

**1. Terminated Staff user accounts are not deactivated in a timely manner**

During the audit it was noted that when District staff are terminated, the IT department is not notified in a timely manner so that they can deactivate the staff accounts.

The potential issue is that there could be staff accounts within their Active Directory which are indicated to be active even though the staff member has already left employment from the District. This raises the issue that terminated staff can log back onto the District's network.

We recommend that formal procedures are implemented where HR notifies IT through a written termination request before the staff's last day so that IT can deactivate the staff's account on the last day of their work.

*District's Response: This has been discussed with the Manager of Human Resources and the Manager of Information Services and a procedure has been established whereby Human Resources will formally notify Information Services in a timely manner of all employees leaving the employment of the District of Mission. Upon notification, Information Services will disable account(s).*

**2. User Privileges**

Access rights are being reviewed at certain times throughout the year but there is no formal procedure in place to ensure access rights are checked periodically. The potential issue is that staff could have more privileges than they actually require which is problematic as staff could access to make changes or even delete records in the system database.

*District of Mission – 2008 Audit Results and Communication**Page 9*

We recommend that a formal policy be implemented where the IT department reviews user privileges for systems and MAIS every 6 months.

*District's Response: Finance is more conversant than IT in terms of MAIS access, therefore has historically taken on the role of MAIS access administration. All MAIS access is periodically reviewed when setting up new employees, changing passwords or performing other administration. There has not been a lot of employee movement to warrant a more formal approach for reviewing MAIS access.*

*IT handles access privileges for our other systems. Access rights are generally established by group and when a person enters or transfers from a group access rights change. Not a lot of employee movement has occurred at the higher level access areas. We do not see the need for a more formal approach within MAIS or our other systems at this time.*

### 3. Generic IT user access

Currently a generic username and password is used for printing cheques. Although the username and password are only known to three Finance staff, there is the issue that cheques printed cannot be traced back to the individual person who printed the cheques. If unauthorized cheques are printed, the District would not be able to trace the occurrence to a particular staff member and this reduces accountability.

We recommend that individual usernames and passwords to be setup for each staff member that will be doing cash disbursements. Therefore, each user will have their own username and password to print cheques.

*District's Response: The accounts payable final cheque register shows the individual person's name who produced the cheques, as each person signs on to MAIS (from one terminal) with a distinct user name and password when producing accounts payable cheques. The individual who prints the cheques also signs off on a manual cheque voucher reconciliation form immediately after printing cheques. This form, together with the final cheque register, are both signed off by the Director of Finance or his designee.*

*There is currently a programming issue related to the formatting of accounts payable cheques, therefore, the cheques are run on one terminal that has one common user name and password; however, as noted above individual user names and passwords are required to access MAIS to actually run accounts payable cheques. The Information Services department will be looking into this formatting issue.*

### 4. GST

In early 2004 GST legislation was changed to allow municipalities to claim a 100% rebate. Because of this change many supplies made by municipalities became subject to GST, such as licenses for real property. GST has not been collected on some licenses for real property from the time the legislation was changed until 2008.

During the audit in 2008, it was found there was approximately \$3,505 in amounts owing to CRA for GST that should have been collected in previous years and in 2008. Although from a financial statement audit standpoint the amount is not significant, under a CRA audit the District could be assessed interest for the period from when the tax should have been remitted up to the point in time it is included in a subsequent return.

We recommend that the District invoice these tenants for the uncollected GST as soon as possible, and include this tax in its GST return covering the period in which the tenant is invoiced.

*District's Response: GST is now being remitted on all applicable licenses and leases. The license and lease agreements that do not currently provide for GST payable will need to be up dated upon renewal. We will not be taking further steps in terms of the historic GST due, as we were not aware of the change in the legislation.*

#### **5. Segregation of duties in Utilities**

Currently the Accounting Clerk responsible for meter utilities is entering the utility rates into the system, inputting the metered information as well as reviewing the information. This results in a lack of segregation of duties as the individual who is entering this information is also reviewing their own work. This could result in potential misstatements if errors are not caught through this self-review.

We recommend that the duties of entering the rates and usage information, and having a detail review of the rates be performed by different accounting staff to ensure that there is appropriate segregation of duties.

*District's Response: We have now implemented a change whereby the rates are entered by a separate person from the person entering the usage and reviewing the charges. Also, every time the rates are changed a second person will perform a review of the new rates and charges*

#### **6. Greenhouse Gas and Carbon tax initiatives**

B.C.'s carbon tax took effect on July 1, 2008. In September the provincial government made the surprise announcement of the Climate Action Revenue Incentive Program. This program provides that municipalities can receive a rebate of the carbon tax they pay. To be eligible, communities must sign on to the Climate Action Charter and commit to becoming carbon neutral by 2012.

Initial estimates made by several municipalities indicate that the carbon tax rebate (actually it will be paid as a conditional grant) will not be substantial in the early years of the program. However, the carbon tax, which starts at a rate based on \$10 per tonne of carbon emissions, will rise \$5 each year to \$30 per tonne by 2012. The tax works out to an extra 2.4 cents a litre on gasoline, rising to 7.24 cents per litre by 2012. Over time, the costs will be increasing and the rebate will become more attractive. Of course, from a non-financial sense, reducing carbon emissions is simply the right thing to do.

An organizational carbon inventory is best done sooner rather than later. This carbon inventory establishes your baseline and allows you to see where your risks lie and where you can make the most improvements. Importantly, having that baseline done early establishes a high current level and will give you credit for all future reductions that you can make. It is anticipated that there could be new grants or credits available to those organizations that can make the most improvement. There is also potential for selling credits back into the carbon credit pool depending upon the energy saving technologies that you may implement.

We recommend that you start identifying areas where improvements can be made and discussing various options. There are several companies that can assist you in this process including our Greenhouse Gas Advisory Service (GAS). Our GAS service can help by providing a second opinion on existing inventories along with strategies for becoming carbon neutral.

*District of Mission – 2008 Audit Results and Communication*  
*Page 11*

*District's Response: The District has received a grant to assist with funding our corporate inventory of greenhouse gas emissions. The District will be seeking competitive market quotes to complete the inventory. The District is also aware of the fact that becoming carbon neutral by 2012 may require the purchase of carbon offset credits in excess of carbon tax rebates.*

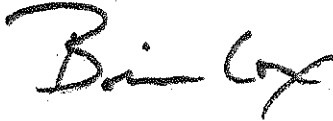
This communication is prepared solely for the information of management and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from Ken Bjorgaard, Kerri Onken, Kris Boland and the entire Finance Department.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours truly,

BDO DUNWOODY LLP



Bill Cox, CA  
On behalf of Bill Cox, Inc.  
Corporate partner of BDO Dunwoody LLP

BC/

c.c. Mayor and Council

## Appendix B – Letter of Representation

April 9, 2009

BDO Dunwoody LLP  
Chartered Accountants and Advisors  
600 - 925 West Georgia Street  
Vancouver, BC  
V6C 3L2  
Canada

Dear Sir/Madam:

We are providing this letter in connection with your audit of the financial statements of The District of Mission for the year ended December 31, 2008, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of The District of Mission in accordance with Canadian generally accepted accounting principles.

We are responsible for the fair presentation of the financial statements of the municipality prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

We are also responsible for the implementation and operation of internal controls that are designed to prevent, detect and correct fraud and error.

We understand that your examination was made in accordance with Canadian generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We also understand that such an examination is not designed to identify, nor can it necessarily be expected to disclose all fraud, shortages, errors and other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We hereby confirm to the best of our knowledge and belief, as at April 9, 2009, the following representations made to you during your audit:

### **Financial Statements and Disclosure**

1. The financial statements referred to above present fairly, in all material respects, the financial position of the municipality as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

2. The financial statements of the municipality:
  - (a) appropriately measure and disclose all related party transactions.
  - (b) use appropriate accounting policies that have been properly disclosed and consistently applied.

**Completeness of Information**

3. We have made available to you all:
  - financial records and related data;
  - minutes of the meetings of Council.
4. The minute books of the municipality are a complete record of all meetings and resolutions of Council throughout the year and to the present date.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
6. We have disclosed to you all significant matters contained in the minutes of all meetings and resolutions of Council throughout the year and to the present date.
7. We have identified to you:
  - guarantees;
  - indemnifications against damages, liabilities, costs, charges or expenses suffered or incurred by officers or directors as a result of their service, and/or by any subsidiaries; and
  - non-monetary transactions and transactions for no consideration.
8. We have advised you of all related parties and related party transactions of which we are aware.

**Fraud and Error**

9. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.
10. We are not aware of any fraud, suspected fraud, illegal acts or possibly illegal acts affecting the entity involving management, employees who have significant roles in internal control, or others, where these matters could have a non-trivial effect on the financial statements. In addition, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
11. We believe that the effects of unadjusted differences discovered by the auditors during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.  
  
A summary of such items has been attached to this letter.



**Existence, Completeness and Valuation of Specific Financial Statement Balances**

12. All assets, wherever located, to which the municipality had satisfactory title at the year end, have been fairly stated and recorded in the financial statements. There are no liens or encumbrances on the municipality's assets.
13. Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
14. Taxes and accounts receivable represent bonafide claims for taxation, sales or other charges arising on or before the year end. They do not include any amounts for goods shipped on consignment or approval.

The total of taxes and accounts receivable written off during the year is hereby approved and, in our opinion, the allowance for doubtful accounts is adequate to cover all known or anticipated losses from uncollectible accounts and those accounts not paid within normal credit terms.

15. Notes and loans receivable represent bona fide claims arising on or before the year end.
16. The municipality has complied with all provisions in its agreements related to debt and there were no defaults in principal or interest, or in the covenants and conditions contained in such agreements.
17. The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with Canadian generally accepted accounting principles. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

**General Representations**

18. The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
19. There were no direct or contingent liabilities (including those associated with guarantees or indemnifications provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the municipality, except as disclosed in the financial statements.
20. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel. These claims, once material individually or in the aggregate, have been appropriately disclosed in the financial statements.
21. We have disclosed to you all significant customers, ratepayers, and/or suppliers of the municipality who individually represent a significant volume of business with the municipality. We are of the opinion that the volume of business (sales, services, purchases, borrowing and lending) done by the municipality with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the municipality.
22. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
23. No events or transactions other than those disclosed in the financial statements have occurred subsequent

*District of Mission – 2008 Audit Results and Communication*  
*Page 15*

to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

24. No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements.

25. We have made the following additional significant representations to you during the course of your audit which we understand that you have relied upon:

- the amounts used as post closure costs for the landfill liability are the municipality's best estimate of these costs.

Yours truly,

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Position

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Position

## Appendix C – Audit Planning Letter (for reference)

January 9, 2009

Members of Council  
District of Mission  
8645 Stave Lake Street  
Box 20  
Mission, BC  
V2V 4L9

Dear Members of Council:

**Re:    Audit of the Financial Statements of District of Mission  
      For the year ended December 31, 2008**

This report is being sent to you to facilitate discussion about the external audit process for the 2008 fiscal year and to provide background information in regard to our audit strategy. We look forward to discussing any concerns that the Council may have to ensure that we understand what is important to you.

This report is prepared for the purpose noted above and should not be distributed without our prior consent. We accept no responsibility to a third party who uses this communication.

### **Specific Changes That May Affect Accounting/Reporting**

In this section, we generally discuss major changes that may affect an entity's accounting. We are not aware of any major changes in District of Mission's operations that will affect accounting choices being made. The Council may be aware of any such changes or areas of concern and we welcome any related discussion as it will aid us in the planning process.

#### ***Tangible Capital Assets***

In terms of reporting, the new standards for tangible capital assets start to have an impact for the District of Mission in the year ended December 31, 2008. At this point, only relatively minor disclosures are required, but over the period to 2009 the changes will begin to create significant impact.

Your staff are well on the way towards dealing with this significant undertaking. It would be useful for Council to be regularly advised how the project is progressing and whether any difficulties are foreseen.

#### ***Segmented Disclosures***

Segment reporting will need to be disclosed in the District's 2008 financial statements. The standard requires that revenues and expenses be allocated to the government's main areas of activities (for Local Government service lines are commonly used) and that the amounts presented show a total which reconciles with the amounts presented in the Statement of Financial Activities. Governments are encouraged, but not required, to also allocate assets and liabilities between segments. In addition, disclosure is required for the basis for identifying segments, the nature of the segments and the activities they encompass and the method of significant allocations to segments.

*District of Mission – 2008 Audit Results and Communication*  
*Page 17*

Your staff is aware of this new disclosure requirement. We will assist management as necessary towards complying with the new standard.

**Audit Strategy**

We will be performing the audit of the financial statements of the District of Mission for the year ended December 31, 2008. We have adopted an audit approach that allows us to issue an audit opinion on the financial statements of the District of Mission in the most cost effective manner, while still obtaining the assurance necessary to support our audit opinion.

The audit will follow a "risk-based" approach. This approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit effort in areas that we believe have a higher risk of being materially misstated and do less audit work in areas that are only low risk. The audit risk model in generally accepted auditing standards is changing and generally results in an increase in the level of audit work.

To assess risk accurately, we need to have a clear understanding of the District of Mission's operations and the environment it operates in. Much of our understanding is obtained through discussions with management and staff. We would also appreciate any new information that you could provide to us about your operations, industry, competitive marketplace, internal controls or anything else that you feel is important to the audit as it may corroborate what we have already learned from management and other sources, or it may be new information to us. We would also appreciate any insights that you could provide to us on what you perceive to be high risk to the District of Mission as that will make our audit more effective and efficient, which will benefit all concerned.

The following sections provide more detail on our audit approach for the District of Mission for the current year.

***Audit Scope***

We anticipate the scope of our audit of the financial statements of the District for the year ended December 31, 2008 to include the following:

- An audit opinion on the consolidated financial statements of the District;
- An audit opinion on the financial statements of the District of Mission Development Corporation;  
and
- Management letter report in regard to audit recommendations of significance

***Requests by Mayor and Council***

In the course of your duties as members of Council, you may be aware of additional areas of concern from an audit perspective that you would like us to address. We want you to know that we welcome discussion on any areas of audit concern that you may have.

***Overall Audit Strategy***

General audit strategies include a "combined" audit approach or a "substantive" audit approach. In a combined audit approach, we would obtain our assurance from a combination of tests of controls (compliance

*District of Mission – 2008 Audit Results and Communication**Page 18*

procedures) and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items). The substantive approach virtually ignores controls and focuses almost exclusively on tests of accounting outputs.

As a result of changes to our professional audit requirements in recent years, auditors must have a good understanding of the control systems. Having said that, the level of understanding required for audit purposes is not sufficient for us to provide opinion on the overall effectiveness of the internal control environment.

Therefore our audit process will involve a fair degree of systems work coupled with verification of key balances by substantive means.

***Higher Risk Financial Statement Areas***

Based on our knowledge of the District's operations, past experience with similar organizations, and knowledge gained from management and you, we have identified the following financial statements areas as having a potentially higher risk of material misstatement.

These risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We have also provided a brief summary of how we plan to audit these higher risk areas:

<b>Higher Risk Financial Statement Areas</b>	<b>Proposed Audit Procedures</b>
<ul style="list-style-type: none"> <li>• <b>Provision for retirement</b></li> </ul>	<ul style="list-style-type: none"> <li>• Audit of significant assumptions</li> <li>• Review of calculations</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Tangible Capital Assets</b></li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of status to date and of future plans to comply with upcoming accounting and disclosure requirements</li> <li>• Review the reasonableness of the District's processes for gathering tangible capital assets inventory and approaches to valuation of the assets</li> </ul>

<b>Higher Risk Financial Statement Areas</b>	<b>Proposed Audit Procedures</b>
<ul style="list-style-type: none"> <li>• <b>Accounts payable</b></li> </ul>	<ul style="list-style-type: none"> <li>• Third party confirmation</li> <li>• Computer audit testing</li> <li>• Cut-off testing</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Cash and investments</b></li> </ul>	<ul style="list-style-type: none"> <li>• Confirmation of cash and investments</li> <li>• Review of reconciliations</li> <li>• Review of reports on return and investment strategies</li> <li>• Testing of investment transactions and investment rollovers</li> </ul>

*District of Mission – 2008 Audit Results and Communication**Page 19*

<ul style="list-style-type: none"> <li>• Staff Salaries</li> </ul>	<ul style="list-style-type: none"> <li>• Computer audit testing</li> <li>• Analytical review of staff and salary levels</li> <li>• Systems testing and tests of controls</li> </ul>
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**Materiality**

Materiality in an audit is used as a guide for planning the nature and extent of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found and determining the appropriate audit opinion to express.

Since the determination of materiality is a matter of professional judgment, it is primarily dependent on our evaluation of the relative importance of accuracy in the financial statements to the various users of those statements. We have identified taxpayers, Council, the Ministry and (indirectly) the Municipal Finance Authority as the most important users of the District's financial statements. We describe the MFA as having an "indirect" interest because while they do not generally review the financial statements of each municipality in detail, the combined financial status of British Columbia municipalities is of importance to them and they would be particularly concerned with any qualified or denied audit opinions should they occur.

Canadian generally accepted auditing standards require the use of both quantitative and qualitative factors in determining materiality. For the audit of the District of Mission for the year ended December 31, 2008, we have concluded that a planning materiality level of \$800,000 based on approximately 2% of net combined expenditures, and adjusted by qualitative factors is appropriate for the purposes of the audit.

**Audit Team**

In order to ensure effective communication between the Council and BDO Dunwoody LLP, we briefly outline below the key members of our audit team and the role they will play:

- Bill Cox, CA, Engagement Partner – overall engagement management
- Patrick Chan, CA, Audit Manager – fieldwork management
- Jessica Jang, CA finalist – audit senior

**Timing of the Audit**

We have tentatively set the following schedule for the conduct of the audit:

• Interim audit fieldwork	• December 15 – 19, 2008
• Year-end audit fieldwork	• April 6 – 9, 2008
• Review of draft financial statements with Council	• TBA
• Council post-completion meeting	• TBA
• Finalization of financial statements	• TBA

**Communication of Results**

At the completion of our audit, or earlier if considered necessary, we will communicate to you matters arising from the financial statement audit. Our communication will include the following:

*District of Mission – 2008 Audit Results and Communication*  
*Page 20*

- Matters required to be communicated to the Council under GAAS including possible fraudulent activities, possible illegal acts and significant weaknesses in internal control;
- Matters that have a significant effect on the qualitative aspects of accounting principles used in the District of Mission's financial reporting;
- Matters previously agreed with you to be communicated to Council;
- Whether there are any unresolved issues or disagreements with management concerning the District of Mission's internal controls, accounting policies, or disclosures in the financial statements;
- Whether there were any material claims outstanding against the District of Mission in respect of which your lawyers have been retained on behalf of the District of Mission;
- The extent and nature of small immaterial unadjusted differences encountered during the course of our audit;
- Significant management judgments and estimates made in the course of preparing the financial statements; and
- Other matters arising from the audit that, in our professional judgment, are important and relevant to Council.

At the completion of the audit we will also discuss matters that will be identified in our "management letter" with the final version issued after finalization of our auditors' report.

**Current Developments in the Profession**

A summary of significant changes to accounting and auditing standards are included as an appendix to this letter.

### **Independence**

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards (GAAS) require us to communicate to Council, at least annually, all relationships between BDO Dunwoody LLP (and its related entities) and District of Mission (and its related entities), that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the District of Mission.

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 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 have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the District of Mission and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

GAAS requires that we confirm our independence to Council in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as our governing body. Accordingly, we hereby confirm that we are independent with respect to the District of Mission within the meaning of the Rules of Professional Conduct as of January 9, 2009.

### **Responsibilities of Management and of the Auditor**

It is important for Council to understand the responsibilities that rest with the District of Mission and its management and those that belong to the auditor:

- Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud;
- The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof;
- An audit is performed to obtain reasonable, but not absolute, assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed;
- The audit includes:
  - assessing the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;



*District of Mission – 2008 Audit Results and Communication*  
*Page 22*

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and their application; and
- assessing the significant estimates made by management;
- A sufficient understanding of internal control will be obtained to plan the audit and, when control risk is assessed below maximum, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal controls will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls; and
- The auditor will express an opinion as to whether the financial statements present fairly in all material respects, in accordance with Canadian generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.

**Conclusion**

We hope that this letter will provide you with an update on the current developments within the accounting profession, as well as clarify our independence, responsibility and audit approach.

We look forward to discussing these issues with you. Please do not hesitate to contact us about any of the above items or other matters of concern to Council.

Yours truly,

BDO DUNWOODY LLP  
Chartered Accountants

Per:  
Bill Cox, CA  
On Behalf of Bill Cox Inc.  
Corporate Partner of BDO Dunwoody LLP

BC/

## **Appendix – Summary of New Accounting and Auditing Requirements**

### ***Accounting Standards***

The Canadian Institute of Chartered Accountants (CICA) has had a relatively quiet year in regard to the issuance of new standards in the Public Sector area. This is likely at least partially due to a realization of the magnitude of work required by local governments as they prepare to implement the new Tangible Capital Assets accounting standards for the 2009 calendar year.

### **Introduction to Public Sector Standards**

The only final change made to standards was a change to the Introduction to Public Sector Standards in the CICA Handbook that was revised to direct government business enterprises and government business-type organizations to follow the CICA Handbook in presentation of their own financial statements.

### **Assessment of Tangible Capital Assets – Exposure Draft**

In July 2008 final comments were received for an exposure draft related to the Assessment of Tangible Capital Assets Statement of Recommended Practice. The main features of this Draft SORP are as follows:

- A government can choose to report only on individual, specific categories or groups of tangible capital assets.
- Reporting on the physical condition of tangible capital assets is information that does not necessarily have to accompany the financial statements. It could be included in a standalone report or in other public reports such as a budget.
- Information should, at a minimum, include the overall average physical condition rating, average age and useful life and the nature and extent of tangible capital assets in each category.
- Narrative information would include discussion of trends in changes in the physical condition and identify the basis of measurement and measurement scale used to assess and report on the physical condition of tangible capital assets.

### **Tax Revenue – Exposure Draft**

In January 2008 an exposure draft “Tax Revenue” was issued. The focus of this exposure draft was identifying the key distinctions between tax expenditures and transfers. Due to its nature it is applicable mostly to senior governments.

Projects underway include:

- Government Transfers
- Environmental Liabilities

- Indicators of Financial Condition
- Financial Instruments Update

**Government Transfers**

After several exposures and re-exposures of recommended change that met with dissatisfaction from users, the CICA has pulled back to carefully assess how to proceed in this contentious area. Nothing new is expected in the immediate future.

**Environmental Liabilities**

A task force has been established to consider when and how environmental costs should be capitalized. Focus is on site remediation and asset retirement obligations.

**Indicators of Financial Condition**

Project being developed to consider the most appropriate indicators for reporting on financial condition of a government. The project has determined that it should be working within a framework of sustainability, flexibility and vulnerability. Types of indicators will relate to government specific, government-related, and economy-wide.

**Financial Instruments Update**

A Statement of Recommended Practice in relation to accounting for financial instruments has been developed as we reported in our audit planning letter last year. The Statement is still not finalized but is expected to be shortly. An update to the Statement will require that investments be reported at fair value when there is an active market for such investments. This will have impact on volatility of government results.

**International Standards – Government Business Enterprises and Government Business-Type Organizations**

As had been previously discussed, government business enterprises and government business-type organizations will be expected to move to International Financial Reporting Standards (“IFRS”) effective January 1, 2011. The change made in 2011 must be made on a comparative basis which means that information for 2010 must also be computed on an IFRS basis.

In many areas the IFRS standards require change in accounting method and/or increase in level of disclosure from current Canadian standards. Planning for IFRS conversion should be underway for any affected entities.

**International Standards – Government Financial Statements**

Financial statements of government themselves will not be moving to IFRS. There are no IFRS standards for government. However, there is an organization known as the International Public Sector Accounting Standards Board (“IPSASB”) that has been developing international standards for government.

It is probably fair to say that at this point the development of IPSASB is trailing that of our Canadian PSAB. At some point it can be expected that PSAB will harmonize with IPSASB or be replaced by IPSASB, but this is likely to be well past 2011.

***Auditing and Assurance Standards***

The pace of auditing and assurance standards changes has slowed as the CICA looks to harmonizing Canadian audit standards with International Standards. (Note the harmonization of Canadian audit and assurance standards with International Standards is a separate project from the adoption of IFRS accounting standards. The harmonized audit and assurance standards will apply to all audits whether or not the entity being audited is publicly accountable.)

The only new section brought into force in the current year has been HB Section 5925, “*An audit of internal control over financial reporting that is integrated with an audit of financial statements*”.

This new Section establishes standards and provides guidance regarding the auditor's professional responsibilities when engaged to perform an audit of internal control over financial reporting that is integrated with an audit of financial statements. In addition to the basic professional standards to be met in conducting such engagements, the Section provides requirements related to such matters as:

- management's written assessment about the effectiveness of internal control over financial reporting;
- integrating the audit of internal control over financial reporting with the audit of financial statements;
- use of suitable criteria;
- planning and performing the audit, using a risk-based approach;
- identifying and selecting controls to test, using a top-down approach;
- testing controls selected;
- evaluating identified deficiencies;
- forming an opinion;
- communicating certain matters; and
- reporting on internal control over financial reporting.

The Section is effective for audits of internal control over financial reporting that are integrated with audits of financial statements for periods beginning on or after January 1, 2008.

As mentioned the main focus of the CICA in the audit and assurance area has been the harmonization with International Standards. This will be done through the issuance of new sections known as “Canadian Auditing Standards” or “CAS”. These new standards will be applicable for audits of financial statements for periods beginning on or after December 15, 2009. So for an entity with a calendar fiscal year end, the international auditing standards will come into force a full year before the international accounting standards.

Canadian Auditing Standards that have been finalized include:

- CAS 230, Audit Documentation;
- CAS 260, Communications with Those Charged with Governance;
- CAS 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;
- CAS 560, Subsequent Events;
- CAS 580, Written Representations; and
- CAS 600, The Audit of Group Financial Statements

Brief highlights of some of these standards include:

*District of Mission – 2008 Audit Results and Communication*  
*Page 26*

CAS 230 - a requirement that the final audit file would normally be assembled no more than 60 days after the date of the auditors report.

CAS 540 – a requirement to understand risk assessment processes and procedures (including evaluation of internal controls) used by management to make accounting estimates.

- Focus on estimates that have a high risk of material misstatement and those that have a high “estimation uncertainty”.
- Must look at the assumptions used by management as well as the assumptions or outcomes rejected by management.
- Develop a range of outcomes to measure management’s estimate against if management has not adequately addressed the effects of estimation uncertainty.
- If there is an estimate giving rise to a significant risk, must assess management’s disclosure.

CAS 560 – the date of the auditor’s report is no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence. Sufficient appropriate audit evidence includes evidence that the entity’s complete set of financial statements have been prepared and those with recognized authority have asserted that they have taken responsibility for them. The implication of this is that subsequent events work will have to increase since the audit report dates will be later than they have been previously.

CAS 580 - Distinguishes between “general written representations” and “specific written representations” and requires a disclaimer of opinion if a general written representation is not obtained and requires determination of the relevant parties from whom written representations will be requested.

Other standards that are in process include:

- CAS 700, The Independent Auditor's Report on General Purpose Financial Statements;
- CAS 706, Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report;
- CAS 800, Special Considerations — Audits of Special Purpose Financial Statements and Specified Elements, Accounts or Items of a Financial Statement ;
- CAS 805, Engagements to Report on Summary Financial Statements;
- CAS 705, Modifications to the Opinion in the Independent Auditor's Report;
- ISAE 3402 - Assurance Reports on Controls at a Third Party Service Organization;
- CAS 210, Agreeing the Terms of Audit Engagements;
- CAS 220 and CSQC1, Quality Control;
- CAS 265, Communicating Deficiencies in Internal Control;
- CAS 402, Audit Considerations Relating to an Entity Using a Third Party Service Organization;
- CAS 505, External Confirmations;

*District of Mission – 2008 Audit Results and Communication*  
*Page 27*

- CAS 501, Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures;
- CAS 710, Comparative Information — Corresponding Figures and Comparative Financial Statements.
- CAS 620, Using the Work of an Auditor's Expert;
- CAS 530, Audit Sampling; and
- CAS 520, Analytical Procedures.