Committee Report

To: Warden Halliday and Members of Grey County Council

Committee Date: January 11, 2018

Subject / Report No: FR-CW-04-18

Title: 2017 External Audit – BDO Planning Report

Prepared by: Kevin Weppler, Director of Finance

Reviewed by: Kim Wingrove, CAO

Recommendation


Executive Summary

The Audit Plan as provided by BDO is designed to highlight and explain key issues relevant to the audit including audit risks, the nature, extent and timing of the audit work and the terms of the engagement. The audit process will conclude with BDO’s preparation of their final report to Committee of the Whole, anticipated to be provided by June 2018.

Background and Discussion

The Municipal Act, under section 296, requires a municipality to appoint an auditor licensed under the Public Accounting Act for a term not to exceed five years. The auditor is responsible for:

a) Annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit.

b) Performing duties required by the municipality or local board.

As appointed auditors for Grey County, BDO has provided a formal Planning Report (attached)
for the year ending December 31, 2017.

The Planning Report is designed to highlight and explain key issues relevant to the audit including audit risks, the nature, extent and timing of the audit work and the terms of the engagement.

The Report forms a communication strategy with Committee Members.

It also identifies the following engagement objectives for the audit for the year ending December 31, 2017:

- Forming and expressing an audit opinion on the consolidated financial statements.
- Present significant findings to the members of the Committee including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from their work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during the audit.
- Work with management towards the timely issuance of consolidated financial statements and tax returns.

Legal and Legislated Requirements

Legislated requirement: Municipal Act, 2001, Section 296

The audit plan sets out standard accounting industry practices which must be followed by BDO in carrying out its independent role as auditor for any Ontario municipality under the provisions of the Municipal Act, 2001.

Financial and Resource Implications

General Administration 2017 budget has funding provided for the completion of the audit for the year ending December 31, 2017. This funding is based on the pricing proposal received as part of the request for proposal for Financial Auditing Services.
Relevant Consultation

☒ Internal Senior Management and finance staff have been advised of the dates and the requirements for the 2017 external audit.

Appendices and Attachments

Attachment to FR-CW-04-18 2017 External Audit - BDO Planning Report
County of Grey
Planning Report to the
Members of the Committee of the Whole

November 27, 2017
November 27, 2017

Members of the Committee of the Whole
595 9th Avenue East
Owen Sound, ON N4K 3E3

Dear Sir/Madam:

We are pleased to present our audit plan for the audit of the consolidated financial statements of the County of Grey [the “County”] for the year ending December 31, 2017.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit including audit risks, the nature, extent and timing of our audit work and the terms of our engagement. The audit planning report forms a significant part of our overall communication strategy with the members of the Committee and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the members of the Committee throughout the entire audit process so that we may both share timely information. The audit process will conclude with a Committee of the Whole meeting and the preparation of our final report to the members of the Committee.

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

The Committee plays an important part in the audit planning process. We would be happy to meet with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

[Signature]

Traci Smith, CPA, CGA, LPA
Partner
BDO & Company LLP

*BDO & Company LLP provides accounting, assurance, tax and other professional advisory services to BDO Canada LLP, Chartered Professional Accountants, Licensed Public Accountants

TS: sb
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<td></td>
</tr>
</tbody>
</table>
TERMS OF REFERENCE

Our overall responsibility is to form and express an opinion on the financial statements. These financial statements are prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work is confirmed in our engagement letter dated December 13, 2016.

ENGAGEMENT OBJECTIVES

- Forming and expressing an audit opinion on the consolidated financial statements.
- Present significant findings to the members of the Committee including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Work with management towards the timely issuance of consolidated financial statements and tax returns.

INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the members of the Committee at least annually, all relationships between BDO Canada LLP and its related entities and County of Grey and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the County. Refer to Appendix A.
# Audit Team

In order to ensure effective communication between the members of the Committee and BDO Canada LLP, the contact details of the engagement team are outlined below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Phone number</th>
<th>Email address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traci Smith</td>
<td>Engagement Partner</td>
<td>519-376-6110 Ext 2225</td>
<td><a href="mailto:tsmith@bdo.ca">tsmith@bdo.ca</a></td>
</tr>
<tr>
<td>Victoria Watson</td>
<td>Senior Manager</td>
<td>519-376-6110 Ext 2231</td>
<td><a href="mailto:vwatson@bdo.ca">vwatson@bdo.ca</a></td>
</tr>
<tr>
<td>Alyshia Mader</td>
<td>Intermediate Accountant</td>
<td>519-376-6110 Ext 2223</td>
<td><a href="mailto:amader@bdo.ca">amader@bdo.ca</a></td>
</tr>
<tr>
<td>Colin MacKay</td>
<td>IS Specialist</td>
<td>705-445-4421 Ext 8226</td>
<td><a href="mailto:cmackey@bdo.ca">cmackey@bdo.ca</a></td>
</tr>
<tr>
<td>Scott Merry</td>
<td>HST Specialists</td>
<td>519-622-7676 Ext 1957</td>
<td><a href="mailto:smerry@bdo.ca">smerry@bdo.ca</a></td>
</tr>
<tr>
<td>Nicole White</td>
<td>HST Specialists</td>
<td>519-622-7676 Ext 4594</td>
<td><a href="mailto:nbwhite@bdo.ca">nbwhite@bdo.ca</a></td>
</tr>
</tbody>
</table>
RESPONSIBILITIES

It is important for the members of the Committee to understand the responsibilities that rest with the County and its management, those that rest with the external auditor and the responsibilities of those charged with governance. BDO’s responsibilities are outlined within the engagement letter dated December 13, 2016. The oversight and financial reporting responsibilities of management and the members of the Committee are summarized below.

MANAGEMENT’S RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the County.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual consolidated financial statements.
- Safeguard the County’s assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- Make available to us, as and when required, all of the County’s accounting records and related financial information.

COMMITTEE’S RESPONSIBILITIES

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor’s report.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- Pre-approve all non-audit services to be provided to the County or its subsidiaries by the external auditor.
- Review the consolidated financial statements before the County publicly discloses this information.
AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the County.

We will perform a risk based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the members of the Committee.

To assess risk accurately, we need to gain a detailed understanding of the County’s business and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the consolidated financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the consolidated financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.
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.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at $2,400,000 for the County based on 2% of average total revenues.

Our materiality calculation is based on the County’s preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the members of the Committee as part of our year-end communication.

We will communicate all uncorrected misstatements identified during our audit to the members of the Committee, 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 encourage management to correct any misstatements identified throughout the audit process.
RISKS AND PLANNED AUDIT RESPONSES

Based on our knowledge of the County’s business, our past experience, and knowledge gained from management and the members of the Committee, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant 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 request your input on the following significant risks and whether there are any other areas of concern that the members of the Committee have identified.

Control Environment

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management may at any time have the opportunity to override internal controls.</td>
<td>• Test appropriateness of journal entries.</td>
</tr>
<tr>
<td></td>
<td>• Review accounting estimates for biases and evaluate the risk of material</td>
</tr>
<tr>
<td></td>
<td>misstatement due to fraud.</td>
</tr>
<tr>
<td></td>
<td>• For significant transactions that are outside the normal course of</td>
</tr>
<tr>
<td></td>
<td>business, evaluate the business rationale behind the transaction.</td>
</tr>
</tbody>
</table>

Purchases

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant risk of unauthorized use of signature stamp or misappropriation of</td>
<td>• Review cheque and EFT logs for continuity of cheque and EFT</td>
</tr>
<tr>
<td>County EFT funds</td>
<td>transaction numbers</td>
</tr>
<tr>
<td></td>
<td>• Confirm bank balances and review bank reconciliations</td>
</tr>
</tbody>
</table>

Payroll

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant risk that pay rates changes could be unauthorized</td>
<td>• Test salaries of those employees who are authorized to change pay rates</td>
</tr>
</tbody>
</table>

County of Grey
### Revenue Recognition

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Inherent risk that revenue may not be completely recorded.</td>
<td>• Review revenue recognition policies and ensure it complies with relevant accounting standards, client’s accounting policies and Canadian public sector accounting standards.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Approach</th>
</tr>
</thead>
</table>
| • Significant risk that government transfers may not be recorded properly because of the complexity of the standard. Significant judgment required to assess the eligibility criteria/stipulations and the recognition or deferral of grant revenue can affect the annual surplus. | • Review of agreements and discussions with management.  
• Confirmation of cash received and reconciliation of cash flows and eligible expenditures. |
OTHER AREAS OF AUDIT INTEREST

In addition to the significant risks noted above, we have also noted certain areas which are of interest to us or the members of the Committee and will be considered in the planning of our audit approach and procedures.

Commitments and Contingencies

<table>
<thead>
<tr>
<th>Area of Interest</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There is a risk that not all lawsuits have been properly identified or evaluated.</td>
<td>• Confirm outstanding lawsuits with the County’s lawyers and Insurance Company.</td>
</tr>
<tr>
<td></td>
<td>• Assess the reasonableness of the accruals and disclosures through discussions with management and legal counsel, agree to supporting documentation and historical trends.</td>
</tr>
</tbody>
</table>

Post-employment Benefit

<table>
<thead>
<tr>
<th>Area of Interest</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There is a risk that the post-employment benefit obligation has not been accurately valued.</td>
<td>• Obtain actuarial valuation report for defined benefit post-employment plans.</td>
</tr>
<tr>
<td></td>
<td>• Challenge the reasonableness of the assumptions used by actuary and review actuarial calculations, discussing the assumptions and calculations with actuary as required.</td>
</tr>
<tr>
<td></td>
<td>• Test for completeness and accuracy of the participant data supplied by the client to the actuary.</td>
</tr>
<tr>
<td></td>
<td>• Check that recognition and disclosure in financial statements complies with relevant accounting standards, client’s accounting policies and Canadian public sector accounting standards.</td>
</tr>
</tbody>
</table>
Holdbacks Payable

<table>
<thead>
<tr>
<th>Area of Interest</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accruals of holdbacks related to contractual payments are not recorded.</td>
<td>• Enquire with management as to their plans and commitments to acquire assets.</td>
</tr>
<tr>
<td></td>
<td>• Review invoices, progress certificates and Committee minutes for holdbacks and payments after the period end for evidence of capital commitments.</td>
</tr>
</tbody>
</table>

Payroll

<table>
<thead>
<tr>
<th>Area of Interest</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accruals of unsettled union contracts and pay equity adjustments are based on best judgments.</td>
<td>• Discuss best judgments with management and determine if un-negotiated union contracts have been properly recorded and that the accrual for the pay equity adjustment is reasonable.</td>
</tr>
</tbody>
</table>

Capital Assets

<table>
<thead>
<tr>
<th>Area of Interest</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Risk that impairment of capital assets are not identified or properly recorded.</td>
<td>• Discuss capital assets with management, review Committee reports, and look for signs of impairment</td>
</tr>
</tbody>
</table>
# Social Services Expenditures

**Area of Interest**
- There is a risk that SAMS will not properly calculate benefits

**Approach**
- Test the Benefit Eligibility Worksheet to ensure caseworkers are reviewing entitlements prior to issuing benefits

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# Supplemental Taxes and Write-Offs

**Area of Interest**
- There is a risk that supplemental taxes and write-offs for the municipality are not complete in accordance with the new taxation standard.

**Approach**
- Assess the reasonableness of the taxation estimate in accordance with relevant accounting standards.
- Perform a retrospective review of the prior year estimate.

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# Trust Funds

**Area of Interest**
- There is a risk that trust fund expenditures are unauthorized.

**Approach**
- Confirmation of bank account balances with financial institutions.
- Review of trust fund procedures with Homes.
- Testing of invoices paid out of Trust Funds.
## FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the members of the Committee on an annual basis. We have prepared the following comments to facilitate this discussion.

<table>
<thead>
<tr>
<th>Required Discussion</th>
<th>BDO Response</th>
<th>Question to members of Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of existing oversight processes with regards to fraud.</td>
<td>Through our planning process, and based on prior years’ audits, we have developed an understanding of your oversight processes including:</td>
<td>If there are any new processes or changes in existing processes relating to fraud, please contact us.</td>
</tr>
<tr>
<td></td>
<td>- Discussions at Committee meetings and our attendance at those meetings;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Review of related party transactions;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Consideration of tone at the top</td>
<td></td>
</tr>
<tr>
<td>Knowledge of actual, suspected or alleged fraud.</td>
<td>Currently, we are not aware of any fraud.</td>
<td>If you are aware of any instances of actual, suspected or alleged fraud affecting the County, please contact us.</td>
</tr>
</tbody>
</table>

## AUDITORS' RESPONSIBILITIES FOR DETECTING FRAUD

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

- Identifying and assessing the risks of material misstatement due to fraud;
- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

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.
During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity’s internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and will make inquiries of management regarding:

- Management’s assessment of the risk that the consolidated financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and
- Management’s communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

- Inquire of management, the members of the Committee, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management’s override of controls including:
  - Testing internal controls designed to prevent and detect fraud;
  - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years’ estimates; and
  - Evaluating the business rationale for significant unusual transactions.
AUDIT TIMING

The following schedule outlines the anticipated timing of the audit of the consolidated financial statements of the County.

<table>
<thead>
<tr>
<th>Audit tasks and deliverables</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning visit and present audit planning report</td>
<td>November 27, 2017</td>
</tr>
<tr>
<td>Interim fieldwork</td>
<td>To be determined</td>
</tr>
<tr>
<td>Final audit fieldwork commences</td>
<td>April 3, 2018</td>
</tr>
<tr>
<td>Meeting with management and BDO</td>
<td>End of May 2018</td>
</tr>
<tr>
<td>Present final report to the members of the Committee</td>
<td>Mid-June 2018</td>
</tr>
<tr>
<td>Release of audit report</td>
<td>Mid-June 2018</td>
</tr>
</tbody>
</table>

As part of the year-end Committee meeting, we will provide the members of the Committee with a copy of our draft audit opinion, discuss our findings, including significant estimates utilized by management, accounting policies, financial statement disclosures, and significant transactions completed during the year. We will also report any significant internal control deficiencies identified during our audit and reconfirm our independence.
BDO RESOURCES

BDO is one of Canada’s largest accounting services firms providing assurance and accounting, taxation, financial advisory, risk advisory, financial recovery and consulting services to a variety of publicly traded and privately held companies.

BDO serves its clients through 105 offices across Canada. As a member firm of BDO International Limited, BDO serves its multinational clients through a global network of over 1,000 offices in more than 100 countries. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources which may be of interest to the members of Committee.

PUBLICATIONS

The County applies Canadian Public Sector Accounting Standards (PSAB). If the County would like additional information about the accounting standards or about upcoming changes please see the website below and review the BDO publications available to our clients. Publications relevant for the County would include the following:

- “Public Sector Accounting Standards Update 2017” which provides you with details on recent changes to PSAB Standards.


- “Public Sector at a Glance” which provides you with details on PSAB Standards.

APPENDIX A
Independence Letter
November 27, 2017

Members of Committee of the Whole
595 9th Avenue East
Owen Sound, ON N4K 3E3

Dear Sir/Madam:

We have been engaged to audit the consolidated financial statements of the County of Grey (the “County”) for the year ended December 31, 2017.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the County and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

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:

- Holding 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 audit engagement.

We are aware of the following relationships between the County 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 May 25, 2017 to November 27, 2017.

- We have provided advice and comments to management regarding several financial statement measurement, presentation and disclosure matters.
- 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 provided us with a trial balance and draft financial statements, including notes, prior to completion of our audit.
- Management created the source data for all the accounting entries.
- Management developed any underlying assumptions required with respect to the accounting treatment and measurement of the entries.
- Management reviewed advice and comments provided and undertook their own analysis considering the County's circumstances and Canadian public sector accounting standards.
- 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.

We hereby confirm that we are independent with respect to the County within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of November 27, 2017.

This letter is intended solely for the use of the members of Committee, Management and others within the County and should not be used for any other purposes.

Yours truly,

BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants