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December 11, 2014

County of Grey
595 - 9th Avenue East
Owen Sound Ontario N4K 3E3

Dear Members of Council

**Re: Audit of the Financial Statements of County of Grey
For the year ended December 31, 2014**

We are pleased to present our audit plan for the audit of the financial statements of the County of Grey for the year ending December 31, 2014. The purpose of this letter is to summarize our approach, scope, and delivery plan for the engagement.

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

The Council 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.

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, as confirmed in our engagement letter is set out below.

Engagement Objectives

- Forming and expressing an audit opinion on the financial statements.
- Present significant findings to the members of Council 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.
- Work with management towards the timely issuance of financial statements.

Independence

At the core of the provision of external audit services is the concept of independence. We are communicating matters that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the municipality.

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

We are aware of the following relationships between the municipality and us that, in our professional judgment, may reasonably be thought to bear on our independence.

- We will provide assistance in the preparation of the financial statements, possibly including adjusting journal entries and/or bookkeeping services. These services may create a self-review threat to our independence. We, therefore, require that the following safeguards be put in place:
- That management create the source data for all the accounting entries.
- That management review and approve all journal entries prepared by us, as well as changes to financial statement presentation and disclosure.
- Our file review policies require that someone other than the preparer review the proposed journal entries and financial statements.

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 municipality.

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 Council.

To assess risk accurately, we need to gain a detailed understanding of the municipality'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 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 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 (when appropriate), 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 \$2,200,000 for the municipality, based on 2% of average total revenue, and adjusted by qualitative factors such as knowledge of your organization.

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

We will communicate all corrected and uncorrected misstatements identified during our audit to the members of 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 encourage management to correct any misstatements identified throughout the audit process.

Risks and Planned Audit Responses

Based on our knowledge of the municipality's business, our past experience, and knowledge gained from management and the members of Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, required special 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 Council has identified.

Financial Statement Areas With Significant Risks

- Post-employment benefits
- Revenue

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, 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 municipality's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and make inquiries of management regarding:

- Management's assessment of the risk that the 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 municipality, 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 municipality; 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:

- Inquiry of management, the members of Council, 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 rational for significant unusual transactions.

Audit Timing

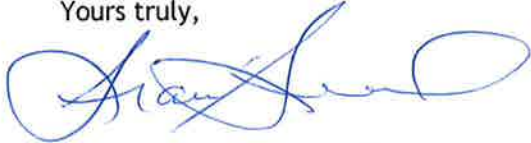
We anticipate the following schedule for the conduct of the audit. Interim testing will be performed December 3 to 5, 2014. The year-end field work will begin April 13, 2015, with all deliverables having been completed by the County's staff by Friday, April 10, 2015. Upon completion of the audit work, draft financial statements will be discussed with management, prior to the presentation to Council.

As part of the year-end presentation to Council, we will provide the members of Council 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.

Other Planning Points

The members of Council play an important role in the audit planning process. Please feel free to contact me and discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,



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

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