

Finance, Audit & Risk Management Committee – March 8, 2018
Item 5 – 2017/18 External Audit Plan
Jeff Barrett, BDO Canada LLP

Agenda Item	Item 5, Finance, Audit & Risk Management (FARM) Committee, March 8, 2018
Purpose	For Approval.
Key Message	<ul style="list-style-type: none"> • BDO Canada LLP (BDO) was appointed by the Board as Waterfront Toronto's external auditors (financial statement audit) for a three year team (2016/17 – 2018/19). • Fiscal 2017/18 is the second year of BDO's three year appointment. • The FARM Committee is responsible for reviewing and approving the scope of the external audit plan.
Areas of note/ Key issues	<ul style="list-style-type: none"> • Attached is a copy of the Audit Planning Report prepared by BDO. • Key areas of the plan include: <ul style="list-style-type: none"> ○ Independence (page 4); ○ Audit Team (page 5); ○ Management vs. FARM Committee Responsibilities (page 6); ○ Audit Strategy, Materiality, Risk Areas (pages 7-11); ○ Fraud Discussion (page 11-13); ○ Audit Timing (page 13); and ○ Fees (page 13).
Expected Outcome	That the Finance, Audit and Risk Management Committee approve the scope of the audit of Waterfront Toronto's financial statements for the year ended March 31, 2018, as outlined by BDO Canada LLP.
Key Takeaways/ Next Steps	BDO will report at the next FARM Committee meeting (May 31, 2018) on the outcome of the 2017/18 external financial statement audit.



Toronto Waterfront Revitalization Corporation

Planning Report to the FARM Committee

March 8, 2018



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Toronto Waterfront Revitalization Corporation
20 Bay Street, Suite 1310
Toronto, ON M5J 2N8

March 8, 2017

Dear FARM Committee Members:

We are pleased to present our audit plan for the audit of the financial statements of Toronto Waterfront Revitalization Corporation (the "Organization") for the year ending March 31, 2018.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit. The audit planning report forms a significant part of our overall communication strategy with the Finance, Audit and Risk Management ("FARM") 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 FARM Committee throughout the entire audit process so that we may both share timely information. The audit process will conclude with a FARM Committee meeting and the presentation of our final report to the FARM Committee.

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

The FARM Committee plays an important part in the audit planning process and we look forward to meeting with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

Jeffrey M. Barratt, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants

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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 Schedule A to our signed professional services agreement dated May 4, 2016, and a summary of our proposed fees are set out below.

ENGAGEMENT OBJECTIVES

- Forming and expressing an audit opinion on the financial statements.
- Present significant findings to the FARM 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.
- Consult regarding accounting and reporting matters as requested throughout the year.
- 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. Canadian generally accepted auditing standards require us to communicate to the FARM Committee at least annually, all relationships between BDO Canada LLP and its related entities and Toronto Waterfront Revitalization Corporation and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the Organization. Refer to Appendix B.



AUDIT TEAM

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

Name	Role	Phone number	Email address
Jeff Barratt, CPA, CA	Engagement Partner	905-272-7838	jbarratt@bdo.ca
Patricia Gonsalves, CPA, CA	Engagement Quality Control Partner	905-633-4913	pgonsalves@bdo.ca
Michael Hiley, CPA, CA, CISA	Senior Manager	905-272-6237	mhiley@bdo.ca
Rob Clause, CPA, CA	Senior Manager	905-272-6245	rclause@bdo.ca
Hanna Freeland, CPA, CA	Senior Manager	905-272-7717	hfreeland@bdo.ca

RESPONSIBILITIES

It is important for the FARM Committee to understand the responsibilities that rest with the Organization and its management, those that rest with the external auditor and the responsibilities of those charged with governance. BDO's responsibilities are outlined within our signed professional services agreement dated May 4, 2016. The oversight and financial reporting responsibilities of management and the FARM Committee are summarized below.

MANAGEMENT'S RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the Organization.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual financial statements.
- Safeguard the Organization'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 Organization's accounting records and related financial information.

FARM 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 Organization or its subsidiaries by the external auditor.

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 Organization.

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 FARM Committee.

To assess risk accurately, we need to gain a detailed understanding of the Organization'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, 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 the preliminary materiality at \$2,000,000 for the Organization (based on budgeted expenditures).

Our materiality calculation is based on the Organization's projected fiscal 2018 results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the FARM Committee as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the FARM 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 Organization's business, our past experience, and knowledge gained from management and the FARM 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 FARM Committee has identified.

Management Override of Controls

Significant Risk	Approach
<ul style="list-style-type: none"> Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statement by overriding controls that otherwise appear to be operating effectively. This is a standard risk in all audit files. 	<ul style="list-style-type: none"> Test the appropriateness of journal entries recorded as well as other adjustments made in the preparation of the financial statements. Obtain an understanding of the business rationale for significant transactions that we become aware of that are outside the normal course of operations for the Organization. Review accounting estimates for biases.

Revenue Recognition

Significant Risk	Approach
<ul style="list-style-type: none"> There is a standard risk in all audit files surrounding revenue recognition since it may be subject to manipulation in order to present more favourable financial statements. 	<ul style="list-style-type: none"> Confirm all government contributions with the respective governments. Assess the nature of non-government revenue to determine the level of specific testing to be completed.

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 FARM Committee and will be considered in the planning of our audit approach and procedures.

Accrued Liabilities

Area of Interest	Approach
<ul style="list-style-type: none"> Accrued liabilities relating to contractors for existing ongoing projects. 	<ul style="list-style-type: none"> Specific testing around the completeness of accruals. We will also obtain confirmations from various contractors/ suppliers to ensure accruals are complete.

Assets Under Development

Area of Interest	Approach
<ul style="list-style-type: none"> The organization capitalizes costs for assets under development. 	<ul style="list-style-type: none"> Specific testing around the revenue or costs capitalized and review of memorandums of understanding on a project by project basis.

Construction Deposits

Area of Interest	Approach
<ul style="list-style-type: none"> The Organization has made lump sum payments at the start of some projects which will be repaid once certain levels of expansion have been reached. 	<ul style="list-style-type: none"> Confirm with the deposit holder that these deposits are collectible and that the expansion levels will be met.

Contribution Agreements

Area of Interest	Approach
<ul style="list-style-type: none"> Contribution Agreements and other contracts may be complex in nature. 	<ul style="list-style-type: none"> Review of all contribution agreements and discussion with management as necessary. Review of Contribution Agreement compliance audit results Conclusion on appropriate accounting policies and financial statement disclosures.

Deferral of Contributions and Grants

Area of Interest	Approach
<ul style="list-style-type: none"> Revenue deferred that relates to future periods. Contributions from the governments can only be applied towards payments of eligible costs in respect of project activities, as defined in the contribution agreements. 	<ul style="list-style-type: none"> Specific testing around the allocation of expenses and related revenues to recognize. Funding received for restricted projects should be deferred if no relating expenses have yet been incurred.

FRAUD DISCUSSION

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

Required Discussion	BDO Response	Question to FARM Committee
Details of existing oversight processes with regards to fraud.	<p>Through our planning process, and based on prior years' audits, we have developed an understanding of your oversight processes including:</p> <ul style="list-style-type: none"> FARM Committee charters; Discussions at FARM Committee meetings Consideration of tone at the top 	Are there any new processes or changes in existing processes relating to fraud that we should be aware of?

Required Discussion	BDO Response	Question to FARM Committee
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the Organization?

AUDITORS' RESPONSIBILITIES FOR DETECTING FRAUD

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 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 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 FARM 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 financial statements of the Organization.

Audit tasks and deliverables	Dates
Interim fieldwork	January 8 to January 12, 2018
Audit fieldwork	April 30 to May 11, 2018
Review of draft financial statements with management	Week of May 14, 2018
Present final report to the FARM Committee	May 31, 2018

As part of the year end FARM Committee meeting, we will provide the FARM 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.

FEES

Our fees for 2018 will be \$61,000 (2017 - \$59,500) for the audit of the financial statements, excluding applicable taxes.

Our fees are based on the professional services agreement signed between BDO Canada LLP and Toronto Waterfront Revitalization Corporation dated May 4, 2016.

APPENDIX A - Required Communication

Required Communication	Audit Planning Presentation	Audit Results Presentation	Communication Completed
1. Our responsibilities under Canadian GAAS	✓		Y
2. Our audit strategy and audit scope	✓		Y
3. Fraud risk factors	✓		Y
4. Going concern matters		✓	N
5. Significant estimates or judgments		✓	N
6. Audit adjustments		✓	N
7. Unadjusted misstatements		✓	N
8. Omitted disclosures		✓	N
9. Disagreements with Management		✓	N
10. Consultations with other accountants or experts		✓	N
11. Major issues discussed with management in regards to retention		✓	N
12. Significant difficulties encountered during the audit		✓	N
13. Significant deficiencies in internal control		✓	N
14. Material written communication between BDO and Management		✓	N
15. Any relationships which may affect our independence	✓	✓	N
16. Any illegal acts identified during the audit		✓	N
17. Any fraud or possible fraudulent acts identified during the audit		✓	N
18. Significant transactions with related parties not consistent with ordinary business		✓	N
19. Non-compliance with laws or regulations identified during the audit		✓	N
20. Limitations of scope over our audit, if any		✓	N
21. Written representations made by Management		✓	N
22. Any modifications to our opinion, if required		✓	N

APPENDIX B - Independence Letter



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Members of the FARM Committee
Toronto Waterfront Revitalization Corporation
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Toronto, ON M5J 2N8

March 8, 2018

Dear FARM Committee Members:

We have been engaged to audit the financial statements of Toronto Waterfront Revitalization Corporation (the "Organization") for the year ended March 31, 2018.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Organization 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 have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 1, 2017 the date of our last letter.

We are not aware of any relationships between the Organization and our Firm that, in our professional judgment may reasonably be thought to bear on independence that have occurred from June 1, 2017 to March 8, 2018.

We hereby confirm that we are independent with respect to the Organization within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants Ontario as of March 8, 2018.

This letter is intended solely for the use of the FARM Committee, the Board of Directors, Management and others within the Organization and should not be used for any other purposes.

Yours truly,

Jeffrey M. Barratt, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants