CITY OF PORT MOODY
AUDIT PLANNING REPORT TO THE CITY COUNCIL
February 10, 2020
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EXECUTIVE SUMMARY

We are pleased to provide this Audit Planning Report to assist you in fulfilling your oversight responsibilities with respect to our audit of the financial statements the City of Port Moody (the “City”) for the year ended December 31, 2019. A summary of our report is as follows:

Your BDO Audit Team

Bill Cox, FCPA, FCA will continue to serve as engagement partner with Andrew Davies serving as engagement manager. Bill and Andrew will be supported by experts as deemed necessary. Please refer to page 4 for contact information of the key engagement team members.

Timeline

See the Audit Timeline section of the report for the detailed milestones.

Audit Risk Areas

Our audit is focused on risks specific to your business and key accounts. Specifically, we have identified the following areas on which to focus:

- Timing of recognition of grant revenue
- Management override of internal controls (audit standards requirement)
- Recorded amount of Tangible Capital Assets contributed in the year

Materiality

Materiality for all items other than infrastructure is preliminarily set at $2.2 million and materiality for infrastructure is preliminarily set at $20.2 million. These levels are based on the prior year’s results, and as described on page 8.

Engagement Objectives

Our overall responsibility is to form and express an opinion on the consolidated financial statements. The performance of this audit does not relieve management or those charged with governance of their responsibilities. Please see refer to our engagement letter dated January 24, 2020 for specific details regarding the scope of our work, which is included as Appendix G.

Fraud Discussion

Through our planning process, and prior years’ audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the City. Please see Appendix D for clarification of the auditor’s responsibilities for detecting fraud.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the City, we request that you provide us with this information.
YOUR DEDICATED BDO AUDIT TEAM

In order to ensure effective communication between the City Council and BDO Canada LLP, the contact details of the engagement team are outlined below. We attempt to provide continuity of service to our clients to the greatest extent possible in accordance with any mandatory rotation rules. When rotation is required for key members of the engagement team, we will discuss this matter with the City Council and determine the appropriate new individual(s) to be assigned to the engagement based on particular experience, expertise and engagement needs.

<table>
<thead>
<tr>
<th>NAME</th>
<th>ROLE</th>
<th>PHONE NUMBER</th>
<th>EMAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Cox, FCPA, FCA</td>
<td>Engagement Partner</td>
<td>604.443.4716</td>
<td><a href="mailto:bcox@bdo.ca">bcox@bdo.ca</a></td>
</tr>
<tr>
<td>Andrew Davies, CPA</td>
<td>Audit Manager</td>
<td>604.688.5421 ext: 4869</td>
<td><a href="mailto:andavies@bdo.ca">andavies@bdo.ca</a></td>
</tr>
<tr>
<td>Khalil Patel</td>
<td>Audit Senior Staff</td>
<td>604.688.5421</td>
<td><a href="mailto:kpatel@bdo.ca">kpatel@bdo.ca</a></td>
</tr>
<tr>
<td>Darren Taylor, CPA, CA</td>
<td>Indirect Tax Partner</td>
<td>604.443.4725</td>
<td><a href="mailto:dtaylor@bdo.ca">dtaylor@bdo.ca</a></td>
</tr>
</tbody>
</table>
AUDIT TIMELINE

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

As part of the year end City Council meeting, we will provide the City 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.
# AUDIT RISK AREAS AND PLANNED RESPONSES

Based on our knowledge of the City’s business, our past experience, and knowledge gained from management and the City Council, we have identified the following audit risk areas that, in our judgment, require special audit consideration.

These risk areas 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 City Council has identified.

<table>
<thead>
<tr>
<th>AUDIT RISK AREAS</th>
<th>RISKS NOTED</th>
<th>AUDIT APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of Grant Revenue</td>
<td>Accounting standards relating to grant revenue recognition are complex and subject to variations in application. There is a risk that grants or revenue derived from government transfers may be incorrectly deferred into future periods. Although auditing standards require us to consider the risk of fraudulent revenue recognition, due to the nature of the City’s revenue, we have rebutted this presumption.</td>
<td>Grant funding will be verified through a review of the agreements, which ensures that the amounts recorded exist, are complete and are recorded accurately. Grant expenditures will also be reviewed to ensure that they meet the requirements per the grant agreement. Review other revenue streams to ensure they are recorded in accordance with the latest revenue recognition standards. Review of significant transactions recorded in various ledgers for unusual, non-recurring adjustments not addressed by other audit procedures. Testing the appropriateness of journal entries recorded in the general ledger, review key estimates and other adjustments made in the preparation of the consolidated financial statements.</td>
</tr>
<tr>
<td>Management Override of Internal Controls</td>
<td>Management is in a unique position to perpetrate fraud because of it’s ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</td>
<td></td>
</tr>
</tbody>
</table>
### AUDIT RISK AREAS

<table>
<thead>
<tr>
<th>AUDIT RISK AREAS</th>
<th>RISKS NOTED</th>
<th>AUDIT APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed Tangible Capital Assets</td>
<td>The City periodically receives contributions of tangible capital assets and infrastructure from developers, the fair values of which are material. The identification and initial valuation for recording these contributions relies heavily on input from departments other than finance. This creates a risk that contributions may not be completely recorded and appropriately valued in the financial records. Further, these contributions are often pursuant to complex legal agreements, can be challenging to value, and frequently transpire over multiple years. This creates a risk that identified contributions may not be recorded in accordance with the relevant accounting standards.</td>
<td>Review prior year’s file for known projects in-process, discuss with planning and development personnel the completed developments in the year and inquire as to whether the listing of contributed assets provided to us is complete. Review meeting minutes and key development agreements for completeness of listed assets contributed. Verify the legal transfer of title, and determine appropriateness of management’s methodology for estimating fair value. Determine calculations are accurate and are recorded in accordance with the relevant accounting standards.</td>
</tr>
</tbody>
</table>
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.

Materiality for all items other than infrastructure is preliminarily set at $2.2 million, and materiality for infrastructure is preliminarily set at $20.2 million. These levels are based on 3% of the City’s revenues and tangible capital assets, respectively, and are based on prior year results.

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

We will communicate all corrected and uncorrected misstatements identified during our audit to the City 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.
USING THE WORK OF OTHERS

Experts

In order for us to perform adequate audit procedures on employee future benefit obligations, we will be relying on the work of, and the reports prepared by, Mercer Canada. Canadian generally accepted auditing standards require us to communicate with this expert. In accordance with audit standards, we may be required to discuss certain matters with these experts. These matters may consist of the following:

- The objective and nature of our audit engagement and how we intend to use the expert’s findings and report.
- Our assessment of the significant and risk aspects of the engagement that will affect the expert’s work.
- The requirement to advise us if they have any relationship with the organization which could impair their judgment or objectivity in the conduct of their engagement.
- The nature, timing and extent of the expert’s work and our planned review of it, possibly including review of their working papers.
- Confirmation that the assumptions used in their calculations are consistent with those used in the prior periods and with industry standards.
- Their obligation to advise BDO Canada LLP of any matters up to the estimated audit report date that may affect their calculations and their report.

We ask that the appropriate level of management review the data provided to Mercer Canada, and that they also review the assumptions used and results reported by the expert for reasonableness.
APPENDICES

Appendix A: BDO audit strategy
Appendix B: Communication requirements
Appendix C: Independence
Appendix D: Responsibilities
Appendix E: BDO resources
Appendix F: Changes in accounting standards with potential to affect the City
Appendix G: Engagement letter
APPENDIX A: BDO 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 City.

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 City Council.

Identify and Assess Risk:
To assess risk accurately, we need to gain a detailed understanding of the City’s business and the environment it operates in. As well, 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.

Design Audit Response:
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.

Obtain Audit Evidence / Form Opinion / Report:
Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to conclude whether or not the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards.
## APPENDIX B: COMMUNICATION REQUIREMENTS

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

We will confirm our independence as part of our reporting on the results of our audit.
APPENDIX D: RESPONSIBILITIES

It is important for the City Council to understand the responsibilities that rest with the City and its management, those that rest with the external auditor, and the responsibilities of those charged with governance. BDO’s responsibilities are outlined below and within our engagement letter dated January 24, 2020.

AUDITOR’S ENGAGEMENT OBJECTIVES

Our overall objective is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the City in accordance with Canadian public sector accounting standards.

<table>
<thead>
<tr>
<th>Year-End Audit Work</th>
<th>Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Work with management towards the timely issuance of financial statements.</td>
<td>▶ Read the other information included in the City’s Annual Report to identify material inconsistencies, if any, with the audited financial statements.</td>
</tr>
<tr>
<td>▶ Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.</td>
<td></td>
</tr>
<tr>
<td>▶ Present significant findings to the City Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.</td>
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</tbody>
</table>

Year-Round Work

▶ Consult regarding accounting, indirect tax, information systems and controls, and other reporting matters as requested throughout the year.
AUDITOR’S 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.

Fraud Risk Assessment Procedures

- 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 City, 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 City; and
- Management’s communication, if any, to employees regarding its view on business practices and ethical behaviour.

Response to Assessed Fraud Risks

- Inquire of management, the City 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 rationale for significant unusual transactions.
RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE

- 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.
- Review all non-audit services to be provided to the City or its subsidiaries by the external auditor.
- Review the financial statements, MD&A and annual and interim earnings press releases before the City publicly discloses this information.

MANAGEMENT RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the City.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual financial statements in accordance with Canadian public sector accounting standards.
- Safeguard the City’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 City’s accounting records and related financial information.
APPENDIX E: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the global BDO network, we are able to provide seamless and consistent cross-border services to clients with global needs. 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 City Council.

<table>
<thead>
<tr>
<th>ASSET RETIREMENT OBLIGATIONS (ARO): A PRACTICAL APPROACH TO SECTION PS 3280</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section PS 3280, Asset Retirement Obligations, is effective for fiscal years beginning on or after April 1, 2021 which means December 31, 2022 will be the City’s first year impacted by this standard. The standard provides guidance on how to account for and report a liability for asset retirement obligations (AROs). It is anticipated that, for many public sector entities, adopting this standard will require a significant amount of cross-departmental cooperation and work. The below linked publication walks through a practical approach to applying Section PS 3280 including: How to determine whether an item is within the scope of this standard; the criteria that needs to be met to recognize an ARO; how to measure such an obligation; the impact of this standard on landfill liabilities; and the different options available to entities on transition. For more information, please visit the following link: <a href="https://www.bdo.ca/BDO/media/AA-Publications/PSAS_AROs_02Jul19_FINAL_1.pdf">https://www.bdo.ca/BDO/media/AA-Publications/PSAS_AROs_02Jul19_FINAL_1.pdf</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IT SECURITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Equifax data breach first came to light almost two years ago. Yet the questions it triggered remain as current as ever. The Equifax breach poses the ultimate challenge: how can I protect my customers’ data? The mistakes made by Equifax seem obvious in retrospect, but for many companies the breach is a worrying reminder that an ineffective cybersecurity program can be costly and cause irreversible reputational damage. This especially applies to NPOs and government organizations that record and store confidential employee and stakeholder information. For more information, please visit the following link: <a href="https://www.bdo.ca/en-ca/insights/industries/financial-services/how-to-prevent-an-equifax-type-data-breach-in-your-company/">https://www.bdo.ca/en-ca/insights/industries/financial-services/how-to-prevent-an-equifax-type-data-breach-in-your-company/</a></td>
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</tbody>
</table>
SMART CITY ARCHITECTURE: A BLUEPRINT FOR BUILDING URBAN INFRASTRUCTURE

Transforming a city into a smart city can bring long-term benefits and opportunities for sustainability and innovation for both citizens and businesses. However when undertaking an integration initiative of this magnitude many issues can surface. A well-established plan coupled with active stakeholder engagement can clear the path to realizing this new urban infrastructure vision.

For more information, please visit the following link: https://www.bdo.ca/en-ca/insights/industries/public-sector/smart-cities-blueprint-urban-infrastructure/
APPENDIX F: CHANGES IN ACCOUNTING STANDARDS WITH POTENTIAL TO AFFECT THE CITY

The following summarizes the status of new standards and the changes to existing standards as of October 2019. This Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of the CPA Public Sector Accounting Handbook.

NEW STANDARDS

Section PS 3430, Restructuring Transactions (effective years beginning on or after April 1, 2018)

This Section addresses a problem area for public sector accounting. In the past there was no Canadian standard that addressed acquisition of services and service areas, therefore, accountants looked to the US and international standards for guidance.

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration based primarily on the fair value of the individual assets and liabilities transferred.

- The net effect of the restructuring transaction should be recognized as a revenue or expense by the entities involved.
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. For entities with a December year, end this means that 2019 is the first year that the standard must be followed. Earlier adoption was permitted.

We do not expect this standard to have any significant impact on the City’s financial reporting in the foreseeable future.
NEW STANDARDS NOT YET IN EFFECT

Section PS 3400 Revenue (effective years beginning on or after April 1, 2022)

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2022 which means that for entities with a December year end it is first effective for 2023. Earlier adoption is permitted.

This standard is expected to impact revenue recognition relating to a number of revenue sources for the City.

Financial Instruments Suite of Standards (effective for years beginning on or after April 1, 2021):

Section PS 1201 Financial Statement Presentation

This Section revises and replaces Section PS 1200, Financial Statement Presentation. The following changes have been made to the Section:

- Remeasurement gains and losses are reported in a new statement.

- Other comprehensive income that can arise when a government includes results of government business enterprises and government business partnerships in its summary financial statements is reported in the statement of remeasurement gains and losses.

- The accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and the accumulated remeasurement gains and losses.
Section PS 2601, Foreign Currency Translation

This Section revises and replaces PS 2600, Foreign Currency Translation. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in PS 3450, Financial Instruments;
- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of re-measurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

Section PS 3041, Portfolio Investments

This Section revises and replaces Section PS 3040, Portfolio Investments. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in PS 3450, Financial Instruments;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.
Section PS 3450, Financial Instruments

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The City will need to carefully evaluate the potential impact of this new suite of standards on it’s financial reporting.
Section PS 3280, Asset Retirement Obligations (effective years beginning on or after April 1, 2021)

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
  - editorial changes have been made to other standards; and
  - Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2021 (2022 fiscal year for organizations with December year ends). Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2021, unless a public sector entity elects earlier adoption.

This is one of the most significant and complex new standards in years and will require considerable staff time in most entities to prepare for compliance. Most local governments will be impacted by the adoption of this standard. BDO has tools and resources to assist in this regard including our ARO Implementation Checklist.
STATUS OF CURRENT PROJECTS

2018 - 2019 Annual Improvements

The concept of "annual improvements" is new for PSAB and is hoped to be a welcome addition. "Annual improvements" are not new standards or major changes but are instead small wording changes or clarifications or corrections of unintended consequences, oversights or conflicts. The 2018 - 2019 improvements are the first.

The improvements noted include:

- remove due process procedures from the PSA Handbook (because these are not directly related to standards)
- amend some inconsistencies arising from the introduction of the "government-component" category of government organization
- amend wording in PS 3060 Government Partnerships to generally use term "public-sector" instead of "government"
- other amendments including specifically stating in PS 1300 that PSA Standards are to apply to Indigenous Governments

The final standard is expected to be effective for years beginning on or after April 1, 2020 with earlier application permitted.

2019 - 2020 Annual Improvements

Now that the Annual Improvements have just finished off the first (2018 - 2019) cycle, PSAB is now accepting submission of issues to be considered for 2019 - 2020.

An Exposure Draft representing those changes was released in Q4 2019 and will be effective for years beginning on or after April 1, 2021 with earlier application permitted.

Financial Instruments Narrow Scope Amendments

As the name implies, these amendments are quite narrow in scope and will not impact many entities.

The amendments are intended to:

- clarify how to deal with financial instruments intended to maintain orderly conditions for the circulation of the Canadian dollar (will impact Federal Government only)
- change treatment of bond repurchases such that will not always be an immediate extinguishment of debt
- clarifies and simplifies certain transitional provisions

An Exposure Draft was issued in January 2019 and a Final Standard is expected before the end of 2019.

**EXPOSURE DRAFTS PENDING**

**Public Private Partnerships**

This project has been underway since 2014 and is nearing completion. A final Exposure Draft was released in Q4 2019.

The issuance of a Statement of Principles in 2017 suggests items that can be expected in the final standard:

- an asset would be recorded when the public sector entity controls:
  - the purpose and use of the infrastructure;
  - access to the infrastructure and the price, if any, the private sector entity can charge for using it; and
  - any significant interest accumulated in the infrastructure when the public private partnership’s term ends.

- asset to be recorded at cost/fair value -- usually based on present value of future payments related to construction/acquisition of asset

- regard liability at same amount as asset

- liability a financial liability when cash/asset consideration, but if non-financial consideration may be:
  - a non-financial liability such as unearned revenue
  - or if no performance obligations may be immediate recognition of proceeds from grants of rights for use

- where a liability is recorded, it should be reduced as performance obligations are settled

- fairly detailed disclosure requirements
Concepts Underlying Financial Performance

This project includes both the “Conceptual Framework” and “Reporting Model” related to it. It is also nearing completion with an Exposure Draft expected in 2020.

The existing Conceptual Framework found in Sections PS 1000, Financial Statement Concepts and PS 1100, Financial Statement Objectives will be replaced by 10 new chapters. Because the Conceptual Framework is used to develop generally accepted accounting principles (GAAP) but is not considered GAAP itself, there is not expected to be immediate impact from the introduction of the Conceptual Framework. It will, however, influence future Standards development so it is important that the concepts and principles be understood and considered.

Further a new Reporting Model will come along to amend and/or replace PS 1201, Financial Statement Presentation. It is expected that the new Reporting Model will allow better flexibility for application of PSAS to financial statements of government organizations and general improvements to aid understanding of financial statements.

CONSULTATION PAPERS AND INVITATIONS TO COMMENT

Review of International Strategy

Two Consultation Papers have been issued on this topic - the first in May 2018 and the most recent in May 2019.

Four options have been considered:

- Option I: Status Quo. Status quo is defined as continuing with the existing Canadian-made standard-setting process. Under this option, PSAB would continue to establish PSAS independently from other standard setters. The Board may refer to other standard setters for insight on how particular issues were handled but there would be no formal requirement to incorporate this into the due process. The Board’s conceptual framework and financial reporting model would apply. Under this option, it will continue to actively look for ways to develop standards more quickly to address time-to-market concerns.

- Option II: Adapt IPSAS principles when developing future standards. PSAB would continue to develop PSAS, but future standards would be based on principles in existing individual IPSAS as each is considered by PSAB. The Board would establish a “Criteria for Modifying Principles” document to provide guidance on when departures from IPSAS principles in a standard under consideration are permitted. The Board’s conceptual framework and financial reporting model would continue as the foundation for Canadian public sector generally accepted accounting principle (GAAP). So, a departure from principles in an individual IPSAS would be required if they conflict with the Board’s framework or model. Changes to GAAP under this option would occur prospectively, and the Board’s due process would be modified to incorporate the Criteria for Modifying Principles. Given that future PSAS would be based on principles in existing individual IPSAS, there would be an increased focus toward influencing the principles under development for new IPSAS.

- Option III: Adopt IPSAS except when a departure is permitted. PSAB would adopt IPSAS as issued by the International Public Sector Accounting Standards Board (IPSASB), other than where a departure is permitted. The Board would establish a “Criteria for Modifying Standards” document to
provide guidance on when departures from IPSAS are permitted. The Board would endorse all new IPSAS before they become part of the CPA Canada Public Sector Accounting (PSA) Handbook and could still develop standards when a Canadian issue is identified. Changes under this option would occur retrospectively. PSAB’s due process would be modified to incorporate the Criteria for Modifying Standards. IPSASB’s conceptual framework and financial reporting model would be adopted under this option. Option III is the option closest to the Accounting Standard Board’s (AcSB) current approach to adopting IFRS Standards for publicly accountable enterprises.

- Option IV: Adopt IPSAS. Under this option, there would be no endorsement process as PSAB would not have the ability to modify IPSAS before they become part of the PSA Handbook. The Board would not have the ability to develop standards independent of the IPSASB. PSAB’s due process would be modified to incorporate the standards-adopt process as issued by the IPSASB with no modifications. The IPSASB conceptual framework and financial reporting model would be adopted. Changes under this option would occur retrospectively. This option is most typical in countries where there is no national standard setter or there is a transition from cash to accrual-based standards.

PSAB has also said that is does not consider Option IV to be a viable option at this time.

A decision as to which path to follow is expected in March 2020.

**Government Not-for-Profit Strategy**

When government not-for-profits were brought into the PSA Handbook they were given the option of applying PSAS standards or PSAS standards in conjunction with the “4200 Series” of standards that mirror Part III of the CPA Handbook. It was always recognized that the 4200 Series was likely a stop-gap measure with additional NPO-specific standards being brought into the “regular” PSA Handbook. The need to review the GNFPPO strategy become more urgent with several provinces mandating that their organizations not use the 4200 series.

This is a difficult area because of the fact that many GNFPPOs operate quite differently than governments do and therefore do not fit well into a government financial reporting model. Moreover, not-for-profit organizations that are not government controlled follow different standards than GNFPPOs do (particularly those GNFPPOs that do not use 4200 series) which makes comparisons between some entities difficult. (For example, the University of British Columbia (reports using PSAS without 4200 series) is not directly comparable to the University of Toronto (reports using Part III)).

A Consultation Paper was issued in May 2019 with comments received until September 30, 2019.

PSAB will review the comments received from the Consultation Paper and plans further outreach with various types of GNFPPOs across the Canada during the remainder of 2019 and 2020. Where PSAB will land is truly up in the air at this point.

**Employee Benefits**

The existing Employee Benefits standards in PS 3250, Retirement Benefits and PS 3255, Post-employment Benefits are some of the older standards currently existing in the PSA Handbook. Quite frankly, they have not kept pace with the changes that have occurred in the industry. New concepts such as “Target-Benefit Plans” and “Shared-Risk Plans” do not fit in neatly to existing standards.
In recognition of the wide scope of review required to modernize these standards, PSAB has broken initial review into three different sections:

- Deferral Provisions (Invitation to Comment previously issued in November 2016)
- Discount Rate Guidance (Invitation to Comment previously issued in November 2017)
- Non-Traditional Pension Plans (Invitation to Comment previously issued in October 2018)

The PSAB “Task Force” working on this project includes both accountants and actuaries experienced in the industry. The Task Force and the PSAB Board has been reviewing responses and developing ideas, and a Consultation Paper is planned to be issued in March 2020.

Although timelines could certainly change, currently it is expected that an Exposure Draft would be issued in 2021 and the final standard issued in 2022.

We can expect that there will be many changes to existing standards, and it will be important for those that work in this area to keep up with the progress of the new standard. One change though that currently looks possible will impact many of our clients. Initial indications are that the current practice of adopting defined contribution accounting for multi-employer plans may not be supported under the new standard. Should this occur, this could bring significant actuarial liabilities onto the financial statements of many government entities where none exist currently. This may create complications in this era of Balanced Budget and No Deficit legislation.
APPENDIX E: ENGAGEMENT LETTER

This page left intentionally blank - Engagement Letter follows
December 5, 2018

City of Port Moody
100 Newport Drive
P.O. Box 36
Port Moody, BC V3H 3E1

Attention: Paul Rockwood, CPA, CGA, CRM

Dear Sirs/Mesdames,

We understand that you wish to appoint us as the auditors of City of Port Moody commencing with its fiscal year ended December 31, 2018.

We are pleased to accept appointment as your auditors subject to the terms and conditions of this Agreement, to which the attached Standard Terms and Conditions form an integral part. The definitions set out in the Standard Terms and Conditions are applicable throughout this Agreement. This Agreement will remain in place and fully effective for future years until varied or replaced by another relevant written agreement.

Bill Cox, FCPA, FCA will be the Engagement Partner for the audit work we perform for you. The Engagement Partner will call upon other individuals with specialized knowledge to assist in the performance of Services.

Our Role as Auditors

We will conduct our audit(s) in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements prepared in accordance with Canadian public sector accounting standards are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by you, as well as evaluating the overall financial statement presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, whether by fraud or error, may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

In making our risk assessments, we consider internal control relevant to your preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. However, we will communicate to you concerning any significant deficiencies in internal controls relevant to the audit of the financial statements that we have identified during the audit.
We will also communicate matters required by professional standards, to the extent that such matters come to our attention, to you, those charged with governance and/or the board of directors.

To assist us in the planning of our initial audit engagement, you agree to authorize the previous auditors to allow us to review their working papers and to respond fully to our inquiries.

**Reporting**

Our audit will be conducted on the basis that the financial statements have been prepared in accordance with Canadian public sector accounting standards.

Our independent auditor’s report will be substantially in the form set out in Canadian Auditing Standard (CAS) 700. The form and content of our report may need to be amended in the light of our audit findings. If we are unable to issue or decline to issue an audit report, we will discuss the reasons with you and seek to resolve any differences of view that may exist.

**Role of Management and Those Charged with Governance**

You acknowledge and understand that you have responsibility for:

(a) the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards. The audit of the financial statements does not relieve you of your responsibilities;

(b) such internal controls as you determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(c) providing us with:

- access, in a timely manner, to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that we may request for the purpose of the audit;
- unrestricted access to persons within the entity from whom we determine it is necessary to obtain audit evidence;
- financial and non-financial information (other information) that will be included in document(s) containing financial statements and our audit report thereon prior to the date of our auditor’s report. If it is not possible to provide all the other information prior to the date of our auditor’s report, you are responsible for provision of such other information as soon as practicable; and
- written confirmation concerning representations made to us in connection with the audit. If appropriate and adequate written representations are not provided to us, professional standards require that we disclaim an audit opinion.
Financial Statement Services

We will obtain your approval, if during the course of our engagement we:

(a) prepare or change a journal entry; or

(b) prepare or change an account code or a classification for a transaction.

Tax Services

Our audit is conducted primarily to enable us to express an opinion on the financial statements. The audit process is not designed to provide us with a full understanding of your tax situation and in particular, to allow us to determine whether the entity has specific tax compliance issues. We understand that you are not looking to BDO to provide you with any guidance or advice in regard to tax planning or compliance.

Additional Services

We are available to provide a wide range of services beyond those outlined in this Agreement. To the extent that any additional services that we provide to you that are not provided under a separate written engagement agreement, the provisions of this Agreement will apply to the services.

Standard Terms and Conditions

A copy of our Standard Terms and Conditions is attached as Appendix 1. You should ensure that you read and understand them. The Standard Terms and Conditions include clauses that limit our professional liability.

Please sign and return the attached copy of this Agreement to indicate your agreement with it. If you have any questions concerning this Agreement, please contact us before signing it.

It is a pleasure for us to be of service and we look forward to many future years of association with you.

Yours truly,

BDO Canada LLP

Chartered Professional Accountants

Agreement of all the terms and conditions in this Agreement is hereby acknowledged by:

Signature: ____________________ Position: ____________________

Name: Paul Rockwood Date: Jan 1, 2019

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Appendix 1 - Standard Terms and Conditions

1. Overview and Interpretation

1.1 This Agreement sets forth the entire agreement between the parties in relation to Services and it supersedes all prior agreements, negotiations or understandings, whether oral or written, with respect to Services. To the extent that any of the provisions of the accompanying letter conflict with these Standard Terms and Conditions, these Standard Terms and Conditions shall prevail. This Agreement may not be changed, modified or waived in whole or part except by an Instrument in writing signed by both parties.

1.2 In this agreement, the following words and expressions have the meanings set out below:

This Agreement - these Standard Terms and Conditions, the letter to which they are attached, and any supporting schedules or other appendices to the letter

Services - the services provided or to be provided under this Agreement

We, us, our, BDO - refer to BDO Canada LLP, a Canadian limited liability partnership organized under the laws of the Province of Ontario

You, your - the party or parties contracting with BDO under this agreement, including the party’s or parties’ management and those charged with corporate governance. You and your does not include BDO, its affiliates or BDO Member Firms

BDO Member Firm or Firms - any firm or firms that form part of the international network of independent firms that are members of BDO International Limited

Confidential Information - information that contains identifying features that can be attributed to you or individual personnel

2. BDO Network and Sole Recourse

2.1 BDO is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international network of independent member firms (i.e. BDO Member Firms), each of which is a separate legal entity.

2.2 We may use other BDO Member Firms or subcontractors to provide Services; however, we remain solely responsible for Services. You agree not to bring any claim or action against another BDO Member Firm (or their partners, members, directors, employees or subcontractors) or our subcontractors in respect of any liability relating to the provision of Services.

2.3 You agree that any of our affiliates, subcontractors, and other BDO Member Firms and any subcontractors thereof whom we directly or indirectly involve in providing Services have the right to rely on and enforce Section 2.2 above as if they were a party to this agreement.

3. Respective Responsibilities

3.1 We will use reasonable efforts to complete, within any agreed-upon time frame, the performance of Services.
3.2 You shall be responsible for your personnel’s compliance with your obligations under this Agreement. We will not be responsible for any delays or other consequences arising from you not fulfilling your obligations.

4. Working Papers and Deliverables

4.1 Ownership - Any documents prepared by us or for us in connection with Services belong solely to us.

4.2 Oral advice and draft deliverables - You should not rely upon any draft deliverables or oral advice provided by us. Should you wish to rely upon something we have said to you, please let us know and, if possible, we will provide the information that you require in writing.

4.3 Translated documents - If you engage us to translate any documents, advice, opinions, reports or other work product of BDO from one language to another, you are responsible for the accuracy of the translation work.

4.4 Reliance by Third Parties - Our Services will not be planned or conducted in contemplation of or for the purpose of reliance by any third party other than you and any party to whom the assurance report is addressed. Items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

4.5 Consent to use the Report - If we are requested to consent to the use of our report in connection with a continuous disclosure document, a public or private offering document, an annual report or any other document, we will consider, at the relevant time, providing consent and any conditions applicable to our consent. Our consent must be in writing. In order to provide consent, professional standards require that we read the other information in the related document and consider whether such information is materially inconsistent with the related financial statements. We will require adequate notice of the request for consent to allow us to consider your identification and resolution of events occurring in the period since the date of our report, and to obtain updated written representation letters. Such procedures will be performed at your cost.

5. Confidentiality

5.1 We agree to use Confidential Information provided by you only in relation to the services in connection with which the information is provided and we will not disclose the information, except where required by law, regulation or professional obligation. We may however, give Confidential Information to other BDO Member Firms or other subcontractors assisting us in providing Services. Any party to whom we subcontract work will be required to keep Confidential Information confidential either by professional obligation or contract with us. Any BDO Member Firms or other subcontractors we use will be bound by the same confidentiality obligations.

5.2 BDO shall be entitled to include a description of services we render to or for you in marketing and research materials and disclose such information to third parties, provided that all such information will be made anonymous and not associated with you. Additionally, we may analyze information on an industry or sector basis for internal purposes or to provide industry/sector wide information to our clients or potential clients.
You consent to our using information obtained from you in this way provided that the outputs therefrom will not contain any identifying features that can be attributed to you.

6. Independence

6.1 Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to our clients in the performance of our services. We will communicate to you any relationships between BDO (including its related entities) and you that, in our professional judgment, may reasonably be thought to bear on our independence.

7. Offers of Employment

7.1 Any discussions that you, or any party acting on your behalf, have with professional personnel of our Firm regarding employment could pose a threat to our independence. Your recruitment of an engagement team member from the current or prior year’s engagement may compromise our independence and our ability to render agreed services to you. Engagement team members may include current and former partners and staff of BDO, other BDO Member Firms and other firms who work under our direction. Therefore, you agree to inform us prior to any such discussions so that you and we can implement appropriate safeguards to maintain our independence.

8. Professional and Regulatory Oversight

8.1 As required by legal, regulatory, or professional authorities (both in Canada and abroad) and by BDO policy, our client files must periodically be reviewed by practice inspectors to ensure that we are adhering to professional and BDO standards. It is understood that by entering into this agreement, you provide your consent to us providing our files relating to your engagement to the practice inspectors for the sole purpose of their inspection.

8.2 Certain regulatory bodies may also have the right to conduct investigations of you, including the Services provided by us. To the extent practicable and permitted by law, we will advise you of any such investigation request or order prior to providing our working papers.

8.3 You agree to reimburse us for our time and expenses, including reasonable legal fees, incurred in responding to any investigation that is requested or authorized by you or investigations of you undertaken under government regulation or authority, court order or other legal process.

9. Privacy and Consents

9.1 You agree we will have access to all personal information in your custody that we require to complete our engagement. We may collect, use, transfer, store, or process such information disclosed by you of a personal nature (personal information). Our Services are provided on the understanding that:

(a) you have obtained any consents for collection, use and disclosure to us of personal information required under all applicable privacy legislation; and

(b) we will hold all personal information in compliance with our Privacy Statement.
10. Electronic Communications

10.1 Both parties recognize and accept the security risks associated with email communications, including but not limited to the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless you request in writing that we do not communicate by internet email, you assume all responsibility and liability in respect of risk associated with its use.

10.2 By signing this agreement, you provide BDO with express consent to communicate with you and your employees, as applicable, electronically, including sending BDO newsletters, publications, announcements, invitations and other news and alerts that may be of interest to you. You and your employees may withdraw such consent at any time by contacting BDO at www.bdo.ca.unsubscribe.

11. Limitation of Liability

11.1 In any dispute, action, claim, demand for losses or damages arising out of the Services performed by BDO pursuant to this Agreement, BDO shall only be liable for its proportionate share of the total liability based on degree of fault as determined by a court of competent jurisdiction or by an independent arbitrator as a result of the dispute resolution procedures, notwithstanding the provisions of any statute or rule of common law which create, or purport to create, joint and several liability.

11.2 Our liability shall be restricted to damages of a direct and compensatory nature and shall not include indirect, consequential, aggravated or punitive damages, or damages for loss of profits or expected tax savings, whether or not the likelihood of such loss or damage was contemplated.

11.3 You agree that BDO shall in no event be liable to you for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the Services performed hereunder for an aggregate amount of more than the higher of:

(a) three times the fees paid by you to BDO in the twelve months preceding the incident giving rise to the claim; and

(b) $25,000.

11.4 No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.

11.5 You agree claims or actions relating to the delivery of Services shall be brought against us alone, and not against any individual. Where our individuals are described as partners, they are acting as one of our members.

12. Indemnity

12.1 To the fullest extent permitted by applicable law and professional regulations, you agree to indemnify and hold harmless BDO from and against all losses, costs (including solicitors'
fees), damages, expenses, claims, demands or liabilities arising out of or in consequence of:

(a) a misrepresentation by a member of your management or board of directors, regardless of whether such person was acting in your interest;

(b) the services performed by BDO pursuant to this Agreement, unless, and to the extent that, such losses, costs, damages and expenses are found by a court of competent jurisdiction to have been due to the gross negligence of BDO. In the event that the matter is settled out of court, we will mutually agree on the extent of the indemnification to be provided by you, failing which, the matter may be referred to dispute resolution in accordance with the terms of this letter.

13. Alternative Dispute Resolution

13.1 Both parties agree that they will first attempt to settle any dispute arising out of or relating to this agreement or the Services provided hereunder through good faith negotiations.

13.2 In the event that the parties are unable to settle or resolve their dispute through negotiation, such dispute shall be subject to mediation pursuant to the National Mediation rules of the ADR Institute of Canada Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as the parties mutually agree upon shall be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada Inc. Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial or provincial act made applicable under the National Arbitration Rules.

14. Limitation Period

14.1 You shall make any claim relating to Services or otherwise under this Agreement no later than one year after you became aware or ought reasonably to have become aware of the facts giving rise to any such claim.

14.2 You shall in no event make any claim relating to the Services or otherwise under this Agreement later than two years after the completion of the Services under this Agreement.

14.3 To the extent permitted by law, the parties to this Agreement agree that the limitation periods established in this Agreement replace any limitation periods under any limitations act and/or any other applicable legislation and any limitation periods under any limitations act and/or any other applicable legislation shall not alter the limitation periods specified in this Agreement.

15. Intentionally Deleted

16. Termination

16.1 This Agreement applies to Services whenever performed (including before the date of this Agreement).
16.2 You or we may terminate this Agreement at any time upon written notice of such
termination to the other party. We will not be liable for any loss, cost or expense arising
from such termination. You agree to pay us for all Services performed up to the date of
termination, including Services performed, work-in-progress and expenses incurred by us
up to and including the effective date of the termination of this Agreement.

17. Fees and Billings
17.1 Our estimated fee is based on an assumed level of quality of your accounting records, the
agreed upon level of preparation and assistance from your personnel and adherence to the
agreed-upon timetable. Our estimated fee also assumes that your financial statements are
in accordance with the applicable financial reporting framework and that there are no
significant new or changed accounting policies or issues or internal control or other
reporting issues. We will inform you on a timely basis if these factors are not in place.

17.2 Should our assumptions with respect to the quality of your accounting records be incorrect
or should the conditions of the records, degree of cooperation, results of audit procedures,
or other matters beyond our reasonable control require additional commitments by us
beyond those upon which our estimated fees are based, we may adjust our fees and
planned completion dates.

17.3 Our professional fees will be based on our billing rates which depend on the means by
which and by whom our Services are provided. We also will bill you for our out-of-pocket
expenses, our administrative charge (described below), and applicable Goods and Services
Sales Tax, Harmonized Sales Tax, Quebec Sales Tax and Provincial Sales Tax.

17.4 Our administrative charge is calculated as a percentage of our professional fee and
represents an allocation of estimated costs associated with our technology infrastructure,
telephone charges, photocopying and some support staff time costs.

17.5 Our accounts are due when rendered. BDO may suspend the performance of Services in the
event that you fail to pay an invoice when it is due. Interest may be charged at the rate of
12% per annum on all accounts outstanding for more than 30 days.

18. Governing Laws
18.1 The terms of our engagement shall remain operative until amended, terminated, or
superseded in writing. They shall be interpreted according to the laws of the province or
territory in which BDO’s principal Canadian office performing the engagement is located,
without regard to such province/territory’s rules on conflicts of law.

19. Entire Agreement and Survival
19.1 This Agreement sets forth the entire agreement between the parties with respect to the
subject matter herein, superseding all prior agreements, negotiations or understandings,
whether oral or written, with respect to such subject matter. It is understood that this
Agreement will not be superseded by any contract with us for other specific services that
are not of the same scope as the Services contemplated in this Agreement, unless the other
contract explicitly references this Agreement and an intent to supersede it.

19.2 The provisions of this Agreement that give either of us rights or obligations beyond its
termination shall continue indefinitely following the termination of this Agreement. Any
clause that is meant to continue to apply after termination of this Agreement will do so.
20. **Force Majeure**

20.1 We will not be liable for any delays or failures in performance or breach of contract due to events or circumstances beyond our reasonable control, including acts of God, war, acts by governments and regulators, acts of terrorism, accident, fire, flood or storm or civil disturbance.

21. **Assignment**

21.1 No party may assign, transfer or delegate any of the rights or obligations hereunder without the written consent of the other party or parties. BDO may engage independent contractors and BDO Member Firms to assist us in performing the Services in this Agreement without your consent.

22. **Severability**

22.1 If a court or regulator with proper jurisdiction determines that a provision of this Agreement is invalid, then the provision will be interpreted in a way that is valid under applicable law or regulation. If any provision is invalid, the rest of this Agreement will remain effective.