



August 9, 2017

Mr. David Cribbs, County Manager
50 Colborne Street S.
Simcoe Ontario
N3Y 4H3

Dear Mr. Cribbs:

We have been engaged to audit the financial statements of The Corporation of Norfolk County for the year ending December 31, 2016. Canadian generally accepted auditing standards for audit engagements require that we communicate the following information with you in relation to our audit.

Evaluation of Internal Controls

Audits include a review and evaluation of the system of internal controls to assist in determining the level of reliance that may or should be placed on the system in assessing the nature and extent of audit procedures to be undertaken.

A portion of the TCA subledger and general ledger are not being reconciled (the "9099" general ledger accounts) which caused a year end adjustment of approximately \$2,800,000 (2015 \$600,000). This adjustment is required to record non-capital costs from the TCA subledger into operating costs. Once a capital project is complete, all costs related to the project are reviewed and it is determined at that time what costs are allowable capital assets to be classified as additions to the TCA subledger and what costs are not capital and should be included in operating expenses. We recommend that the TCA subledger and general ledger in its entirety become interfaced, this would eliminate the need for any reconciling adjustment. In the mean time, we recommend that the TCA subledger and general ledger are reviewed quarterly at minimum and this reconciling adjustment is made on a quarterly basis to reduce the impact at year end. We urge this recommendation to be implemented as soon as possible as reconciliation's are important controls as well as affecting key performance indicators.

For the last few years we have reported that the drains construction and maintenance general ledger accounts were not reconciling to the drains WorkTech subledger accounts, that is no longer an issue as the two systems now reconcile. We further recommend that a detailed review of the drains WorkTech subledger is completed and that each drain account is assessed for its collectibility. If amounts are determined to be uncollectible, these amounts should be written off and removed from each ledger.

Millard, Rouse & Rosebrugh LLP

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Significant Accounting Principles

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The accounting policies used by The Corporation of Norfolk County are described in Note 2, Significant Accounting Policies, in the financial statements.

There were no new accounting policies adopted or changes to the application of accounting policies of The Corporation of Norfolk County during the year.

Significant Unusual Transactions

We are not aware of any significant or unusual transactions entered into by The Corporation of Norfolk County that you should be informed about.

Accounting Estimates

Management is responsible for the accounting estimates included in financial statements. Estimates and the related judgments and assumptions are based on management's knowledge of the business and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the financial statements as a whole. An audit includes performing appropriate procedures to verify the:

- Calculation of accounting estimates;
- Analyzing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

There are certain accounting estimates that are complex and sensitive because they involve a significant degree of judgment and may have a range of possible outcomes. Significant accounting estimates exist for the County in the determination of the employment benefits liability. Four areas of employment benefits where estimates are involved are worker's compensation (WSIB), post employment benefits (i.e. health, dental and life insurance), vested sick leave and accumulated non-vested sick leave. Currently the County is reporting an estimated liability for WSIB, post employment benefits, and vested sick leave, but is not reporting an estimated liability for accumulated non-vested sick leave. Public sector accounting standards requires disclosure of an estimated liability for accumulated unvested sick leave. Due to the complexity and sensitivity involved in these estimates, we recommend that the County

have an actuary conduct an actuarial review for post employment benefits, vested sick leave and accumulated non-vested sick leave. Note that a comprehensive actuarial evaluation for the WSIB liability was conducted as at December 31, 2016.

Liabilities for Contaminated Sites (PS 3260) was adopted as required in 2015. As at December 31, 2016 there is no liability recorded in the consolidated financial statements as all the criteria for recognition have not been met. We recommend the County conduct a formal study to identify existing contaminated sites and assess valuation and recognition of these sites

Disagreements with Management

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the County's financial statements or auditor's report. Disagreements may arise over:

- Selection or application of accounting principles;
- Assumptions and related judgments for accounting estimates;
- Financial statement disclosures;
- Scope of the audit; or
- Wording of the auditor's report.

We are pleased to inform you that we had no disagreements with management during the course of our audit.

Other Issues Identified

Due to the transition from the former Region of Haldimand-Norfolk, there are still outstanding issues that need to be addressed to reconcile Norfolk County and Haldimand County due to/from accounts. We understand that Haldimand County and Norfolk County have come to an agreement on how these accounts are to be calculated and that any differences will be reconciled for the December 31, 2017 year end audit.

Difficulties Encountered During the Audit

We encountered no significant difficulties during our audit that should be brought to the attention of Council.

We would be pleased to discuss with you further any matters mentioned above, at your convenience.

Yours truly,

Millard, Rouse and Rosebrugh LLP
Chartered Professional Accountants

A handwritten signature in black ink, appearing to read "Jeff O'Donnell". The signature is stylized and written in a cursive-like font.

Jeff O'Donnell, CPA, CA
Licensed Public Accountant
Partner

CC: James Johnson, General Manager Financial Services, Treasurer/CFO