



2016 Year-end
audit
communication
Calgary Police
Service

For the year ended December 31, 2016
Presented to the Finance and Audit Committee
May 10, 2017



Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

May 1, 2017

To the Members of the Finance and Audit Committee of the Calgary Police Commission

Dear Finance and Audit Committee Members:

Report on audited annual financial statements

As agreed in our engagement letter dated November 16, 2016, we have performed an audit in accordance with Canadian generally accepted auditing standards ("GAAS") of the financial statements of the Calgary Police Service (the "Service") as at and for the year ended December 31, 2016, prepared in accordance Canadian public sector accounting standards ("PSAS") and expect to issue our audit report thereon dated May 23, 2017.

This report summarizes our findings during the audit. Our audit has been conducted in accordance with the Audit Plan that was presented to the Finance and Audit Committee (the "Committee") members at the meeting on November 16, 2016.

Use of our report

This report is intended solely for the information and use of the Committee, management and others within the Service and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from the officers and employees of the Service with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

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Audit scope matters

Canadian GAAS require that we communicate to the Committee on the following matters:

Status of our audit	<p>We expect to be in a position to render our audit opinion dated May 23, 2017 on the financial statements of the Service following approval of the financial statements by the Calgary Police Commission and the completion of the following outstanding procedures:</p> <ul style="list-style-type: none">• Receipt of signed management representation letter and update of subsequent events to audit report date• Receipt of legal letters• Minor documentation items
Audit strategy and scope	<p>The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope. Refer to our audit plan communicated on November 16, 2016.</p>
Materiality	<p>Materiality is the magnitude of misstatements, including omissions, in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.</p> <p>Materiality levels were determined based on a percentage of budgeted operating expenses. For the year ended December 31, 2016 the materiality of \$7,000,000 (2016, \$6,000,000) was used.</p>
Changes to the audit plan	<p>The audit was conducted in accordance with our audit plan, which was communicated to the Service on November 16, 2016.</p>
Management judgment and accounting estimates	<p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.</p> <p>During the year ended December 31, 2016, management advised us that there were no significant changes in accounting estimates or in judgments relating to the application of the accounting policies.</p> <p>In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the financial statements around estimation uncertainty is in accordance with Canadian public sector accounting standards ("PSAS") and is appropriate to the particular circumstances of the Service.</p>

Significant difficulties encountered in performing the audit	We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.
Significant accounting policies	The Service's significant accounting policies are set forth in Note 1 to December 31, 2016 financial statements. In our judgment, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of the Service.
Consultation with other accountants	Management has informed us that the Service has not consulted with other accountants about auditing or accounting matters.
Legal and regulatory compliance	Management is responsible for ensuring that the Service's operations are conducted in accordance with the laws and regulations applicable to the Service in the jurisdictions in which it operates. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations. Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the Service.
Post-statement of financial position financial events	Management is responsible for assessing subsequent events up to the date of the release of the financial statements. No post-statement of financial position events have been identified during the course of our audit which would have an impact on the financial statements. We will update subsequent events to the audit report date of May 23, 2017.
Management representation letter	A draft version of the management representation letter to be signed by management is included in Appendix 3.
Independence	We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level. As requested by you, we have reported all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence. We have provided a draft version of the independence letter we intend to use to confirm our independence for the year ended December 31, 2016, in Appendix 2.
Fees	We communicated our proposed audit fees of \$47,250 (2015, \$46,100), excluding administration fee and GST. There has been no change to our proposed fees.
Communications	As a part of our audit plan, we committed to communicate certain matters to the Committee on a regular basis or as specified events occur. A summary of our communications is provided in Appendix 4.

Audit findings

This following summarizes the main findings arising from our audit

Internal control	<p>We obtained an understanding of internal control relevant to the audit, however not all controls are relevant to every audit. We evaluated the design of controls relevant to the audit and determined whether they have been implemented. We are not, however, required in a non-integrated audit to determine whether all relevant controls are operating effectively. Although not required by Canadian GAAS, we may decide that, for a particular engagement, it makes sense to rely on the effective operation of some controls to determine the planned substantive procedures we will perform.</p> <p>In such cases, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented to also test whether the controls on which we intend to rely are operating effectively.</p> <p>In our audit of the Service's financial statements, we applied a substantive audit approach to testing of account balances and as such, we did not rely on internal controls.</p>
Audit adjustments and uncorrected misstatements	<p>In accordance with Canadian GAAS, we request that all misstatements be corrected. We are required to report all uncorrected misstatements greater than \$350,000 (2015, \$300,000), which is computed as 5% of materiality, and those that are quantitatively insignificant but qualitatively significant, in the appendices attached to the management representation letter.</p> <p>We noted no uncorrected misstatements during the course of the audit.</p>
Unadjusted disclosure deficiencies	<p>In accordance with Canadian GAAS, we request that all disclosure deficiencies be corrected.</p> <p>We have no unadjusted disclosure deficiencies to report to you.</p>
Conclusion	<p>In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of the Service's annual financial statements prepared in accordance with PSAS.</p> <p>No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.</p> <p>We intend to issue an unmodified audit report on the financial statements of the Service as at and for the year ended December 31, 2016 once the financial statements are approved by Calgary Police Commission on May 23, 2017.</p> <p>A draft version of our Auditor's report is included in Appendix 1.</p>

Audit risks

Our audit plan identified certain areas that we refer to as significant risks. The results of our audit work on these risks are set out below:

Significant risks

Areas of significant risk	Our audit response	Our conclusion
<p>Revenue Recognition and Management override of controls</p> <p>Professional auditing standards require us to presume revenue recognition and management override of controls to be risks of material misstatement due to fraud.</p> <p>There is a risk that revenue may not be appropriately recognized and recorded or that management has the ability to override controls.</p>	<p>For revenue recognition, the risk was pinpointed to the occurrence and cut-off of the following revenue streams: government grants, sale of goods and services, and fines and penalties. We made selections and performed detailed testing to verify whether it was appropriate to recognize revenue for each revenue stream.</p> <p>To test the risk of management override of controls:</p> <p>We examined journal entries made by the entity against certain fraud indicators and we tested a sample of journal entries for proper authorization and characteristics of possible management override of controls.</p> <p>We engaged in periodic fraud discussions with certain members of senior management and others within the Committee.</p> <p>We have considered the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates.</p> <p>We evaluated the business rationale for any significant unusual transactions.</p>	<p>Overall, we conclude that there were no issues noted relating to revenue recognition and management override of controls in the context of the financial statements taken as a whole.</p>

Areas of audit focus

Areas of audit focus	Our audit response	Our conclusion
<p>Accuracy, recording and presentation of reserves</p>	<p>We reviewed the expenditures charged to the reserve and vouched a sample of expenditures to invoices to verify that the item was non-recurring and an appropriate charge against the reserve.</p>	<p>Overall, we concluded that reserves are fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p>

Areas of audit focus	Our audit response	Our conclusion
Accuracy and disclosure of pension plan liability (employee benefit obligations)	<p>We reviewed the pension plan balance recorded at year-end and verified this balance through confirmation with the actuary. We reviewed the financial statement disclosure of the pension liability with the most recent actuarial valuation report prepared and ensured financial statement disclosures were in accordance with accounting standards.</p> <p>We considered the reasonableness and consistency of assumptions used by the actuary. In accordance with Canadian GAAS, we communicated with the actuary in writing regarding our use of and reliance on their report and we assessed the qualification and independence of the actuary.</p>	<p>Overall, we concluded that the pension plan liability (employee benefit obligations) are fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.</p>

Appendix 1 – Draft version of our Auditor's report

Independent Auditor's Report

To the Members of the Calgary Police Commission

We have audited the accompanying financial statements of the Calgary Police Service, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated surplus, statement of cash flows and statement of changes in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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.

In making those risk assessments, the auditor considers internal control relevant to the entity's 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Calgary Police Service as at December 31, 2016, and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
May 23, 2017

Appendix 2– Draft independence

May 23, 2017

The Members of the Finance and Audit Committee and
the Calgary Police Commission

Dear Members:

We have been engaged to audit the financial statements of the Calgary Police Service (the “Service”) for the year ended December 31, 2016.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Service, Deloitte and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) 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;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) Economic dependence on a client; and
- (e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 31, 2016, the date of our last letter.

We are not aware of any relationships between the Service and Deloitte, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from June 1, 2016 to May 23, 2017.

The total fees charged to the Service for audit services were \$50,558 (2015, \$49,327) during the period covered by the financial statements.

We hereby confirm that we are independent with respect to the Service in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of as of May 23, 2017.

This report is intended solely for the use of the Finance and Audit Committee, the Calgary Police Commission, management and others within the Service and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Appendix 3 – Draft management representation letter

[Client letterhead]

May 23, 2017

Deloitte LLP
700, 850 – 2 Street SW
Calgary, AB T2P 0R8

Dear Sirs:

Subject: Financial statements of Calgary Police Service for the year ended December 31, 2016

This representation letter is provided in connection with the audit by Deloitte LLP (“Deloitte” or “you”) of the financial statements of the Calgary Police Service (the “Service” or “we” or “us”) for the year ended December 31, 2016, and a summary of significant accounting policies and other explanatory information (the “Financial Statements”) for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Service in accordance with Public Sector Accounting Standards (“PSAS”).

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Service and Deloitte dated November 16, 2016 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Service as at December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Service has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2016 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. We have determined that the Financial Statements are complete as of December 31, 2016 as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected, all final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2016 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.
6. The Service has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

Information provided

7. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Service and do not reflect any activities or expenses of any other person or entity;
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
8. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.

9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Financial Statements.
11. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Service that have been communicated by employees, former employees or others, whether written or oral.
12. We have disclosed to you all communications from regulatory agencies and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.
16. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
17. We have disclosed to you, and the Service has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
18. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

Independence matters

For purposes of the following paragraph, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

19. Prior to the Service having any substantive employment conversations with a former or current Deloitte engagement team member, the Service has held discussions with Deloitte and obtained approval from the Audit Committee.

Accounting policies

20. The accounting policies selected and application of those policies are appropriate.
21. The Service's accounting policies and their method of application have been applied on a basis consistent with that of the audited Financial Statements as of and for the year ended December 31, 2015.

Management's responsibilities

22. All transactions have been carried out in accordance with law, regulation or other authorities.

Receivables

23. The Service is responsible for determining the appropriate carrying amount of accounts receivable, as well as estimated used to determine such amounts. Management believes that the carrying amounts recorded and disclosed are appropriate.

Government transfers

24. We have disclosed to you all disclosed to you all correspondence relating to government transfers that the Service has had with the funding body.
25. We have assessed the eligibility criteria and determined that the Service is an eligible recipient for the government transfers received.
26. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
27. All government transfers that have been recorded as unearned revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

Tangible capital assets

28. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150 - *Tangible Capital Assets*.
29. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to the Service's ability to provide goods and services and therefore do not require a write down.

Communicating a threshold amount

30. We understand that the threshold used for accumulating misstatements identified during the year was \$350,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Section 3260 – Liability for contaminated sites

31. Based on management's assessment of the requirements of this standard, there is no impact on the December 31, 2016 year-end financial statements of this standard.

City of Calgary Capital Asset Policy

32. The Service is aware of the City of Calgary's change in Capital Asset Policy for Buildings and Engineered Structures for the year ended December 31, 2016. Management has reviewed and understands the policy. Management has complied with the policy and has determined that there is no material impact of the change in accounting policy on the fiscal 2016 Financial Statements.

Yours truly,
The Calgary Police Service

Roger Chaffin, Chief of Police

Blaine Hutchins, Finance Manager

Appendix A

The Calgary Police Service

Summary of corrected and uncorrected financial statement misstatements and disclosure deficiencies

Corrected and uncorrected misstatements

None identified

Summary of disclosure deficiencies

None identified

Appendix 4 – Communication requirements

In our audit plan, we committed to communicate certain items to the Finance and Audit Committee on a regular basis or as specified events occur. These items are summarized below.

Required communication	Refer to this report or document described below
1. Our responsibilities under Canadian GAAS	Audit plan communicated on November 16, 2016
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors	Audit plan communicated on November 16, 2016
3. Management judgment and accounting estimates	Management judgment and accounting estimates
4. Audit adjustments	Audit adjustments and uncorrected misstatements
5. Uncorrected and corrected misstatements and disclosure deficiencies	Audit adjustments and uncorrected misstatements and Unadjusted disclosure deficiencies
6. Our views about significant qualitative aspects of the Service's accounting practices, including accounting estimates	Management judgment and accounting estimates
7. Disagreements with management	Disagreements with management
8. Our views about significant matters that were the subject of consultation with other accountants	Consultation with other accountants
9. Significant difficulties, if any, encountered during the audit	Significant difficulties encountered in performing the audit
10. All deficiencies in internal control that existed as of the date of management's assessment that were concluded to be material weaknesses in internal control	Internal control
11. Material written communications between management and us	Engagement letter dated November 16, 2016 and this year-end report
12. All relationships between the Service and us that, in our professional judgment, may reasonably be thought to bear on independence	Draft independence - Appendix 2
13. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence	Draft independence - Appendix 2
14. Illegal or possibly illegal acts	None identified based on audit procedures performed for the year ended December 31, 2016

Required communication	Refer to this report or document described below
15. Fraud or possible fraud identified through the audit process	None identified based on audit procedures performed for the year ended December 31, 2016
16. Non-compliance with laws and regulations that come to the auditor's attention	Legal and regulatory compliance
17. Matters that are significant to the oversight of the financial reporting process	All matters are documented within this year end communication document
18. Limitations placed on our scope	Audit strategy and scope
19. Written management representations the auditor is requesting	Management representation letter – Appendix 3

Appendix 5 – Management recommendation letter



Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

May 1, 2017

The Members of the Finance and Audit Committee and the Members of the Calgary Police Commission:

Dear Members:

We have recently completed our examination of the financial statements of the Calgary Police Service (the "Service"), for the year ended December 31, 2016.

Our audit was designed to provide a cost-effective basis for formulating an opinion on your financial statements. As part of our audit examination, we reviewed and evaluated certain aspects of the systems of internal controls and the accounting systems to the extent, in our professional judgment, that we considered necessary to make an evaluation of such internal controls and procedures in accordance with Canadian generally accepted auditing standards. ("GAAS"). The main purpose of this review was to assist us in determining the nature, extent and timing of our audit tests and to establish the degree of reliance, which we could place on selected internal controls, if any. It was not to determine whether internal controls were adequate for management's purposes.

While the audit did not include an in-depth evaluation of all internal control systems or all aspects of any individual system and should not, therefore be relied upon to identify all significant internal control deficiencies or all errors, irregularities or inefficiencies that might occur, we undertake to report such matters to you when they come to our attention. Our comments relating to these and other matters are attached.

This communication has been prepared solely for the information of management and the Finance and Audit Committee of the Service, and is not intended to be, nor should it be, used for any other purpose.

We thank you and your staff for the co-operation that continues to be given to us throughout the audit and we would be please to discuss with you the contents of this letter in further detail at your convenience.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP".

Chartered Professional Accountants

December 31, 2015 Year-end Management Letter Points – 2016 Update

1. In-Time reports for financial reporting

Observation:

Deloitte noted that the report used from the In-Time payroll system for financial reporting purposes was excluding certain transactions relating to the calculation of the civilian employee's time in lieu liability amount as a result of the report parameter descriptions not identifying all such transactions. As such this resulted in maximum estimated variance of \$59,300 between the liability recorded in the financial statements and the amount calculated by Deloitte. Deloitte noted that the In-Time payroll system itself is accurate and employees are being paid the correct amount, however, it is the report used for the financial statements that is creating the immaterial variance in relation to the time in lieu liability.

Implication:

The inaccuracy of the In-Time report used for financial reporting purposes increases the risk of incorrect time in lieu liability balance being recorded in the financial statements, which increases the risk of inaccurate financial reporting.

Recommendation:

We recommend that the report parameters be updated to include a complete list of descriptions relating to the civilian employee time in lieu liability.

Management Response:

This was an item that was identified during the sustainability phase of the project when implementing the In-Time system. The reporting of the liabilities is very limited since it would only apply to when statutory holiday pay was being paid and required a manual adjustment. This would limit the payout to management exempt personnel which is approximately 16% of the civilian workforce. The correct naming of the payout was rectified and is now being captured and audited properly at the closing of the financial statements at the end of each month.

Auditor's 2016 update:

We noted no issues during the 2016 audit with respect to the report used from the In-Time payroll system for financial reporting purposes.

This recommendation has been satisfactorily addressed.

2. Access to Ammunition Inventory

Observation:

During the inventory count observation performed on December 31, 2015, Deloitte noted that there were variances between the ammunition inventory listing provided by the Service and the actual count results performed by Deloitte. Based on discussions with management, we note that the current policy requires instructors to sign out ammunition prior to use for training sessions. The variances identified during our count procedure may be as a result of the ammunition not being properly signed out prior to use.

We note that this matter was raised by Deloitte with management following previous fiscal audits.

Implication:

Without properly signing out the ammunition, employees are not following current policy and the ammunition inventory master file is not correct. Furthermore, due to the high risk nature of the inventory, there is also a safety concern if the controls over this type of inventory are not properly maintained which may possibly lead to theft and loss of inventory.

Recommendation:

Management should reinforce the proper inventory sign-out procedures in order to ensure that inventory sign-outs are appropriately authorized, tracked in the ammunition inventory master file and employees are following procedures.

Management Response:

Management agrees that there has to be tighter controls on the inventory being drawn out for training purposes. There will be an increased emphasis during the May, September and December statements when an actual count of inventories is completed as part of our periodic financial statements and year end. In addition, there will be ongoing meetings with the Commander of the area where any variances will be addressed during the course of the year to ensure there is more emphasis on proper controls and withdrawing of ammunition.

Auditor's 2016 update:

We noted no variances between the ammunition inventory listing provided by the Service and the actual count results performed by Deloitte during the 2016 audit.

This recommendation has been satisfactorily addressed.