

**Regional Municipality of Wood  
Buffalo**

**2018 Audit service plan**

For the year ended December 31, 2018  
Presented to Council  
December 11, 2018



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December 4, 2018

To the Council of Regional Municipality of Wood Buffalo

**2018 Audit service plan**

Dear Council:

We are pleased to provide you with our audit service plan for Regional Municipality of Wood Buffalo and ("the Municipality") for the year ending December 31, 2018. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists. Our professionals will continue providing you with best practices and insights to face the increasingly complex array of issues and challenges encountered by companies like the Municipality.

We, at Deloitte, work as one team to provide you with relevant business insights to assist you improving your current practices.

We look forward to discussing our audit service plan 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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# Our audit explained

## Audit scope and terms of engagement

We have been asked to perform an audit of the Municipality's consolidated financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ending December 31, 2018. Our audit will be conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement including our responsibilities for any additional audit-related services you have asked us to provide are described in the master service agreement, which will be sent separately in the near future. Our master service agreement should be signed on behalf of the Municipality.



## Materiality

We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

Materiality levels are determined on the basis of professional judgement and consolidated budget expenses. Our preliminary estimate of materiality for the year ending December 31, 2018 has been set at \$20,600,000 (2017, \$20,600,000).

We will inform Council of all uncorrected misstatements greater than a clearly trivial amount of \$450,000 and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will ask that any misstatements be corrected.

## Significant audit risks

Through our preliminary risk assessment process, we have identified the significant audit risks. These risks of material misstatement and related audit responses are discussed in the Significant audit risks section of this report.

### Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking people involved in the financial reporting process about inappropriate or unusual activity.
2. Testing a sample of journal entries throughout the period as well as adjustments made at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.
5. Evaluating whether the judgements and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask Council for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Municipality and their role in the oversight of management's antifraud programs.

If we suspect fraud involving management, we will immediately inform Council of our suspicions and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

### Complete engagement reporting

#### Audit reporting

Under Canadian GAAS, we are required to communicate certain matters to Council. The primary reports and formal communications through which we will address these matters are:

- This Audit Service Plan
- Year End Communication, and
- Our Auditor's Report on the financial statements.

#### Business Insights

We will provide you with insights into the condition of your business and offer meaningful suggestions for improvement.



### Reliance on service organizations

The Municipality employs these third party service organizations in outsourcing arrangements that impact financial reporting information:

- BMO Nesbitt Burns Inc.
- CIBC Wood Gundy
- RBC Investor Services Trust
- RBC Dominion Securities Inc.
- Baker Gilmore & Associates

We intend to rely on the reports issued by the independent auditors of these third party service organizations.

If our assessment does not provide us with sufficient appropriate audit evidence, we will need to perform additional audit procedures to address the risks of material misstatements in the financial statements.

### Audit fees

We have included our audit and tax fees in our master service agreement, for the amounts as agreed upon in our Request for Proposal.






















We will discuss any increase in audit scope and related fees with administration in advance of performing the work.

# Significant audit risks

During our risk assessment, we identified some significant audit risks that will require special audit consideration. These risks, together with our planned responses, are described below.

The following tables set out the significant audit risks that we identified during our preliminary planning activities, including our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk's occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the Municipality.

## Significant risk dashboard

Audit risk	Fraud risk	Planned assessment of the design and implementation of internal controls for risk assessment purposes	Planned substantive testing
Management override of controls			
Revenue Recognition			
Existence, completeness, classification and valuation of tangible capital assets ("TCA")			
Completeness and accuracy of deferred revenue balances			
Completeness and accuracy of liability for post-closure landfill costs			
Collectability and existence of receivables related to 2016 wildfire costs			
Completeness and cut-off of accounts payable, accruals and contractual obligations disclosed and commitments			



Will be addressed during the audit



Not applicable

## Management override of controls

### Audit risk

Assurance standards include the presumption of a significant risk of management's ability to override controls.

Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

### Our proposed audit response

- We will engage in fraud discussions with certain members of the Council, senior management and others within the Municipality.
- We will review management's basis for estimates including deferred revenue, collectability of accounts receivable and other provisions.
- We will perform retrospective analysis of significant accounting estimates.
- We will test a sample of journal entries made throughout the period and adjustments made at the end of the reporting period.
- We will evaluate the business rationale for any significant unusual transactions.
- We will evaluate the Municipality's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process. We will test journal entries that exhibit characteristics of possible management override of controls, identify using electronic data interrogation techniques.

## Revenue recognition

### Audit risk

Revenue recognition (presumption that it is a risk of fraud) in the following areas:

- Recognition of revenues based on the underlying funding agreement.
- Recognition of developer levies in the incorrect period.
- Government transfers have not been recognized in circumstances where the specified conditions have been met.
- Recognition of government transfers in the incorrect period.

### Our proposed audit response

- We will review the revenue recognition policy for compliance with Canadian PSAS.
- We will review a sample of revenue transactions and revenue generating agreements to ensure the revenue is recognized in accordance with the policy and Canadian PSAS.
- We will review grant agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period.
- We will review provincial and municipal contributions received during the year and ensure the amounts are appropriately recorded.
- We will review the developer levies recognized during the year and ensure that they are matched to actual expenses incurred during the year.



## Existence, completeness, classification and valuation of TCA

### Risk identified

The TCA process and its ability to address the ongoing financial reporting requirements of the Municipality continue to be an area of concern. In addition, there is an increased risk that recorded contributed assets may not be complete and the fair value estimates of contributed TCA may differ significantly from actual results.

### Our proposed audit response

- We will review the Municipality's TCA policies for compliance with Canadian PSAS and consistency of application year over year.
- We will review the Municipality's current year transactions, adjustments and related disclosures.
- Our testing will include, on a sample basis, reviewing amounts capitalized in the current year to ensure only amounts that met the requirements for capitalization were included.
- We will review the amortization rates and useful lives determined by management for reasonableness.
- We will review management's assessment of indicators of impairment.
- We will review general and administrative costs capitalized during the year to assess compliance with Canadian PSAS.
- We will test a sample of capital additions recorded as betterments to confirm they are appropriately treated as capital rather than expense in nature.
- We will test construction in progress and transfers made to completed TCA and confirm if they are appropriately treated and complete.
- We will review a sample of recorded asset disposals and write-downs to ensure gains, losses and proceeds are correctly recorded. In addition, we will review Council minutes to identify approved asset disposals, as well as hold discussions with asset managers to identify potentially unrecorded disposals.
- We will review the Municipality's process to ensure completeness of developer assets recorded.
- We will test a sample of Final Acceptance Certificates that are issued around the year-end to ensure assets were recorded in the appropriate period.
- We will review the Municipality's methodology to determine the fair value of contributed assets and test the assumptions in the valuation models.



## Completeness and accuracy of deferred revenue balances

### Risk identified

Revenue is recognized from the deferred balance when the funds are used for the purpose specified. There is a risk that revenue is not recognized in accordance with the funding agreements.

In addition, there is a risk that funding is unrecorded due to the decentralized nature of grant management and reliance on manual processes.

### Our proposed audit response

- We will review deferred revenue for compliance with Canadian PSAS.
- We will test a sample of expenditures and ensure that related revenue had been recognized appropriately.
- We will review federal and provincial transfer payments that are received throughout the year to fund specific projects.
- We will review the related funding agreements to ensure funds were used for their intended purpose and that revenue will be recognized in the appropriate period.

## Completeness and accuracy of liability for post-closure landfill costs

### Risk identified

The liability for post-closure landfill costs is a significant estimate. The present value of the future liability is recognized proportionately based on the capacity and usage of the landfill.

### Our proposed audit response

- We will review management's estimate of landfill usage and capacity. We will review management's calculation of 2018 expense and post-closure landfill liability recorded.
- We will assess the reliability of management's experts used in the development of estimates.

## Collectability and existence of receivables related to 2016 wildfire costs

### Risk identified

The Municipality is accessing the Provincial Disaster Recovery Program for funding for reimbursement of response and recovery costs related to the 2016 wildfire. Although the Municipality has received an advance of a portion of the funds applied for, they may have a receivable at year-end. There is a risk that the receivable may be overstated due to costs incurred that do not qualify for the Provincial Disaster Recovery Program funding.

### Our proposed audit response

- We will review management's estimate of amounts receivable at the year-end.
- We will test management's process to ensure costs that are incurred meet the Provincial Disaster Recovery Program reimbursement criteria.
- We will confirm amounts receivable with the funder.
- We will test amounts that are received after the year-end.
- We will test the disclosure that are included in the financial statements.

## Completeness and cut-off of accounts payable, accruals, contractual obligations disclosed and commitments

### Risk identified

Contracting is decentralized within the Municipality. The ability to enter into contracts resides within several departments. The Municipality contracts with third parties to provide services that satisfy the requirements of the funding source. These contracts are external to the funding agreement and can have additional financial implications. Furthermore, the nature of the Municipality's operations allows for the possibility that there are financial obligations of which the finance department is not yet aware and that have not been recorded in the financial statements.

### Our audit response

- We will review management's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered in the year.
- We will review a sample of funding contracts entered into in the year to audit management's treatment.
- We will test disbursements made subsequent to year-end so as to ensure they have been accrued for in the correct period.
- We will confirm year-end accounts payable balances with significant suppliers.
- We will test a sample of reconciliations between supplier statements and sub ledger.
- We will review management's process to reconcile and record manual electronic fund transfers, transactions, accounts payable and purchase order transactions recorded through "holding" accounts.
- We will review the Municipality's process to ensure the completeness of contracts entered into.
- We will review information independent of finance to identify contractual agreements.
- We will review management's assessment of the impact of the fire in the prior year, on management's estimate of its liability for contaminated sites and commitments required to be disclosed.

As we perform our audit procedures, we will inform you of any significant changes to the significant risks discussed above and the reasons for those changes.

# Group audit

The audit of the Municipality is considered to be a group audit. Because of this, we are also required to determine the scope of work required for each controlled entity. Some factors we consider include:

- The existence of significant risks at the controlled entities;
- A consideration of significant accounts and disclosures using materiality levels that are appropriate to support our audit opinion on your organization's financial statements;
- The complexity and nature of the operations, internal controls and accounting issues at the controlled entities;
- The degree of centralization of processes and controls, including the extent of relevant enterprise-level controls; and
- The extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous period at the controlled entities.

Based on our analysis of these risks, we have determined the scope of work we consider necessary to provide an appropriate basis for our audit opinion on the financial statements.

The table below lists the audit procedures we will perform in the current period audit:

Entity name	Type of work to be performed on components
Regional Municipality of Wood Buffalo Library	Full-scope audit
Wood Buffalo Housing & Development Corporation	Full-scope audit
Regional Recreation Corporation of Wood Buffalo	Full-scope audit

## Sources of audit evidence in a group audit

Based on our analysis, we have determined the scope of work needed to provide an appropriate basis for our audit opinion on the financial statements.

**Full-scope audits** will be performed using the materiality level specified for the individual controlled entities that are individually significant to the financial statements.

The preliminary materiality levels for the following significant components are:

Regional Municipality of Wood Buffalo non-consolidated component*	\$ 16,000,000
Regional Municipality of Wood Buffalo Library	\$ 223,000
Wood Buffalo Housing & Development Corporation	\$6,400,000
Regional Recreation Corporation of Wood Buffalo	\$ 1,100,000

\*Note: Component materiality for audit of the consolidated financial statements of the Municipality. A separate opinion is not issued on the non-consolidated financial statements.

# Appendix 1 – Audit approach

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing the Municipality.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

## 1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks

## 2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

### Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether the Municipality's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Council regarding:

- Its views about the risk of fraud
- Whether it has knowledge of any actual or suspected fraud affecting the Municipality, and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Council is aware of tips or complaints regarding the Municipality's financial reporting and, if so, Council's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving management, we will communicate these suspicions to Council and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

### **Information technology**

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit, and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

### **3. Developing and executing the audit plan**

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

#### **Audit procedures**

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

#### **Substantive audit procedures**

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the clearly trivial threshold has been set at \$450,000), will be reported to management and Council. In accordance with Canadian GAAS, we will request that misstatements be corrected.

#### 4. Reporting and assessing performance

##### **Perform post-engagement activities**

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion, and
- The misstatements identified during the audit do not result in the financial statements being materially misstated.

##### **Independence**

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to the Municipality.

We are independent of the Municipality and we will reconfirm our independence in our final report to Council.

# Appendix 2 – Communication requirements

Required communication	Reference
<b>Audit Service Plan</b>	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS <sup>1</sup> 260.14
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> <li>a. Timing of the audit</li> <li>b. Significant risks, including fraud risks</li> <li>c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk</li> <li>d. Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit</li> </ul>	CAS 260.15
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27
<b>Enquiries of those charged with governance</b>	
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks	CAS 240.20
5. Any known suspected or alleged fraud affecting the Municipality	CAS 240.21
6. Whether the Municipality is in compliance with laws and regulations	CAS 250.14
<b>Year-end communication</b>	
7. Fraud or possible fraud identified through the audit process	CAS 240.40-.42
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.
10. Matters related to going concern	CAS 570.23
11. Management judgments and accounting estimates	CAS 260.16 a.
12. Significant difficulties, if any, encountered during the audit	CAS 260.16 b.
13. Material written communications between management and us, including management representation letters	CAS 260.16 c.
14. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16d.
15. Modifications to our opinion(s)	CAS 260.A18
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A19

<sup>1</sup> CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada



Required communication	Reference
17. Significant matters discussed with management	CAS 260.A.19
18. Matters involving non-compliance with laws and regulations that come to our attention	CAS 250.23
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	CAS 265
20. Uncorrected misstatements and disclosure items	CAS 450.12-13
21. Any significant matters arising during the audit in connection with the Municipality's related parties	CAS 550.27

# Appendix 3 – 2018 Summary audit timeline

This estimated timetable indicates our various procedures and release of our communications as planned throughout the year:

	Dates
Presentation of 2018 audit plan to the Council	December 11, 2018
MSA to be submitted to management to sign on behalf of the Council	December 11, 2018
Interim audit procedures to perform testing of the design and implementation of internal controls, substantive procedures and the preparation of confirmations	December 3-December 7, 2018
Interim audit findings discussed with management	December 2018
Commencement of year-end field work – financial statements, Municipal Financial Information Return, LAPP and FCSS	March 4, 2019
The Municipality to provide Deloitte with initial draft consolidated financial statements	March 14, 2019
Provision of draft independent auditor's report and recommendations to management	April 1, 2019
Presentation of final financial statements by management and audit findings and independent auditor's report to Council	April 9, 2019
Issuance of 2018 management recommendation letter	April 1, 2019
Anticipated independent auditor's report date	April 23, 2019

# Appendix 4 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

<input type="checkbox"/> Canada's Best Managed Companies ( <a href="http://www.bestmanagedcompanies.ca">www.bestmanagedcompanies.ca</a> )	<ul style="list-style-type: none"> <li>• Directors</li> <li>• CEO/CFO</li> </ul>	The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.
<input type="checkbox"/> Centre for financial reporting ( <a href="http://www.cfr.deloitte.ca">www.cfr.deloitte.ca</a> )	<ul style="list-style-type: none"> <li>• Directors</li> <li>• CEO/CFO</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.
<input type="checkbox"/> Financial Reporting Insights ( <a href="http://www.iasplus.com/fri">www.iasplus.com/fri</a> )	<ul style="list-style-type: none"> <li>• CFO</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	Monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.
<input type="checkbox"/> On the board's agenda	<ul style="list-style-type: none"> <li>• Directors</li> <li>• CEO/CFO</li> </ul>	Bi-monthly publication examining a key topic in detail, including the perspectives of a Deloitte professional with deep expertise in the subject matter as well as the views of an experienced external director.
<input type="checkbox"/> State of change ( <a href="http://www.iasplus.com/StateOfChange">www.iasplus.com/StateOfChange</a> )	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	Bi-monthly newsletter providing insights into key trends, developments, issues and challenges facing the not-for-profit sector in Canada, with a Deloitte point of view.
<input type="checkbox"/> Deloitte Financial Reporting Update ( <a href="http://www.deloitte.com/ca/update">www.deloitte.com/ca/update</a> )	<ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.