

The Regional Municipality of Wood Buffalo 2020 Audit service plan

For the year ended December 31, 2020
Presented to Mayor and Council
October 13, 2020

October 13, 2020

To Mayor and Council of the Regional Municipality of Wood Buffalo

2020 Audit service plan

Dear Mayor and Council:

We are pleased to provide you with our audit service plan for the Regional Municipality of Wood Buffalo ("the Municipality") for the year ending December 31, 2020. 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

Table of contents

| | |
|--|----|
| Executive summary | 1 |
| Significant audit risks | 3 |
| Group audit | 8 |
| Revised CAS 540, Auditing Accounting Estimates and Related Disclosures | 9 |
| Appendix 1 – Communication requirements | 11 |
| Appendix 2 – COVID-19 Impact | 13 |
| Appendix 3 – 2020 Summary audit timeline | 14 |
| Appendix 4 – New and Revised Accounting and Auditing Standards | 15 |
| Appendix 5 – Deloitte resources a click away | 17 |

Executive summary

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 Public Sector Accounting Standards ("PSAS") as at and for the year ending December 31, 2020. Our audit will be conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

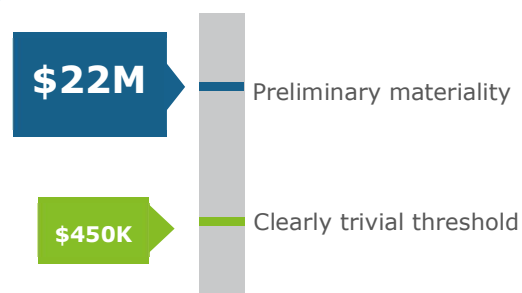
The terms and conditions of our engagement are described in the master service agreement.

Significant risks

Status

| | | |
|---|---|---|
| 1 | Revenue recognition |  |
| 2 | Management override of controls |  |
| 3 | Existence, completeness, classification and valuation of TCA |  |
| 4 | Completeness and accuracy of deferred revenue balance |  |
| 5 | Completeness and cut-off of accounts payable, accruals, contractual obligations disclosed and commitments |  |
| 6 | Collectability and existence of receivables |  |

Materiality



Our preliminary estimate of materiality for the year ending December 31, 2020 has been set at \$22,000,000 (2019- \$22,000,000). We will report to you any uncorrected misstatements greater than our current year clearly trivial amount of \$450,000 (2019 - \$450,000).



New from prior year



Continued from prior year



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.

Reliance on service organization

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

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

Audit approach

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.



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


Legend

-  Significant level of management judgment involved
-  Minimal/No management judgment involved


D+I: Planned testing of the design and implementation of key controls

Revenue recognition

| Fraud Risk | YES | Analysis of risk | Planned audit response |
|-------------------------------|---|--|--|
| Control Testing Planned | D+I | <ul style="list-style-type: none">Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition. We have evaluated the revenue transactions, and we have concluded that the significant risk is that revenue may have been recorded in the incorrect period. | <ul style="list-style-type: none">We will evaluate the design and implementation of the internal controls that address this risk. We will not rely on controls.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 that revenue is recognized in the appropriate period. |
| Level of management judgement |  | | |


| Fraud Risk | YES | Analysis of risk | Planned audit response |
|--|---|---|---|
| | | <ul style="list-style-type: none"> These areas represent a fraud risk for the 2020 audit: <ul style="list-style-type: none"> Recognition of revenues based on the underlying funding agreement. Government transfers that have not been recognized in circumstances where the specified conditions have been met. Recognition of government transfers in the incorrect period. | <ul style="list-style-type: none"> We will review provincial and municipal contributions received during the year and ensure the amounts are appropriately recorded. |
| Management override of controls | | | |
| Fraud Risk | YES | Analysis of risk | Planned audit response |
| Control Testing Planned | D+I | <ul style="list-style-type: none"> Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process. Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk. | <ul style="list-style-type: none"> We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will evaluate the business rationale for any significant unusual transactions. We will determine whether the judgments and decisions related to management estimates indicate a possible bias, which will include performing retrospective analysis of significant accounting estimates. |
| Level of management judgement |  | | |

Existence, completeness, classification and valuation of TCA

| Fraud Risk | No | Analysis of risk | Planned audit response |
|--|---|--|--|
| Control Testing Planned | D+I | <p>The TCA process and its ability to address the ongoing financial reporting requirements of the Municipality continue to be an area of concern.</p> <p>In addition, there is a risk that recorded contributed assets may not be complete and the fair value estimates of contributed TCA may differ significantly from actual results.</p> | <ul style="list-style-type: none"> • 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. |
| Level of management judgement |  | | |

| Fraud Risk | No | Analysis of risk | Planned audit response |
|-------------------------------|---|------------------|---|
| Level of management judgement |  | | <ul style="list-style-type: none"> 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


| Fraud Risk | No | Analysis of risk | Planned audit response |
|-------------------------------|---|--|---|
| Control Testing Planned | D+I | 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. | <ul style="list-style-type: none"> 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. |
| Level of management judgement |  | In addition, there is a risk that funding is unrecorded due to the decentralized nature of grant management and reliance on manual processes. | |

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

| Fraud Risk | No | Analysis of risk | Planned audit response |
|-------------------------|-----|--|--|
| Control Testing Planned | D+I | 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 | <ul style="list-style-type: none"> We will review management's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered in the year. |

| | | | |
|---|----|---|---|
| Fraud Risk Level of management judgement | No | Analysis of risk 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. | Planned audit response <ul style="list-style-type: none"> • 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. |
|---|----|---|---|

Collectability and existence of receivables

| | | | |
|---|-----|--|--|
| Fraud Risk Control Testing Planned | No | Analysis of risk Due to the COVID-19 pandemic, and the resulting economic effects, there is the increased risk that amounts recorded as receivables may not be considered collectible. | Planned audit response <ul style="list-style-type: none"> • We will review management's estimate of amounts receivable at the year-end. • We will test amounts that are received after the year-end, and audit management's assessment of the collectability of accounts receivable at year end. • We will test the disclosures that are included in the financial statements. |
| Level of management judgement | D+I |  | |

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 |
| Wood Buffalo Economic Development Corporation | 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* | \$ 21,000,000 |
| Regional Municipality of Wood Buffalo Library | \$ 260,000 |
| Wood Buffalo Housing & Development Corporation | \$6,287,000 |
| Regional Recreation Corporation of Wood Buffalo | \$ 1,670,000 |
| Wood Buffalo Economic Development Corporation | \$135,000 |

*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. The audit of the Municipality is considered to be a group audit.

Revised CAS 540, Auditing Accounting Estimates and Related Disclosures

Drivers for the Revised Standard

- Changes in financial reporting frameworks and standards include a greater focus on complex accounting estimates, which highlights the importance of fostering professional skepticism
- Need to improve communication and transparency between auditors and those charged with governance on complex accounting estimates



What can you expect from your auditor?

Management

- Greater focus in assessing how management understands the nature, extent, risks, and controls associated with accounting estimates
- Varying audit procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates.
- More interaction with management's experts
- Specific written management representations

Communication with Mayor and Council

- Mayor and Council can expect to have enhanced dialogue on accounting estimates. This may include the auditor's views and assessment of:
 - significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures;
 - indicators of management bias;
 - appropriateness of management's methods, assumptions and data used; and
 - significant deficiencies in internal controls around accounting estimates

Appendix 1 – Communication requirements






| Required communication | Reference |
|---|----------------------------|
| Audit Service Plan | |
| 1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements | CAS ¹ 260.14 |
| 2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk d. Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit | CAS 260.15 |
| 3. Significant transactions outside of the normal course of business, including related party transactions | CAS 260 App. 2, CAS 550.27 |
| Enquiries of those charged with governance | |
| 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 240.21 |
| 5. Any known suspected or alleged fraud affecting the Municipality | CAS 240.22 |
| 6. Whether the Municipality is in compliance with laws and regulations | CAS 250.15 |
| Year-end communication | |
| 7. Modification to our audit plan and strategy | CAS 260.A26 |
| 8. Fraud or possible fraud identified through the audit process | CAS 240.40-.42 |
| 9. Significant accounting policies, practices, unusual transactions, and our related conclusions | CAS 260.16 a. |
| 10. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period | CAS 260.16 a. |
| 11. Matters related to going concern | CAS 570.25 |
| 12. Management judgments and accounting estimates | CAS 260.16 a. |
| 13. Significant difficulties, if any, encountered during the audit | CAS 260.16 b. |
| 14. Material written communications between management and us, including management representation letters | CAS 260.16 c. |
| 15. Circumstances that affect the form and the content of the auditor's report | CAS 260.16d. |
| 16. Modifications to our opinion(s) | CAS 260.A21 |

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

| | |
|--|----------------|
| 17. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns | CAS 260.A22 |
| 18. Significant matters discussed with management | CAS 260.A.22 |
| 19. Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including Illegal or possibly illegal acts that come to our attention | CAS 250.23 |
| 20. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements | CAS 265 |
| 21. Uncorrected misstatements and disclosure items | CAS 450.12-13, |
| 22. Any significant matters arising during the audit in connection with the Municipality's related parties | CAS 550.27 |

Appendix 2 – COVID-19 Impact

Financial reporting implications

|  | Impacted by COVID-19 |  | Limited/minimal impact by COVID-19 |
|---|---|--|------------------------------------|
| Key consideration | Impact level | Observations and impact on financial statements | |
| Going Concern |  | <ul style="list-style-type: none"> The Municipality has a strong balance sheet, and the resources to be able to survive the impact that COVID-19 has provided. There would be limited/minimal impact from a going concern perspective. | |
| Key consideration | Impact level | Observations and impact on financial statements | |
| Impairment of assets |  | <ul style="list-style-type: none"> Due to a significant decrease in revenue and the temporary shut down of operations, impairment indicators may be present related to tangible capital assets, operations of subsidiaries and investments. We will perform audit procedures on management's assessment of these areas. | |
| Key consideration | Impact level | Observations and impact on financial statements | |
| Allowance for doubtful accounts and accounts receivable |  | <ul style="list-style-type: none"> The risk of default on owed property taxes and trade receivables has increased. We will audit management's assessment on the collectibility of the Municipality's accounts receivable and allowance for doubtful accounts. | |

Appendix 3 – 2020 Summary audit timeline

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

| | Dates |
|--|-----------------------------|
| Presentation of 2020 audit plan to the Council | October 13, 2020 |
| Interim audit procedures to perform testing of the design and implementation of internal controls, substantive procedures and the preparation of confirmations | October 26-October 30, 2020 |
| Interim audit findings discussed with management | December 2020 |
| Commencement of year-end field work – financial statements, Municipal Financial Information Return, and FCSS | March 8, 2021 |
| The Municipality to provide Deloitte with initial draft consolidated financial statements | March 15, 2021 |
| Provision of draft independent auditor’s report and recommendations to management | April 1, 2021 |
| Presentation of final financial statements by management and audit findings and independent auditor’s report to Council | TBD |
| Issuance of 2020 management recommendation letter | TBD |
| Anticipated independent auditor’s report date | TBD |

Appendix 4 – New and Revised Accounting and Auditing Standards

The following is a summary of certain new standards, amendments and proposals that will become effective in 2020 and beyond.

To review all recent amendments that will impact your organization in the foreseeable future, we invite you to review our revamped [Standard section of iasplus.com](https://www.iasplus.com).

Public Sector Accounting Standards

| Title | Description | Effective Date |
|--|---|---|
| Section PS 1201 - Financial Statement Presentation | This Section establishes general reporting principles and standards for the disclosure of information in government financial statements. | It is effective for (i) government organizations for fiscal years beginning on or after April 1, 2012; and (ii) governments for fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted. |
| Section PS 2601 - Foreign Currency Translation | This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements. | This Section is effective for (i) Government organizations – April 1, 2020, and (ii) Governments April 1, 2021. Earlier adoption is permitted. |
| Section PS 3041 - Portfolio Investments | This Section establishes standards on how to account for and report portfolio investments in government financial statements. | Effective in the period that Section PS 2601, Foreign Currency Translation and section PS 3450, Financial Instruments, are adopted. The transitional provisions have been amended to extend the effective date for governments by two years to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. |

| Title | Description | Effective Date |
|--|---|---|
| Section PS 3280 - Asset retirement obligations | This Section establishes standards on how to account for and report a liability for asset retirement obligations. | Effective April 1, 2021, earlier application is permitted. |
| Section PS 3400 - Revenue | This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. | Effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. The Section may be applied retroactively or prospectively. |
| Section PS 3450 - Financial Instruments | This Section establishes standards on how to account for and report all types of financial instruments including derivatives. | This section is effective for: (i) Government organizations - April 1, 2012 (ii) Governments – April 1, 2021. Earlier adoption is permitted. |

Appendix 5 – 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.

Register [here](#) to receive practical insights, invitations to Deloitte events/webcasts, and newsletters via email and other electronic channels. You will be able to select business topics and industries that align with your interests.

| | |
|---|---|
| <input type="checkbox"/> Canada's Best Managed Companies (www.bestmanagedcompanies.ca) Target audience <ul style="list-style-type: none"> • Directors and CEO/CFO | 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 (https://www.iasplus.com/en-ca/standards) Target audience <ul style="list-style-type: none"> • Directors and CEO/CFO • Controller and Financial reporting team | Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada. |
| <input type="checkbox"/> Deloitte Viewpoints (https://www.iasplus.com/en-ca/tag-types/deloitte-viewpoints) Target audience <ul style="list-style-type: none"> • CFO • Controller and Financial reporting team | Electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada. |
| <input type="checkbox"/> CFO's corner (https://www.iasplus.com/en-ca/cfos-corner) Target audience <ul style="list-style-type: none"> • CFO and VP Finance • Controller and Financial reporting team | Editorial providing insights into key trends, developments, issues and challenges executives face, with a Deloitte point of view. |
| <input type="checkbox"/> Deloitte Dbriefs (https://www.iasplus.com/en-ca/dbriefs/webcasts) Targeted audience <ul style="list-style-type: none"> • CFO and VP Finance • Controller and Financial reporting team | Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business. Recent publications (ASPE) <ul style="list-style-type: none"> • Revenue (Jan 13, 2020) • Accounting for shares issued in tax planning arrangements (ROMRS) (Dec, 18, 2019) • Agriculture (Dec 18, 2019) |