



Regional Municipality of  
Wood Buffalo  
2015 Audit service plan

For the year ending December 31, 2015  
Presented to the Audit Committee of the  
Regional Municipality of Wood Buffalo  
October 14, 2015

Instilling  
confidence



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October 14, 2015

To the Chair and members of the  
Audit Committee of the Regional Municipality of Wood Buffalo

**Subject: Audit service plan for the year ending December 31, 2015**

We are pleased to present our 2015 audit service plan for the Regional Municipality of Wood Buffalo (the "Municipality"), which describes our audit scope and strategy, our protocols for communication with you and other services we provide for the Municipality.

Our engagement will include:

- Audit of the Municipality's consolidated financial statements (the "Financial Statements") as at and for the year ending December 31, 2015, prepared in accordance with Canadian public sector accounting standards ("Canadian PSAS") and conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS");
- Audit of the Municipality's Financial Information Return;
- Audit of the Municipality's compliance with requirements set forth in Local Authorities Pension Plan ("LAPP") *Pension e-guide* and instructions received from Alberta Pensions Services Corporation at December 31, 2015;
- Audit of Financial and Community Support Services ("FCSS") Programs;
- Audit of the Schedule of Revenues and Eligible Expenditures of Community Plan on Homelessness and Outreach and Support Services Initiative for the year ending March 31, 2016; and
- Preparation of federal and provincial corporate income tax returns.

We are proud of our relationship with the Municipality. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. We recognize and are sensitive to your expectations regarding cost management and quality. We will focus our efforts on higher risk areas and coordinate our activities with management and make every effort to achieve audit efficiencies.

We are providing this audit service plan to the Audit Committee (the "Committee") on a confidential basis. It is intended solely for the use of the Committee to assist them in discharging their responsibilities with respect to the Financial Statements and is not intended for any other purpose.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,

A stylized, handwritten signature of "Deloitte LLP" in dark ink.

Chartered Professional Accountants, Chartered Accountants

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# At a glance

As your auditor, we understand that you require Deloitte to perform a high-quality, proactive audit that is delivered with integrity, objectivity and independence.

Our audit addresses financial statement risks through targeted procedures that are responsive to the nature of these risks, including changes in the Municipality and the business environment. Our procedures include identifying and analyzing issues and facts relevant to our audit conclusions and providing objective challenges to management's judgments and assumptions.

Our audit approach involves consideration of the following:

<b>Audit scope and terms of engagement</b>	<p>The scope of this audit will include the statutory audit as discussed in the audit scope section.</p> <p>The audit service plan considers several factors which are discussed in detail in the body of the report including:</p> <ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Internal control matters</li> <li>• Use of the work of experts</li> </ul> <p>The terms and conditions of our engagement are included in our engagement letter, which is to be signed on behalf of the Municipality by management and will be sent separately.</p>
<b>Independence</b>	<p>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 action 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 auditors to the Municipality.</p> <p>We are independent of the Municipality and we will reconfirm our independence in our final report to the Committee.</p>
<b>Materiality</b>	<p>We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement.</p> <p>Materiality levels are determined on the basis of professional judgment and the consolidated budgeted expenses. Our preliminary estimate of materiality for 2015 is \$17,249,000 (2014 - \$17,249,000) based on prior year as the Municipality do not prepare interim consolidated results. Final materiality will be calculated and reported in our year-end report. Component materialities will be reported in our year-end report and will each be based on the actual operations of each component in the group.</p> <p>We will report to the Committee all uncorrected misstatements greater than a clearly trivial amount of \$450,000 (2014 - \$450,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements, if any, be corrected.</p>
<b>Audit risks</b>	<p>Our risk assessment reflects the risks that we have identified within the Municipality and our planned audit response to them.</p> <p>See the risk assessment section for further discussion of identified risks of material misstatement and related audit responses.</p>

<b>Internal control matters</b>	<p>We will obtain an understanding of the internal controls relevant to the audit for the purpose of planning the nature, extent and timing of our audit tests. Although most controls relevant to the audit are likely to relate to financial reporting, not all such controls are relevant to the audit. It is a matter of professional judgment whether a control, individually or in combination with others, is relevant to the audit.</p> <p>An audit of the Financial Statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting ("ICFR").</p> <p>We will communicate to the Committee in writing in our management letter significant deficiencies in internal controls identified during the audit.</p>
<b>Group audit</b>	<p>When designing our audit strategy, we also considered:</p> <ul style="list-style-type: none"> <li>• The financial significance or relative importance of the Regional Municipality of Wood Buffalo Library (the "Library"), Wood Buffalo Housing &amp; Development Corporation ("WBH&amp;DC") and Regional Recreational Corporation of Wood Buffalo ("RRC") (collectively the "controlled entities") to your organization as a whole</li> <li>• The complexity and nature of the operations, internal controls and accounting issues at the Municipality and its controlled entities</li> <li>• The degree of centralization of processes and controls including the extent of relevant enterprise-level controls</li> <li>• The extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods in the Municipality and its controlled entities</li> </ul> <p>Deloitte has been appointed as auditors of all the controlled entities.</p> <p>In auditing the Municipality's Financial Statements, we plan to rely upon the work performed during our statutory audit engagements of the controlled entities included in the government reporting entity. We will forward all findings of all material matters in our final communication to the Committee on the Financial Statements.</p>
<b>Use of the work of experts</b>	<p>Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist our audit engagement teams when dealing with more complex technical, accounting, auditing and reporting issues.</p>
<b>New financial reporting standards</b>	<p>A new financial reporting standard, Section PS 3260, <i>Liability for Contaminated Sites</i>, is applicable for the current year.</p> <p>We will review management's assessment on the impact this standard on the financial reporting for the current year audit.</p>
<b>Audit team</b>	<p>Our audit team is led by Rachel Gosse, our Lead Client Service Partner (LCSP). She is responsible for all services provided to the Municipality.</p> <p>The key audit team members serving the Municipality are presented in Appendix 1.</p>
<b>Audit fees</b>	<p>Our proposed audit fees will be provided to management in our draft engagement letter. Our fee estimate is consistent with our proposal dated July 26, 2011, and have been adjusted based on the final scope of the audit and our final determination of the audit procedures that we consider necessary to enable us to express an opinion on the Financial Statements.</p> <p>Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from the Municipality's staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS.</p>
<b>Significant transactions</b>	<p>We are aware that the Municipality is considering to enter into significant transactions during the year including the proposed Sports and Entertainment Centre. We are working with management throughout the contracting process to assess the potential accounting implications for audit purposes. We will review management's assessment on accounting treatment and related agreements on any significant transaction finalized during the year to ensure these are appropriately accounted for and disclosed in the Financial Statements.</p>

<b>Internal audit (“IA”)</b>	We do not intend to rely on the work performed by the Municipality’s internal audit department; however, we will review the reports issued by IA to the Committee to identify matters of external audit interest and amend our audit approach accordingly.
<b>Complete engagement reporting</b>	<p>Upon the satisfactory completion of our audit, including the receipt of written representations from management, we will provide you with an independent auditor’s report on your Financial Statements.</p> <p>We will also issue other reports to assist you in fulfilling your responsibilities, as required by applicable auditing standards. Appendix 3 summarizes the required communications between Deloitte and the Committee.</p>

# The Deloitte risk-based audit approach

## A consistent approach that supports a dynamic environment

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.



These 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
- Coordinating our activities with external parties and experts

### Understanding your business and accounting processes

Our audit will take into account specific items of particular interest raised by the Committee as well as areas of concern identified by the Committee or management.

## 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.

### Risk assessment

The risks that we have identified to date, and which will be addressed when conducting the audit, are summarized in the risk assessment section. As we perform our audit, we will update our risk assessment and will inform the Committee and management of any significant changes to our risk assessment and any additional risks that are identified.

### Consideration of the risk of fraud

Fraudulent acts include the deliberate failure to record transactions, forgery of records and documents, and intentional misrepresentations made to our audit engagement team. Fraud may include intentional acts by management or employees acting on behalf of the Municipality, as well as employee fraud if management or employees are involved in actions that defraud the Municipality. Deloitte does not assume that management is dishonest nor do we assume unquestioned honesty. Rather, in accordance with Canadian GAAS, we exercise professional scepticism and recognize that the conditions we observe and evidential matter we obtain, including that obtained from prior audit engagements, need to be objectively evaluated to determine whether the Financial Statements are presented fairly in all material respects.

Maintaining an attitude of professional scepticism means that we carefully consider the reasonableness of the responses we receive to our inquiries from those charged with governance, and evaluate other information obtained from them in light of the evidence we obtain during the audit. 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.

Because of the inherent limitations of ICFR, including the possibility of collusion or improper management override of controls, it is possible that material misstatements due to error or fraud may not be prevented or detected on a timely basis. Accordingly, the assurance an auditor provides concerning the lack of misstatements arising from fraud is necessarily lower than the assurance provided concerning those arising from an error.



## 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.

We will assess the design and implementation of general computer controls in the following areas:

1. Data centre and network operations
2. System software acquisition, change and maintenance
3. Program change
4. Access security
5. Application system acquisition, development and maintenance

## 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.

For example, we anticipate performing audit procedures on account balances and disclosures involving significant and complex transactions, such as acquisitions, divestitures or adoption of new accounting pronouncements, as they occur.

## Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of ICFR to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the Financial Statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of ICFR.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of Financial Statements.

We will inform the Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

### **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 threshold has been set at \$450,000), will be reported to management and the Committee. 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 Financial Statements being materially misstated.

## Complete engagement reporting

After the satisfactory completion of appropriate audit procedures, we will provide an audit report on your Financial Statements.

We also provide reports to the Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix 3 summarizes the required communications between Deloitte and the Committee.

Deloitte's client service principles include providing management and the Committee with insights into the condition of the business and offering meaningful suggestions for improvement. We will report these insights and suggestions to the appropriate members of management and/or the Committee for their consideration.

To enable us to determine how well we have achieved our client service objectives, including an assessment of the quality of our audit engagement, we actively solicit feedback from our clients. This feedback will be obtained either through meetings with members of the Committee and management or their completion of questionnaires.

Your feedback enhances our understanding of your expectations of us through your evaluation of our performance. The information you provide helps us refine our client service objectives to ensure that we remain focused, responsive and proactive in meeting your needs while fulfilling our professional responsibilities.

Deloitte enjoys a solid reputation for our **commitment to quality**. Key factors supporting that reputation include:

- A strong tone at the top
- A comprehensive ethics and compliance program
- An uncompromising approach to quality in client service
- Communication of and adherence to professional standards and client service principles
- A mature client feedback program
- A multifaceted approach to monitoring independence
- A robust technical consultation approach
- National office consultation on areas of high risk or that require significant judgment
- Technical training for our professionals
- An annual internal inspection process for audit engagements
- Continuous improvement based on lessons learned and client feedback

## 5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what the Municipality already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data.

Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audit, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of the Municipality's own technologies to gain further efficiencies.

Technology	Description	Benefits
<b>Engagement Management System</b>	Deloitte's audit software, incorporating audit-specific templates, reference materials, support documents and management insights	Rapid and effective electronic transfer of information among the audit team members
<b>Journal Entry Data Analysis Routines ("JEDAR") and Journal Entry Tool ("JET")</b>	Exploratory data analysis (JEDAR) and file interrogation procedures (JET) used to profile journal entry populations, with the objective of identifying journal entries of interest with respect to management override of controls	Helps audit teams focus more effectively on high-risk areas for fraud in journal entry testing analysis, reduces the time necessary to perform profiling and allows for testing that could not have been conducted manually
<b>Deloitte Technical Library</b>	Comprehensive online compilation of accounting and financial disclosure literature allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance	Extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters

# Risk assessment

We compile information from a variety of sources, including discussions with management and the Committee, to identify risks to the Municipality's financial reporting process that may require attention. Our preliminary risk assessment took into account:

- Current business, regulatory and accounting pronouncements and developments
- Key management strategies and business plans
- Prior years' audit results
- Results of procedures relating to internal control
- Areas of significant judgment and risk

During our risk assessment procedures, we identified significant risks that require special audit consideration. These risks, along with our planned responses (including both internal control and financial statement procedures), are listed below. In performing our risk assessment, we have considered the risks identified by management in performing their risk assessment.

Our audit planning activities and our preliminary identification of audit risks enables us to set the scope of our audit and to design audit procedures tailored to the identified risks to financial reporting. The table below sets out significant risks to financial reporting that we identified during our preliminary planning activities. The table also includes 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.

The results of our audit planning and risk assessment drive the scope and timing of the audit procedures.

## Areas of significant risk for 2015

Revenue recognition	
<b>Audit risk</b>	Revenue recognition (presumption that it is a risk of fraud) in the following areas: <ul style="list-style-type: none"> <li>• Recognition of revenues based on the underlying funding agreement</li> <li>• Recognition of developer levies in the incorrect period</li> </ul>
<b>Our proposed audit response</b>	<ul style="list-style-type: none"> <li>• We will review the revenue recognition policy for compliance with Canadian PSAS.</li> <li>• 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.</li> <li>• We will review grant agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period.</li> <li>• We will specifically review provincial and municipal contributions received during the year and ensure the amounts are appropriately recorded.</li> <li>• We will review the developer levies recognized during the year and ensure that they are matched to actual expenses incurred in the year.</li> </ul>

### Risk of management override of controls

<b>Audit risk</b>	<p>Assurance standards include the presumption of a significant risk of management override of controls.</p> <p>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.</p>
<b>Our proposed audit response</b>	<ul style="list-style-type: none"> <li>• We will engage in fraud discussions with certain members of senior management and others and the Committee. We will consider the potential for bias in judgments and estimates including performing retrospective analysis of significant accounting estimates. We will evaluate the business rationale for any significant unusual transactions.</li> <li>• 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.</li> </ul>

### Completeness, accuracy, recording and valuation of tangible capital assets ("TCA")

<b>Audit risk</b>	<p>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.</p>
<b>Our proposed audit response</b>	<ul style="list-style-type: none"> <li>• We will review the Municipality's TCA policies for compliance with Canadian PSAS and consistency of application year over year.</li> <li>• We will review the Municipality's current year transactions, adjustments and related disclosure. Our testing will include, on a sample basis, reviewing amounts capitalized in the current year to ensure only amounts that meet the requirements for capitalization are included. We will also review a sample of items recorded as repairs and maintenance to ensure these amounts are appropriately expensed.</li> <li>• We will review the amortization rates and useful lives determined by management for reasonableness.</li> <li>• We will review management's assessment of indicators of impairment.</li> <li>• We will review general and administrative costs capitalized during the year to assess compliance with Canadian PSAS.</li> <li>• We will test a sample of capital additions recorded as betterments to confirm they are appropriately treated as capital rather than expense in nature.</li> <li>• We will test construction in progress and transfers made to completed TCA and will confirm they are appropriately treated and complete.</li> <li>• 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.</li> <li>• We will review the Municipality's process to ensure completeness of developer assets recorded. We will test a sample of Final Acceptance Certificate issued around year-end to ensure assets are recorded in the appropriate period.</li> <li>• We will review the Municipality's methodology to determine the fair value of contributed assets and test the assumptions in the valuation models.</li> </ul>

### Completeness and accuracy of deferred revenue balances

**Audit risk** 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 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 related revenue has been recognized appropriately.
- We will specifically review federal and provincial transfer payments received during the year to fund specific projects.
- We will review the related funding agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period.

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

**Audit risk**

- 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.
- PS 3260, *Liabilities for Contaminated Sites*, is applicable in the current year. There is a risk that all liabilities and commitments arising due to application of PS 3260 are not recorded and disclosed.

**Our proposed 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 subledger.
- We will review management's process to reconcile and record manual EFTs, 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 that new financial reporting Section PS 3260, *Liabilities for Contaminated Sites*, has on the current year financial reporting, including liabilities and commitments required to be disclosed. Under PS 3260.

As we perform our audit procedures, we will separately communicate any significant changes to the significant risks listed above and the reasons for such changes.

### Consideration of fraud

Misstatements in the Financial Statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the Financial Statements is intentional or unintentional.

The following table explains our respective responsibilities towards fraud.

Your responsibilities	Our responsibilities
<ul style="list-style-type: none"> <li>• The primary responsibility for the prevention and detection of fraud rests with management and the Committee, including the responsibility for establishing and maintaining internal controls over the reliability of financial reporting, ensuring the effectiveness and efficiency of operations, the identification of fraud risks and compliance with applicable laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• We are required to obtain representations from management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.</li> <li>• As independent auditors, we will obtain reasonable, but not absolute, assurance that the Financial Statements as a whole are free from material misstatement, whether caused by fraud or error.</li> </ul>

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 Committee 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 Committee is aware of tips or complaints regarding the Municipality's financial reporting and, if so, the Committee's responses to such tips and complaints. Please refer to Appendix 7 for a copy of this questionnaire.

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



# Audit scope

## Designed to obtain reasonable assurance and address the risks of material misstatements

An audit is designed to search for potential misstatements that, individually or collectively, are material. This is done by determining a specific threshold for each engagement and considering other qualitative factors. The threshold amount is also used to evaluate the significance of uncorrected misstatements that are noted during the audit.

The audit enables us to express an opinion on whether the Financial Statements are prepared, in all material respects, in accordance with Canadian PSAS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the Financial Statements. Our report on the Financial Statements and communications required by Canadian PSAS will be in accordance with our findings.

### Group audit considerations

The audit of the Municipality is considered to be a group audit and therefore we are also required to determine the scope of work required for each controlled entity. Some of the 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
- The extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods 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.

### Internal control matters

We will inform the Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

## Reliance on service organizations

The Municipality employs the following third party service organizations for providing broker and custodian services for investments held by the Municipality that impact financial reporting information:

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

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

As part of our assessment, we will consider the Municipality's internal controls related to the information provided by these organizations.

If our assessment of these reports does not provide us with sufficient appropriate audit evidence, we will be required to perform additional audit procedures to address the risks of material misstatements in the Financial Statements.

## Audit scope uncertainty

Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect the scope, extent and timing of our audit procedures. These circumstances may include, but are not limited to:

- A deterioration in the quality of the Municipality's accounting records during the current year engagement compared to the prior year engagement
- The identification of significant deficiencies in the Municipality's internal control that result in the expansion of our audit procedures
- The identification, during our audit, of a significant level of proposed audit adjustments
- The occurrence of significant new issues or changes, such as:
  - New accounting issues
  - Changes in accounting policies or practices from those used in prior years
  - Events or transactions not contemplated in our budget
  - Changes in the Municipality's financial reporting process or IT systems
  - Changes in the Municipality's accounting personnel, their responsibilities or their availability
  - Changes in auditing standards
  - Changes in the Municipality's use of experts or the specialists and/or their work product does not meet the qualifications that Canadian GAAS require for us to be able to use their work
- Changes in the audit scope caused by events that are beyond our control

If any of these or similar such circumstances arise during the course of our audit, we will discuss them on a timely basis with management and provide the Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Committee.

# Appendix 1 – Audit team

The engagement team that will serve the Municipality provides a balance of continuity among existing members with knowledge of and experience with your organization and new members who will provide fresh perspectives and insights.

The roles and responsibilities of the individuals who lead our audit team are:

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## **Rachel Gosse**

Lead Client Service Partner (LCSP)  
Phone Number: 780-421-3682  
Email address: rgosse@deloitte.ca

Rachel is responsible for coordinating our audit team to ensure we provide high quality, efficient audit services to the Municipality. She has served a number of audit clients in the municipal and public sector and has extensive knowledge of Canadian PSAS.

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## **Assad Khan**

Engagement Manager  
Phone Number: 780-421-3606  
Email address: assakhan@deloitte.ca

Assad is responsible for executing a high-quality audit. He is experienced with accounting and financial reporting in accordance with the recommendations of Canadian PSAS. Assad has served several public sector clients and has detailed knowledge of the Municipality's audit.

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## **Sanjeev Rajani**

Engagement Assistant Manager  
Phone Number: 780-421-3724  
Email address: srajani@deloitte.ca

Sanjeev is responsible for executing a high-quality audit. He has four years' experience with the Municipality and experience with accounting and financial reporting in accordance with Canadian PSAS. He is responsible for daily engagement management.

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## **Jazmin Salazar**

ERS Senior Manager  
Phone Number: 780-421-3789  
Email address: jasalazar@deloitte.ca

Jazmin is responsible for planning and overseeing the work of our internal technology experts, specifically to review the general computer controls that are relevant to the audit. She has been previously involved with our audits and has experience with the Municipality.

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## **Dominik Gaciag**

Audit Senior  
Phone Number: 780-421-3870  
Email address: dgaciag@deloitte.ca

Dominik supervises the audit team in the field and deals with the day-to-day issues that arise. He has three years' experience with the Municipality and experience with other clients in the public sector.

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## Appendix 2 – 2015 Summary audit timeline

This calendar indicates our various procedures and meetings as planned throughout the year:

Activities	Dates
Presentation of 2015 audit plan to the Audit Committee	October 14, 2015
Engagement letter to be submitted to management to sign on behalf of the Mayor and Council	October 15, 2015
Planning meeting with the Municipality's management, as required, to discuss interim/year-end audit and to finalize 2015 audit plans	October 15, 2015
Interim audit procedures to perform testing of the design and implementation of internal controls, substantive procedures and the preparation of confirmations	November 9-20, 2015
Interim audit findings discussed with management	Early January 2016
Commence year-end field work – Financial Statements, Municipal Financial Information Return, LAPP and FCSS	March 7, 2016
Provision of draft independent auditor's report and recommendations to management	April 8, 2016
Presentation of final Financial Statements by management and audit findings to the Audit Committee	April 20, 2016
Presentation of final Financial Statements by management, audit findings and independent auditor's report to the Mayor and Council	April 26, 2016
Issuance of 2015 management recommendation letter	April 27, 2016
Anticipated independent auditor's report date	April 27, 2016
Preparation of the federal and provincial corporate income tax returns	By June 13, 2016

# Appendix 3 – Communication requirements

Required communication	Reference	Frequency	
		Each period the event occurs	Annually
1. Fraud or possible fraud identified through the audit process	CAS 240.40-42	●	
2. Our responsibilities under Canadian GAAS	CAS 260.14		●
3. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> <li>• Timing of the audit</li> <li>• Significant risks, including fraud risks</li> <li>• Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk</li> <li>• 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		●
4. Significant accounting policies, practices, unusual transactions and our related conclusions	CAS 260.16a	●	●
• Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16a		●
5. Our responsibility for other information in documents containing audited Financial Statements any procedures performed and the results			●
6. Consultation outside the engagement team regarding difficult or contentious matters that we believe are relevant to the Committee's oversight		●	●
7. Matters related to going concern	CAS 570.23		●
8. Management judgments and accounting estimates	CAS 260.16a		●
9. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2 CAS 550.27	●	
10. Significant difficulties, if any, encountered dealing with management related to the performance of the audit	CAS 260.16b	●	●
11. Material written communications between management and us, including management representation letters	CAS 260.16c		●

Required communication	Reference		
		Each period the event occurs	Annually
12. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16d	●	
13. Modifications to our opinions	CAS 260.A18		●
14. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A19		●
15. Major issues discussed with management prior to our retention	CAS 260.A.19	●	
16. Illegal or possibly illegal acts that come to our attention	CAS 250.23	●	
17. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the Financial Statements	CAS 265	●	●
18. Uncorrected misstatements and disclosure items	CAS 450.12-13		●
19. Breach of independence	CAS 260.17 and A22	●	

# Appendix 4 – The Deloitte client service commitment

## Seamless and effective delivery focused on your specific needs

The Municipality is important to Deloitte. Your organization is unique and it deserves a customized approach to the services we provide. Our service plan is built on a tailored set of service commitments that guide the delivery of every aspect of our audit services. Our client service assessment, which is central to our philosophy, emphasizes the importance of listening to your expectations, reassessing your needs based on the feedback you provide to us in the assessment process, and responding with actions and results. We strive to continually raise the bar by improving processes and adding value while delivering an effective and efficient audit.

### Our approach to client service excellence


At Deloitte, our objective is to execute our audit in a way that meets our professional standards and also creates a positive client experience.

Our client service principles provide the framework for guiding and coaching members of our engagement team, and identifying our clients' unique preferences regarding the ways they want to work with us. These principles enable our engagement teams to focus on client service excellence.

### Our client service principles

**We will:**

- **make** and meet our commitments to you by...
  - Working with you to clearly define your expectations
  - Delivering what is agreed upon
  - Being easily accessible to you
  - Providing valuable responses to all your inquiries
  - Ensuring timeliness and accuracy in our billings
- **understand** your business and what is important to you by...
  - Anticipating your needs
  - Understanding the unique characteristics of your business industry and operating circumstances

 **provide** value and build trust through technical competence and consistent results by...

- Instilling confidence and trust in the quality of our work
- Providing you with up-to-date professional expertise
- Providing value to your enterprise
- Providing insights into the condition of the business and meaningful suggestions for improvement

 **demonstrate** professionalism through effective interaction and communications by...

- Keeping you informed of project status
- Performing as a well-organized team
- Working collaboratively with you

 provide a **no surprises** experience by...

- Proactively addressing issues
- Providing timely communication of changes to fees
- Effectively managing changes to the service team

At the conclusion of our audit, or at any time during the engagement, we invite you to assess our performance against these principles through our client feedback process.



# Appendix 5 – Deloitte Portal

We strive to exceed your expectations and to leverage Deloitte resources to help you achieve your objectives.

The Deloitte Portal provides our clients and others with fast, direct access to Deloitte knowledge, tools, specialized sites, e-newsletters, webcasts and other external resources in four main areas:

- Financial information
- Corporate governance
- Learning resources
- Periodicals

We have noted that management takes its financial reporting responsibilities seriously. Efficient audits result when clients “get it right” in the first instance. Our audit plan takes into account management’s role in effectively monitoring changes in the business, changes in accounting and financial statement requirements, and other needs as they arise.

Access to the tools available through the Deloitte Portal, such as the financial reporting disclosure checklists and the accounting standards setting activities digests, facilitates the efficient and accurate preparation of financial statements. This helps avoid the need for costly, disruptive corrections resulting from audit findings and enables our audit professionals to focus on the required testing. Through the Deloitte Portal, you will also receive timely communication of needed information and quick access to a wide variety of resources to help your organization accomplish a variety of other tasks in addition to those related to your financial reporting.

Appendix 6 presents an illustrative list of the Deloitte Portal materials most frequently accessed. The top sites visited include those shown below:



**Deloitte Learning Academy** helps you keep up to date with the financial reporting knowledge and tools you need. Available for an annual subscription fee.



**Deloitte Updates** are informative, interactive webcasts conducted by Deloitte professionals to provide executives with new information and discussions about financial reporting and regulatory developments.



**Deloitte's Directors' Series** events are live satellite broadcasts to locations across the country to help Canadian corporate directors keep up with their learning requirements in a time of frequent change and new demands.



**Centre for Corporate Governance** is a web site specifically designed to help directors with their responsibilities.

Access to the Deloitte Portal is literally "a click away" using the following link [www.deloitte.com/ca/portal](http://www.deloitte.com/ca/portal).

# Appendix 6 – Deloitte resources a click away

At Deloitte we are devoted to excellence in the provision of professional services and advice and to focusing on client service. To this end, we have developed numerous resources, which contain relevant and timely information accessible by our clients. Provided below is an overview of these resources, which are available through the Deloitte Portal.

Canadian resources	Audience	Description and frequency
<b>Centre for Corporate Governance</b> <a href="http://www.corpgov.deloitte.ca">www.corpgov.deloitte.ca</a>	<ul style="list-style-type: none"> <li>• Audit committee members</li> <li>• Board members</li> <li>• CEO/CFO</li> <li>• Internal auditors</li> <li>• Legal counsel</li> </ul>	<ul style="list-style-type: none"> <li>• Web site specifically designed to help board members with their responsibilities.</li> </ul>
<b>DeloitteLINK</b> <a href="http://www.deloitte.com/ca/DeloitteLINK">www.deloitte.com/ca/DeloitteLINK</a>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• V-P Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<ul style="list-style-type: none"> <li>• Weekly e-newsletter that helps the finance team to stay on top of standard-setting initiatives.</li> </ul>
<b>Deloitte Update</b> <a href="http://www.deloitte.com/ca/update">www.deloitte.com/ca/update</a>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• V-P Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<ul style="list-style-type: none"> <li>• Learning webcasts offered throughout the year featuring Deloitte professionals discussing critical issues that affect your business.</li> </ul>
<b>Directors' Series</b> <a href="http://www.deloitte.com/ca/DirectorsSeries">www.deloitte.com/ca/DirectorsSeries</a>	<ul style="list-style-type: none"> <li>• Audit committee members</li> <li>• Board members</li> <li>• CEO/CFO</li> <li>• Internal auditors</li> <li>• Legal counsel</li> </ul>	<ul style="list-style-type: none"> <li>• A program that enables Canadian corporate directors to keep up with their learning requirements in a time of frequent change and new demands.</li> <li>• Directors are provided with ready-to-use information and tools to help them discharge their responsibilities.</li> </ul>
<b>On the agenda</b>	<ul style="list-style-type: none"> <li>• Audit committee members</li> <li>• CEO/CFO</li> <li>• Internal auditors</li> <li>• Legal counsel</li> </ul>	<ul style="list-style-type: none"> <li>• Bi-monthly e-newsletter for directors that focuses on recent developments affecting their responsibilities, including the points of view of Deloitte professionals.</li> </ul>
<b>Standard-Setting Activities Digest</b> <a href="http://www.deloitte.com/ca/standards">www.deloitte.com/ca/standards</a>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• V-P Finance</li> <li>• Controller</li> <li>• Financial reporting team</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly online updates on recent developments in standard-setting from a comprehensive list of standard-setting organizations.</li> </ul>

Government resources	Audience	Description and frequency
<b>Public Sector Financial Management Series</b>	<ul style="list-style-type: none"> <li>• CFO</li> <li>• Controller</li> <li>• Financial reporting team</li> <li>• Other accounting professionals</li> </ul>	<ul style="list-style-type: none"> <li>• Seminar series to share thoughts and experiences that you and your finance team can use to navigate the current financial environment.</li> </ul>

# Appendix 7 – Fraud and error questions

Dear Audit Committee members:

**Subject: Audit procedures related to fraud and error**

Under CPA Canada Handbook Canadian Auditing Standard 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, we are required to engage in direct communication with the Audit Committee (the "Committee") with respect to fraud and error.

As part of our audit work on Regional Municipality of Wood Buffalo's (the "Municipality") consolidated financial statements, we would request your response, in your capacity as members of the Committee, to the following questions:

1. Does the Committee have knowledge of any actual, suspected or alleged fraud or error affecting the Municipality?
2. What is the role that the Committee exercises in oversight of:
  - a) Management's processes for identifying and responding to the risks of fraud and error in the Municipality; and
  - b) The internal controls that management has established to mitigate those risks?
3. What is the Committee's understanding of the risks of fraud in the Municipality, including any specific fraud risks identified or account balances or classes of transactions for which a risk of fraud may be likely to exist?

We request a response to the above questions by February 1, 2016. Responses can be in the format of your preference. Please direct your responses to [rgosse@deloitte.ca](mailto:rgosse@deloitte.ca) or to the address noted below:

Deloitte LLP  
2000 Manulife Place  
10180 – 101 Street  
Edmonton AB T5J 4E4  
Attention: Rachel Gosse

Thank you for your co-operation and patience in assisting us to comply with these audit standards.

**[www.deloitte.ca](http://www.deloitte.ca)**

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