

# Strathcona County

2021 Audit Plan

For the year ending December 31, 2021





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November 9, 2021

**Mayor and Council  
Strathcona County**

Dear Members of Council (“those charged with governance”),

We are providing information related to the current year audit plan for Strathcona County [the “County”]. This document outlines the scope of our services and the key considerations that will affect the 2021 audit.

The audit is designed to express an opinion on the 2021 consolidated financial statements. We are currently completing the planning phase of our audit, and have aligned our procedures to consider the County’s current and emerging business risks and evaluate those that could materially affect the consolidated financial statements.

We appreciate that Strathcona County selected Ernst & Young to perform its 2021 audit and are committed to executing an audit that is responsive to your needs and maximizes audit effectiveness, delivering the high quality you expect in the most efficient manner possible.

Very truly yours,

Chartered Professional Accountants

Robert M. Jolley, CPA, CA  
Services provided through Robert Jolley Professional Corporation



**STRATHCONA  
COUNTY**

# 2021 EY Services

## **At the end of the engagement we will express opinions on:**

- ▶ The consolidated financial statements of Strathcona County prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”);
- ▶ The Financial Information Return for the year ended December 31, 2021, prepared for Alberta Municipal Affairs in accordance with Section 277 of the Municipal Government Act;
- ▶ The County’s compliance with the Local Authorities Pension Plan and APEX Pension Plan reporting;
- ▶ The County’s compliance with the Family and Community Support Services Act; and
- ▶ The County’s compliance with the Family Resource Network Operational Grant Agreement.

## **Issue a written communication to:**

- ▶ Management and those charged with governance describing significant deficiencies in internal control or other internal control deficiencies that merit management’s attention identified during our audit, should any be noted.
- ▶ Those charged with governance that comments on the results of the audit and addresses matters that we are required to communicate under our professional standards.

# Audit approach

For purposes of the audit of the consolidated financial statements, our audit scope is developed after considering the inherent and control risks and the effectiveness of the County's internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.

We distinguish between the following strategies:

- ▶ Identify and evaluate controls at the transactions level (controls strategy)
- ▶ Do not identify and evaluate such controls (substantive strategy)

## Audit approach for 2021

- ▶ All accounts of the County were determined to be significant based on preliminary materiality determinations except for the following:
  - ▶ inventories of materials and supplies and prepaid expenses were determined to be insignificant due to their low dollar value and their low susceptibility to material misstatement.
  - ▶ investment interest receivable, deposit liabilities, long term debt and accumulated surplus were determined to be limited risk due to factors such as low annual activity and the non-complex nature of transactions. We will still continue to perform full audit procedures on these accounts.
- ▶ Using our cumulative knowledge of the County's business, including discussions with management, we have established that a fully substantive strategy will yield the most efficient audit approach.

# Responsibility for financial statements

## Management's responsibility for the financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we will consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The detailed terms of our engagements are outlined in our audit engagement letters, which were signed by Ms. Jennifer Cannon, Chief Financial Officer, and other key management personnel in the affected areas, and are available on request.

# Planning materiality

- ▶ Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.
- ▶ Based on the 2021 budget and the County's August 31, 2021 results, we estimate the materiality for the audit of the 2021 consolidated financial statements to be \$11,500,000, which represents 3% of expected expenditures for the year ended December 31, 2021.
- ▶ Should actual results vary significantly from those forecast, the materiality level may be adjusted in order to recognize this change in circumstances.


## Audit timetable

### Timeline



- ▶ Interim fieldwork:  
October 25 to October 29, 2021
- ▶ Year-end fieldwork:  
February 28 to March 18, 2022
- ▶ Approval of consolidated financial statements and report to Council:  
April 26, 2022.

# Areas of emphasis

Our audit procedures emphasize testing areas with the highest risk of misstatement (e.g., those accounts, contracts, processes or transactions where we believe there is the greatest risk of material misstatement to the consolidated financial statements, whether due to error or fraud, including disclosure items). We consider the effects of current market risk factors on the County, and emphasis is also placed on those areas requiring difficult, subjective, or complex determinations by management with heightened professional skepticism. Accordingly, our audit procedures are planned to focus on the following areas:



Topic	Significance	Considerations
<p><b>Revenue recognition</b></p> <ul style="list-style-type: none"><li>▶ Taxation revenue is recorded at the time the tax rates are authorized by County Council and the tax notices are issued.</li><li>▶ Government transfers are recognized in revenue when they are authorized and when eligibility criteria have been met. Under certain circumstances, agreements' criteria may create a deferred revenue liability which is recognized into revenue when criteria are met.</li><li>▶ Development charges must be used for specific purposes and are deferred and recognized in revenue in the period in which the resources are used for the specific purpose(s).</li><li>▶ When appropriate, fees and user charges are deferred and recognized into revenue in the period in which the resources are used for the specified purpose(s).</li></ul>		<ul style="list-style-type: none"><li>▶ We will review the County's method for recognizing revenue and validate whether it is consistent with the prior year, your policies, the related accounting standards and common practice.</li><li>▶ We will update our understanding of the flow of transactions for taxation revenues, government transfer revenues, development charge revenues &amp; fees, and user charge revenues.</li><li>▶ We will perform analytics over the main revenue streams to determine the appropriateness of revenue recognized in the year and if it is within expectation.</li><li>▶ We will confirm significant grant revenues.</li><li>▶ We will ensure that tax revenue is calculated based on tax rates approved by County Council.</li><li>▶ We will perform detailed testing over a sample of revenue transactions to ensure they were correctly recorded and accounted for.</li></ul>

## Areas of emphasis (continued)

Topic	Significance	Considerations
<p><b>COVID 19 impact</b></p> <ul style="list-style-type: none"> <li>▶ The business and economic threats from the coronavirus outbreak continue. Entities are dealing with lost revenue and disrupted supply chains and there has been significant volatility in financial markets. In this context, transparency is key. There is a vital need for reliable information to regain trust in uncertain times, and part of that will be provided through financial reporting. The impact on financial reporting may not be the first thing that comes to mind as a consequence of the pandemic, but there is an important and challenging role here for preparers of financial statements, Council and EY, as your auditors.</li> </ul>		<ul style="list-style-type: none"> <li>▶ Throughout the audit we will consider the impact of COVID 19 including the following: <ul style="list-style-type: none"> <li>▶ The recoverability of the County's accounts receivable</li> <li>▶ Whether indicators of impairment exist related to the County's investments</li> <li>▶ Whether additional disclosures are required in the year-end financial statements</li> </ul> </li> </ul>
<p><b>Tangible capital assets</b></p> <ul style="list-style-type: none"> <li>▶ Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to the acquisition, construction, development, or betterment of an asset. The costs, less residual value of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives.</li> <li>▶ With the implementation of the Strathcona County Business Transformation (SCBT) Project, an assessment will be performed to determine if the costs associated with the project should be expensed or capitalized.</li> </ul>		<ul style="list-style-type: none"> <li>▶ We will update our understanding of the flow of transactions for the tangible capital asset process including the accounting for the costs incurred to date on the SCBT Project.</li> <li>▶ We will review the continuity schedule and test all material additions, transfers, disposals and amortization of tangible capital assets.</li> <li>▶ We will review the write-down analysis performed on the tangible capital assets balance if/when conditions indicate that a tangible capital asset no longer contributes to the County's ability to provide goods or services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value.</li> <li>▶ We will review the costs incurred during the implementation of the SCBT Project and determine if costs should be expensed and/or recorded as an asset and validate whether these are consistent with the related accounting standards and common practice.</li> </ul>



## Areas of emphasis (continued)

Topic	Significance	Considerations
<b>Investments</b> <ul style="list-style-type: none"> <li>▶ The County values investments at amortized cost less amounts written off to reflect a permanent decline in value.</li> <li>▶ If fair value of investments is less than cost, the County must assess whether the impairment is considered other-than-temporary and, if so, recognize the other-than-temporary impairment in the statement of operations.</li> </ul>		<ul style="list-style-type: none"> <li>▶ We will conduct substantive procedures on the amortized cost of the investments and perform confirmation procedures in order to verify the current market value of the investments.</li> <li>▶ Any significant difference between the market value of the investments and their book value will be assessed for impairment to determine whether the decline in value is other-than-temporary.</li> </ul>
<b>Expenses</b> <ul style="list-style-type: none"> <li>▶ In accordance with PSAS, expenses must be recorded in the period in which they are incurred, not in the period in which cash is paid.</li> </ul>		<ul style="list-style-type: none"> <li>▶ We will review the County's method for recognizing expenses and validate whether it is consistent with the prior year, your policies, the related accounting standards and common practice.</li> <li>▶ We will update our understanding the flow of transactions for expenses.</li> <li>▶ We will perform detailed testing over a sample of expenses to ensure they are correctly recorded.</li> <li>▶ We will perform cut-off procedures to gain comfort over completeness of expenses and to ensure expenses are recorded in the appropriate period.</li> </ul>

# Fraud considerations and risk of management override

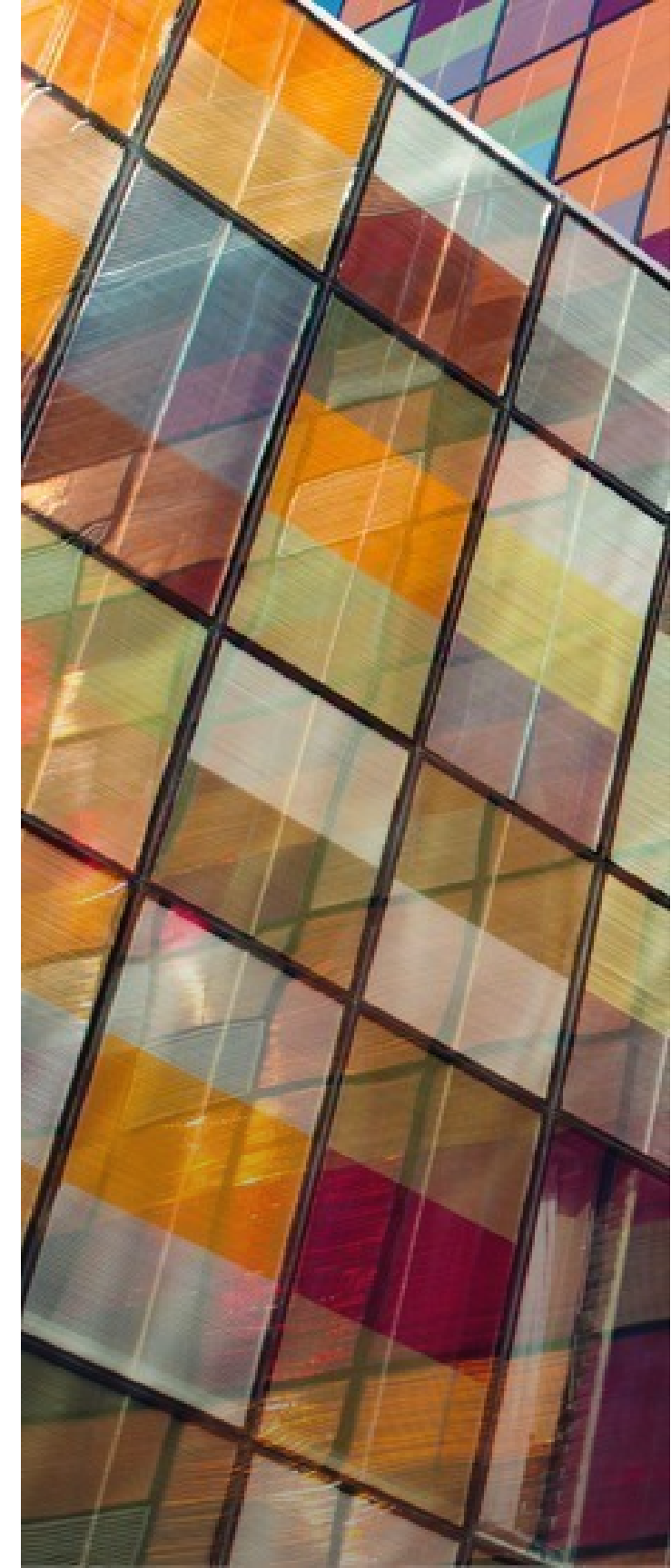
- ▶ We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error.
- ▶ Our audit procedures will include: brainstorming, gathering information to facilitate the identification of fraud risks and performing procedures in the areas where fraud risks are identified including performing procedures required by our professional standards, designed to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).
- ▶ We evaluate the risk of management override using the fraud triangle which includes rationalization, opportunity, and incentive and consider the actions management has taken to respond to those risks.
- ▶ As a result of our audit planning activities, we have not identified any fraud risks aside from the presumed risk of management override. In response to this risk we will review non-standard journal entries around year-end and examine management estimates.

# Inquiries

We perform inquiries related to fraud or error and other matters to help inform our audit strategy and execution of our audit procedures. We would like to be informed of any matters of which you believe we should be aware, including, but not limited to:

- ▶ Your views about the risks of material misstatements due to fraud, including the risks of management override of controls
- ▶ Your knowledge of any actual, alleged or suspected fraud
- ▶ Your awareness of tips or complaints regarding the County's financial reporting, other matters relevant to the audit (such as violations or possible violations of laws or regulations) or any significant unusual transactions
- ▶ How you exercise oversight over the County's assessment of fraud risks and the establishment of controls to address these risks
- ▶ Your understanding of the County's relationships and transactions with related parties that are significant to the County and any concerns related to those relationships or transactions

We understand that your preference will be to communicate these matters to us in writing, consistent with our mutual process last year. We are happy to proceed with that same process this year.





# Appendices

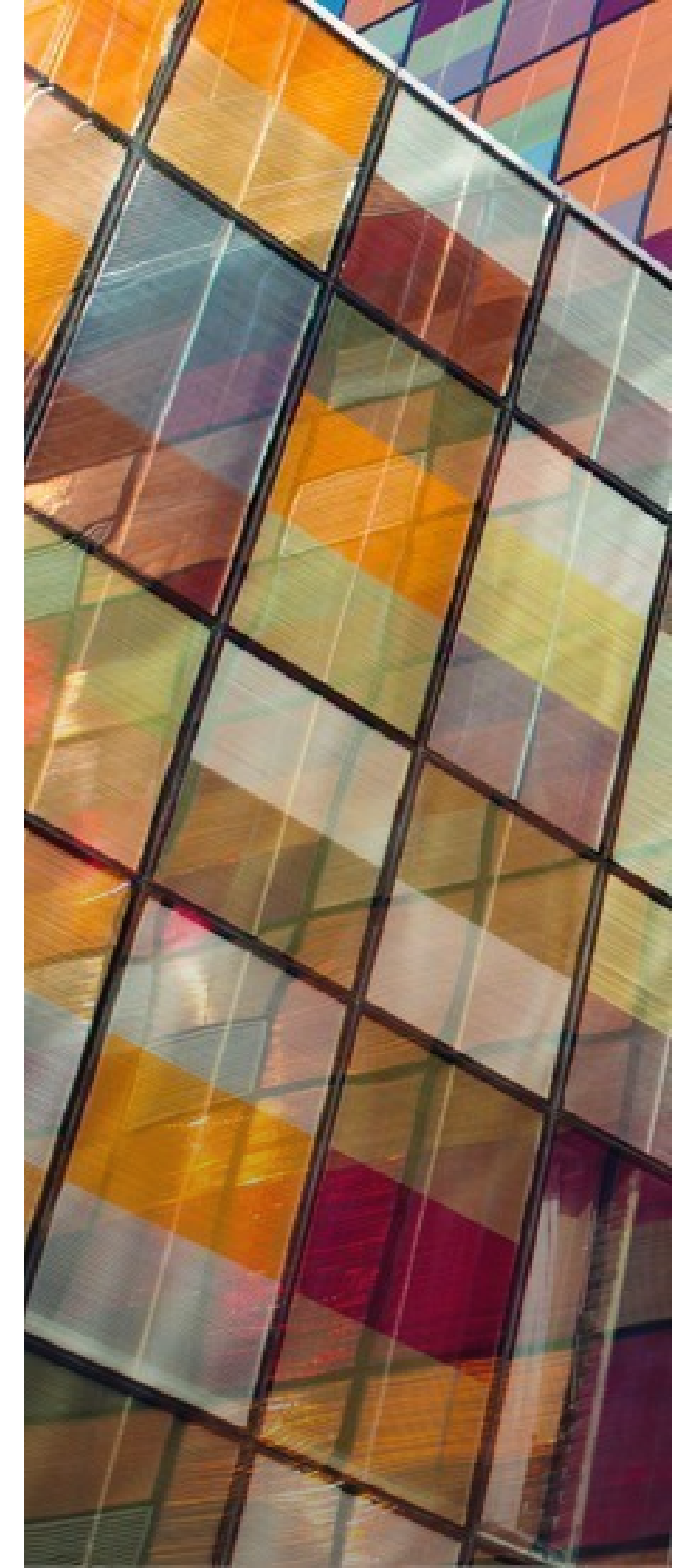
## A Accounting and auditing developments



# Appendix A: Accounting and auditing developments

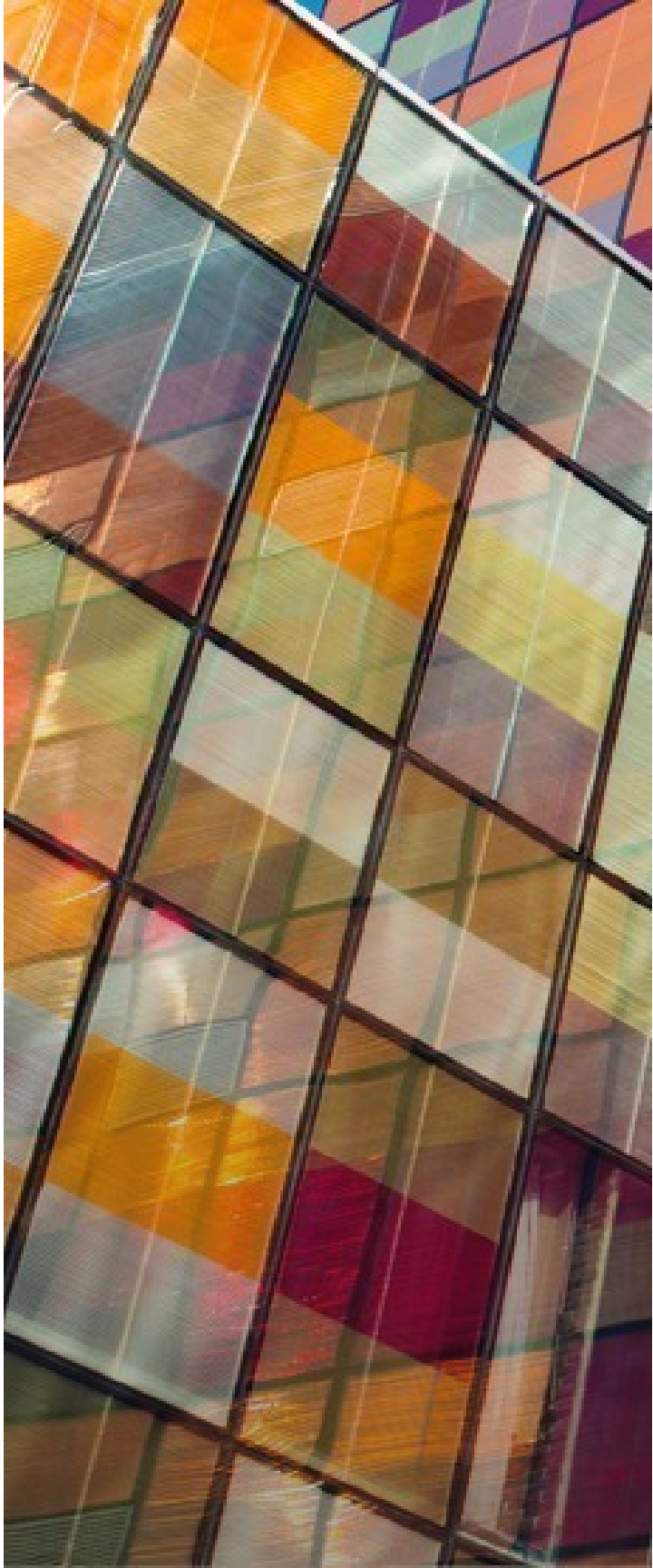
The County will need to assess the impact of the following new standards on its consolidated financial statements. We will work with the County on any arising issues and will review the County's assessment once it is prepared.

	Effective date applicable to the County
<b>PS3280 Asset Retirement Obligations</b> <ul style="list-style-type: none"><li>▶ The new section will require entities to record asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. Asset retirement costs associated with a tangible capital asset controlled by the entity increases the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner. Asset retirement costs associated with an asset no longer in productive use are expensed. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use. Early adoption is permitted.</li></ul>	January 1, 2023
<b>PS3450 Financial Instruments, PS3041 Portfolio Investments, PS1201 Financial Statement Presentation</b> <ul style="list-style-type: none"><li>▶ In March 2018, PSAB approved an extension of the effective date of Sections PS3450, Financial Instruments to fiscal years beginning on or after April 2, 2021. Narrow-scope amendments will be proposed for Section PS3450 to address certain non-hedging accounting issues raised during consultations.</li><li>▶ An Exposure Draft on the narrow-scope amendments proposed for Section PS3450, Financial Instruments.</li></ul>	January 1, 2023



# Appendix A: Accounting and auditing developments (continued)

	Effective date applicable to the County
<p><b>PS3400 Revenue</b></p> <ul style="list-style-type: none"><li>▶ The new section proposes a framework which includes two categories of revenue – exchange transactions or unilateral transactions. Revenue from an exchange transaction is recognized when the public sector entity has satisfied the performance obligation(s). If no performance obligation is present, it would be unilateral revenues. Unilateral revenues are recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to claim on economic resources. Earlier adoption is permitted.</li></ul>	January 1, 2024
<p><b>Public Sector Guideline 8, Purchased Intangibles</b></p> <ul style="list-style-type: none"><li>▶ The new guideline permits recognition of intangible assets that are acquired through an arm’s length exchange transaction between willing parties.</li><li>▶ Purchased intangibles are identifiable non-monetary economic resources without physical substance.</li><li>▶ Purchased intangibles are recognized as assets in financial statements when they meet the asset definition and the general recognition criteria in Financial Statement Concepts, Section PS 1000.</li><li>▶ Application may be retroactive or prospective.</li></ul>	January 1, 2024





### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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### About EY's Assurance Services

Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide a timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audits starts with our 60,000 assurance professionals, who have the breadth of experience and ongoing professional development that comes from auditing many of the world's leading companies.

For every client, we assemble the right multidisciplinary team with the sector knowledge and subject matter knowledge to address your specific issues. All teams use our Global Audit Methodology and latest audit tools to deliver consistent audits worldwide.