

Town of Lake Cowichan

2020 Audit Service Plan
Report to the Mayor and Council
December 31, 2020

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November 12, 2020

Members of the Mayor and Council of the Town of Lake Cowichan

Dear Mayor and Council:

We are pleased to present our Audit Service Plan for the Town of Lake Cowichan ("the Town"). In this plan we describe MNP's audit approach, our engagement team, the scope of our audit and a timeline of anticipated deliverables. We are providing this Audit Service Plan to the Mayor and Council on a confidential basis. It is intended solely for the use of the Mayor and Council and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Our audit will include an audit of the Town's consolidated financial statements for the year ended December 31, 2020, prepared in accordance with Canadian public sector accounting standards. Our audit will be conducted in accordance with Canadian generally accepted auditing standards.

At MNP, our objective is to perform an efficient, high quality audit which focuses on those areas that are considered higher risk. We adhere to the highest level of integrity and professionalism. We are dedicated to maintaining open channels of communication throughout this engagement and will work with management to coordinate the effective performance of the engagement. Our goal is to exceed the Mayor and Council's expectations and ensure you receive outstanding service.

Additional materials provided along with this report includes our Engagement Letter. Our Engagement Letter is the formal written agreement of the terms of our audit engagement as negotiated with management and outlines our responsibilities under Canadian generally accepted auditing standards.

We look forward to discussing our Audit Service Plan with you and look forward to responding to any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and slanted to the right.

MNP LLP
Chartered Professional Accountants



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AUDIT SERVICE PLAN OVERVIEW

To make strategic business decisions with confidence, your stakeholders and the Mayor and Council of the Town need relevant, reliable and independently audited financial information. But that's not all. You need an audit team that can deliver insight beyond the numbers and enhance the Town's strategic planning and implementation processes so you can embrace new opportunities while effectively managing risk. Our audit strategy is risk based, and considers the limitations and opportunities you encounter each day, allowing our recommendations to be implemented with greater ease. Committed to your success, MNP delivers meaningful, reliable financial information to not only help you fulfill your compliance obligations, but also to achieve your key strategic goals.

Our Audit Service Plan outlines the strategy we will follow to provide the Town's Mayor and Council with our Independent Auditor's Report on the December 31, 2020 financial statements.





TOPICS FOR DISCUSSION

We are committed to providing superior client service by maintaining effective two-way communication. Topics for discussion include, but are not limited to:

- Changes to your business operations and developments in the financial reporting and regulatory environment
- Business plans and strategies
- Any other issues and/or concerns
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- The management oversight process
- Your specific needs and expectations

KEY CHANGES AND DEVELOPMENTS

Based on our knowledge of the Town and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed considering these factors.

ISSUES AND DEVELOPMENTS	SUMMARY
 ENTITY SPECIFIC	New Mayor was elected during the year on the resignation of previous Mayor.
 NEW REPORTING DEVELOPMENTS	<ul style="list-style-type: none"> • PS 3280 Asset Retirement Obligations (New) • PS 3450 Financial Instruments (New and Amendment)
 NEW ASSURANCE DEVELOPMENTS	<ul style="list-style-type: none"> • CAS 540 Auditing Accounting Estimates and Related Disclosures (New) • CAS 540 Auditing Accounting Estimates and Related Disclosures (New)
 OTHER	COVID-19

Detailed information on Key Changes and Developments are included as Appendix A.

THE MNP AUDIT APPROACH

The Mayor and Council are responsible for approval of the consolidated financial statements and Town policies, and for monitoring management's performance. The Mayor and Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. The Mayor and Council, together with management, is also responsible for the integrity of the accounting and financial reporting systems, including controls to prevent and detect fraud and misstatement, and to monitor compliance with relevant laws and regulations.

Effective discharge of these respective responsibilities is directed toward a common duty to provide appropriate and adequate financial accountability, and quality financial disclosure.

Key responsibilities of MNP and management are outlined in the Engagement Letter (see attached). More detailed discussion about MNP's audit process is provided in Appendix B.

AUDIT MATERIALITY

Materiality is an important audit concept. It is used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. Specifically, a misstatement or the aggregate of all misstatements in consolidated financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures) is considered to be material if it is probable that the decision of the party relying on the consolidated financial statements, who has reasonable understanding of business and economic activities, will be changed or influenced by such a misstatement or the aggregate of all misstatements.

The scope of our audit work is tailored to reflect the relative size of operations of the Town and our assessment of the potential for material misstatements in the Town's consolidated financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures). In determining the scope, we emphasize relative audit risk and materiality, and consider a number of factors, including:

- The size, complexity, and growth of the Town;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.

The scope of our audit work is tailored to reflect the relative size of operations of the Town and our assessment of the potential for material misstatements in the Town's consolidated financial statements as a whole

Judgment is applied separately to the determination of materiality in the audit of each set of consolidated financial statements (and, if applicable, for particular classes of transactions, account balances or disclosures) and is affected by our perception of the financial information needs of users of the consolidated financial statements. In this context, it is reasonable to assume that users understand that consolidated financial statements are prepared, presented and audited to levels of materiality; recognize uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and consideration of future events; and make reasonable economic decisions based on the consolidated financial statements. The foregoing factors are taken into account in establishing the materiality level.

We propose to use \$245,000 as overall materiality for audit planning purposes.

RISK ASSESSMENT

Our audit process focuses on significant risks identified during the pre-planning and planning and risk assessment stage, ensuring that audit procedures are **tailored to your specific circumstances** and appropriately address those risks.

Based on the preliminary risk assessment procedures performed, we have identified the following significant and high risks which will be addressed during our audit. We have also outlined the proposed audit response to address those risks. We will update our risk assessment as the audit progresses for additional risks identified and will inform management of any additional significant risks identified.

TIMING OF THE AUDIT

Based on the audit planning performed and areas of audit risks identified, the following timelines for key deliverables have been discussed and agreed upon with the council:

KEY DELIVERABLE	EXPECTED DATE
Delivery of December 31, 2020 Audit Service Plan to the Mayor and Council	December 1, 2020
Year-end fieldwork procedures	March 29, 2021 to April 1, 2021
Presentation of December 31, 2020 Audit Findings Report to the Mayor and Council	By May 7, 2021
Presentation of Management Letter to the Mayor and Council	By May 7, 2021
Issuance of Independent Auditor's Report	By May 7, 2021

AUDIT TEAM

In order to ensure effective communication between the Mayor and Council and MNP, we outline below the key members of our audit team that will be responsible for the audit of the Town and the role they will play:

TEAM MEMBERS	CONTACT INFORMATION
Cory Vanderhorst, CPA, CA, Engagement Partner	E: Cory.Vanderhorst, CPA, CA@mnp.ca
Graham Roberts, CPA, CA, Senior Manager	E: Graham.Roberts, CPA, CA@mnp.ca
Bailey Fraser, Audit Senior	E: Bailey.Fraser@mnp.ca
James Kungel, CPA, CA, Tax Specialist	E: James.Kungel, CPA, CA@mnp.ca

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other MNP professionals whose consultation will assist us to evaluate and resolve complex, difficult and/or contentious matters identified during the course of our audit.

Any changes to the audit team will be discussed with you to ensure a seamless process and that all concerned parties' needs are met.



FEEES AND ASSUMPTIONS

DESCRIPTION	2020 ESTIMATE	2019 ACTUAL
Base audit fee as per our fee quote	\$ 18,000	\$ 17,000
Disbursements	\$ 900	\$ 850
Total	\$ 18,900	\$ 17,850

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the engagement partner, so a mutually agreeable solution can be reached.

Invoices will be rendered as work progresses in accordance with the following schedule:

DESCRIPTION	AMOUNT
On delivery of the audit service plan 50% of the estimated fee	\$ 9,000
At the start of year-end field work, 25% of the estimated fee	\$ 4,500
Upon the delivery of the financial statements and independent auditors' report, 25% of the estimated fee	\$ 4,500

APPENDIX A – KEY CHANGES AND DEVELOPMENTS

We would like to bring to your attention the following accounting and auditing developments, which may have some impact on your financial reporting.

ISSUES AND DEVELOPMENTS SUMMARY

NEW REPORTING DEVELOPMENTS

PS 3280 Asset Retirement Obligations (New)

In August 2018, new PS 3280 *Assets Retirement Obligations* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3280 establishes standards on how to account for and report a liability for asset retirement obligations (ARO). As asset retirement obligations associated with landfills are included in the scope of new PS 3280, PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability* will be withdrawn.

The main features of this standard are as follows:

- An ARO represents a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner.
- When an asset is no longer in productive use, the associated asset retirement costs are expensed.
- Measurement of the ARO liability should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date.
- Subsequent measurement of the ARO liability results in either a change in the carrying amount of the related tangible capital asset or an expense. The accounting treatment depends on the nature of the remeasurement and whether the asset remains in productive use.
- The best method to estimate the liability is often a present value technique.

This standard is effective for fiscal years beginning on or after April 1, 2021. Early adoption is permitted.

PS 3450 Financial Instruments (New and Amendment)

In June 2011, the Public Sector Accounting Board (PSAB) issued new PS 3450 *Financial Instruments*. The new standard establishes requirements for recognition, measurement, derecognition, presentation and disclosure of financial assets and financial liabilities, including derivatives. The main features of the new standard are:

- Financial instruments are classified into two measurement categories: fair value, or cost or amortized cost.
 - Almost all derivatives, including embedded derivatives not closely related to the host contract, are measured at fair value.
 - Portfolio investments in equity instruments quoted in an active market are measured at fair value.
 - Other financial assets and financial liabilities are generally measured at cost or amortized cost.
 - An entity may elect to measure any group of financial assets or financial liabilities (or both) at fair value when the entity has a risk management or investment strategy to manage those items on a fair value basis.
- Remeasurement gains and losses on financial instruments measured at fair value are reported in the statement of remeasurement gains and losses until the financial instrument is derecognized.
- Budget to actual comparisons are not required within the statement of remeasurement gains and losses;
- Financial liabilities are derecognized when, and only when, they are extinguished.
- Financial assets and financial liabilities are only offset and reported on a net basis if a legally enforceable right to set off the recognized amounts exists, and the entity intends to settle on a net basis or realize/settle the amounts simultaneously.

In May 2012, the transitional provisions for this Section were amended, effective at the time the standard is initially applied, to clarify that the measurement provisions are applied prospectively. Adjustments to previous carrying amounts are recognized in opening accumulated remeasurement gains or losses. Additionally, a new transitional provision has been added that applies to government organizations transitioning from the standards in Part V of the CPA Canada Handbook – Accounting with items classified as available for sale. Accumulated other comprehensive income (OCI) from items classified as available for sale is recognized in accumulated remeasurement gains or losses on transition.

PS 3450 was to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. In the period that a public sector entity applies PS 3450, it also applies PS 1201, PS 2601 and PS 3041. Early adoption is permitted.

APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

NEW ASSURANCE DEVELOPMENTS

CAS 540 Auditing Accounting Estimates and Related Disclosures (New)

In March 2019, the Auditing and Assurance Standards Board (AASB) revised and replaced CAS 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. The revised CAS 540 incorporates changes to establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

This revised CAS:

- Introduces the concept of inherent risk factors, including estimation uncertainty, complexity, subjectivity and others;
- Introduces a separate assessment of inherent risk and control risk for accounting estimates;
- Explicitly recognizes the spectrum of inherent risk;
- Enhances requirements for risk assessment procedures related to obtaining an understanding of the entity and its environment, including internal control;
- Introduces objectives-based work effort requirements to design and perform further audit procedures to respond to assessed risks of material misstatement;
- Enhances the “stand-back” requirements by adding an evaluation of corroborative and contradictory audit evidence obtained regarding the accounting estimates;
- Enhances requirements to obtain audit evidence about whether the disclosures are reasonable; and
- Includes a requirement to consider matters regarding accounting estimates when communicating with those charged with governance.

As a result of issuing revised CAS 540, the following standards have been amended to clarify the auditor’s responsibilities regarding auditing accounting estimates and related disclosures:

- CAS 500 *Audit Evidence*;
- CAS 700 *Forming an Opinion and Reporting on Financial Statements*; and
- CAS 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*.

Further editorial changes have also been made to other standards as a consequence of revising CAS 540.

The revised CAS 540 is effective for audits of financial statements for periods beginning on or after December 15, 2019. Earlier application is permitted.

IMPACT OF COVID-19 ON OUR AUDIT

MNP’s COVID protocols are based on recommendations by the Province of British Columbia. At the date of this Audit Service Plan we are adhering to the following:

Social Distancing;
No Non-Essential Attendance at External Business Development, Conferences or Training;
No Non-Essential Business Travel and;
International Travel - Self-Isolation for 14 days.

Wherever possible, we use our Client Portal website to facilitate transfer of documents and requests for information. This allows for ease of sharing documents without a file size restriction, while maintaining security and confidentiality over your documents and information. During the height of COVID, we performed our audits remotely, using email, phone, and the Client Portal to share information. Meetings were held virtually on a variety of platforms, including Teams and Zoom, and we were able to complete and deliver our usual high-quality audits.

In the current “reopening” scenario, we have started doing fieldwork visits again. Before our team members attend field work, we will be sending out a questionnaire to ascertain if it is safe for our team to be onsite as well as to learn your current COVID protocols. The safety of your team and ours is paramount at all times. All team members will be apprised of the Town’s protocols before we arrive onsite. If the Province increases restrictions related to COVID we are prepared to perform field work remotely.

APPENDIX B – THE AUDIT PROCESS

OUR PLAN

Our overall audit strategy is risk-based and controls-oriented. Assessment and identification of risk is performed continuously throughout the audit process. We focus on the risks that have a potential impact on the financial accounting systems and subsequent financial reporting.

Our overall audit strategy does not, and is not intended to involve the authentication of documents, nor are our team members trained or expected to be experts in such authentication. Unless we have reason to believe otherwise, we accept records and documents as genuine. The subsequent discovery of a material misstatement resulting from fraud does not, in and of itself, indicate a failure to comply with Canadian generally accepted auditing standards.

AUDIT PROCEDURES


To meet our responsibilities in accordance with Canadian generally accepted auditing standards, our audit examination includes:

- Obtaining an understanding of the entity and its environment, including its controls, in order to identify and assess the risk that the consolidated financial statements contain material misstatements due to fraud or misstatement;
- Assessing the adequacy of and examining, on a test basis, the key controls over significant transaction streams and over the general organizational and computer environments;
- Assessing the systems used to ensure compliance with applicable legislative and related authorities pertaining to financial reporting, revenue raising, borrowing, and investing activities;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the appropriateness and consistency of accounting principles used and their application;
- Assessing the significant estimates used by management; and,
- Assessing the entity's use of the going concern basis of accounting in the preparation of the consolidated financial statements.

As part of our planning process, we will also undertake to inform the Mayor and Council of concerns relating to management's implementation and maintenance of controls, and the effects of any such concerns on the overall strategy and scope of the audit. These concerns might arise from the nature, extent and frequency of management's assessments of controls in place to detect fraud and misstatement, and of the risk that the consolidated financial statements may be misstated; from a failure by management to appropriately address significant deficiencies in controls identified in prior audits; and, from our evaluation of the Town's control environment, and management's competence and integrity.

APPENDIX B – THE AUDIT PROCESS (continued from previous page)

OVERALL RELIANCE

CONTROL RELIANCE LEVEL	LOW/NONE	MODERATE	HIGH
DESCRIPTION	Where we cannot rely on controls because they are weak or absent, or where it is deemed to be more efficient to carry out a high level of direct substantive tests of transactions and balances. Audit evidence is primarily obtained through detailed verification procedures and sufficient substantive tests of details and transactions.	Where there are some deficiencies in systems application or procedural controls, or where it is deemed to be inefficient to test systems application controls, but where we can test and rely on the management monitoring systems in place to detect and correct material misstatements in the financial reporting systems. Testing of controls is supplemented with a moderate level of substantive tests of details and transactions.	Where a high degree of control is in place in the areas of management monitoring controls AND systems application and procedural controls. Our audit work focuses on testing both management monitoring and systems application and procedural controls, and is supplemented with a low level of substantive tests of details and transactions.
PLANNED RELIANCE		—	—

For the December 31, 2020 audit, we are planning to place low reliance on the Town's accounting systems. This level of reliance is consistent with the prior year, and will involve mainly substantive tests of transactions and balances.

The amount of substantive work will be reduced for cycles where there are controls in place that MNP can test and rely on.

As part of our audit work we will update our understanding of the entity and its environment, including the controls relevant to our audit of the principal transaction cycles, sufficient to identify and assess the risks of material misstatement of the consolidated financial statements resulting from fraud or misstatement. This will be accomplished through inquiries with management and others within the entity, analytical procedures and observation and inspection. Furthermore, we will consider whether effective controls have been established to adequately respond to the risks arising from the use of IT or manual systems and test the operation of those controls to an extent sufficient to enable us to reduce our substantive work. Our review of the Town's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.



Although we will provide the Mayor and Council with any information about significant deficiencies in internal control that have come to our attention, we may not be aware of all the significant deficiencies in internal control that do, in fact, exist.

APPENDIX B – THE AUDIT PROCESS (continued from previous page)

INHERENT LIMITATIONS IN THE AUDITING PROCESS

An auditor cannot obtain absolute assurance that material misstatements in the consolidated financial statements will be detected due to factors such as the use of significant judgment regarding the gathering of evidence and the drawing of conclusions based on the audit evidence acquired; the use of testing of the data underlying the consolidated financial statements; inherent limitations of controls; and, the fact that much of the audit evidence available to the auditor is persuasive, rather than conclusive in nature.

Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. While effective controls reduce the likelihood that misstatements will occur and remain undetected, they do not eliminate that possibility. Therefore, the auditor cannot guarantee that fraud, misstatements and non-compliance with laws and regulations, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

The likelihood of not detecting material misstatements resulting from management fraud is greater than for employee fraud, because management is in a position to manipulate records, present fraudulent information or override controls.

We will inform the appropriate level of management or the Mayor and Council with respect to identified:

- Misstatements resulting from errors, other than clearly trivial misstatements;
- Fraud, or any information obtained that indicates that fraud may exist;
- Evidence obtained that indicates non-compliance or possible non-compliance with laws and regulations, other than that considered inconsequential;
- Significant deficiencies in the design or implementation of controls to prevent and detect fraud or misstatement; and
- Related party transactions that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

Our concern as auditors is with material misstatements, and thus, we are not responsible for the detection of misstatements that are not material to the consolidated financial statements taken as a whole.

APPENDIX C – AUDITOR INDEPENDENCE

AUDITOR INDEPENDENCE

An essential aspect of all our services to the Town is an independent viewpoint, which recognizes that our responsibilities are to the Mayor and Council. While the concept of independence demands a questioning and objective attitude in conducting our audit, it also requires the absence of financial or other interests in the Town. In accordance with our firm's policy, and the Rules of Professional Conduct, which govern our profession, neither MNP nor any of its team members assigned to the engagement or any of its partners, are permitted to have any involvement in or relationship with the Town that would impair independence or give that appearance. As auditors, we subscribe to the highest standards and are required to discuss the auditor's independence with the Mayor and Council on an annual basis. Under the standard an auditor shall:

- Disclose to, the Mayor and Council in writing, all relationships between the auditor and the Town that in the auditor's professional judgment may reasonably be thought to bear on our independence;
- Discuss the auditor's independence with the Mayor and Council.

During the course of the audit, we will communicate any significant new matters that come to our attention that, in our professional judgment, may reasonably be thought to bear on our independence.

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About MNP LLP

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