

To: Corporate and Finance Services Committee

From: Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Report Number: CF-24-07

Date of Report: January 31, 2024

Date of Meeting: February 5, 2024

Subject: 2023 External Audit Service Plan

Ward: All Wards

File: 03-05

1.0 Purpose

The purpose of this report is to provide Council with the External Auditor's Audit Service Plan for the 2023 audit of the City's Consolidated Financial Statements.

2.0 Recommendation

That the Corporate and Finance Services Committee recommend to City Council:

That Report CF-24-07 concerning the 2023 External Audit Service Plan, dated January 31, 2024 be received for information.

3.0 Executive Summary

As a requirement of the Municipal Act, 2001 (section 296 (1)), municipalities shall appoint an Auditor licensed under the Public Accounting Act 2004. The Auditor is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. The City's current External Auditor is Deloitte LLP (Deloitte).

In preparation for the 2023 audit, Deloitte has provided the City with an Audit Service Plan, which outlines their planned scope of work, areas of audit focus and other relevant details related to the audit.

Attached to this report is the Audit Service Plan as Confidential Attachment 1.

4.0 Input From Other Sources

Deloitte LLP

5.0 Analysis

The purpose of an audit is to provide reasonable assurance that the financial statements are free from material misstatements. The City's annual audit typically occurs in late March/early April.

The 2023 external audit for the City of Oshawa, the City's Trust Funds and an examination of the books and records for the Oshawa Public Library Board will commence on April 8, 2024 and requires approximately 2 weeks of fieldwork performed by Deloitte staff.

The 2023 year end audit will take place both on-site and remotely. Deloitte's audit technology includes various technology based tools utilized by the auditors and a secure, online portal that allows City staff to upload documents and feedback in response to auditor's requests. This has resulted in an efficient and effective transfer of electronic files and a more streamlined audit process.

5.1 Audit Scope

The audit will include the examination of the consolidated financial statements for the City of Oshawa, the City's Trust Funds, and an examination of the books and records for the Oshawa Public Library Board.

The Audit Service Plan considers several factors including risk assessment, internal control matters and the use of the work of experts.

An audit involves the examination of books and records to provide reasonable assurance that they are free from material misstatements. The estimated materiality threshold for the City's consolidated financial statements is \$6.0 million. Some of the factors Deloitte considers in determining the audit scope include:

- The existence of significant risks;
- A consideration of significant accounts and disclosures using materiality levels that are appropriate to support an audit opinion of the Financial Statements;
- The complexity and nature of the operations, internal controls and accounting issues;
- The degree of centralization or decentralization of processes and controls, including the extent of relevant enterprise-level controls, and
- The extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods.

5.2 Risk Assessment

The initial risk assessment performed by Deloitte to complete the Audit Service Plan takes into account key business developments and transactions, 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, and areas of significant judgement and risk.

Deloitte identified risks that require specific audit consideration, as outlined in the next section of this report. Audit planning activities and preliminary identification of audit risks enables Auditors to set the scope of the audit and to design audit procedures tailored to the identified risks in the financial report.

5.3 Audit Risk/Focus for 2023

The identified areas of significant risk that require special audit consideration are as follows:

- Revenue recognition – a significant risk of fraud can be directly linked to improper revenue recognition (both earned and deferred revenue). Significant revenue sources that will be reviewed include property tax, user charges, licenses and permits, assumed assets, restricted contributions (i.e. development charges, Canada Community-Building Fund, conditional grants, etc.) and Tribute Communities Centre revenues. Deloitte will test the design and implementation of controls in these revenue streams and perform substantive analytic procedures and/or detailed testing to ensure revenue has been recognized in the appropriate fiscal period.
- Management override of controls – Management is in a unique position to perpetrate fraud because of management’s ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Deloitte will engage in periodic fraud discussions with certain members of senior management to evaluate the City’s’ fraud risk assessment, evaluate the business rationale for any significant unusual transactions and consider entity-level internal controls and internal controls over the closing and reporting process.

5.4 Engagement Report

After the satisfactory completion of appropriate audit procedures, Deloitte will provide an audit report for the City’s Financial Statements to the Corporate and Finance Committee as required by applicable auditing standards.

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. These insights and suggestions will be reported to the appropriate members

5.5 Audit Service Plan

As the Audit Service Plan provided by Deloitte contains external third party proprietary confidential information, the full Audit Service Plan document received from Deloitte attached to this report is confidential.

6.0 Financial Implications

There are no financial implications arising from the recommendation of this report.

7.0 Relationship to the Oshawa Strategic Plan

This report supports the Oshawa Strategic Plan goals of Economic Prosperity & Financial Stewardship and Accountable Leadership.



Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department