

To: Finance Committee

From: Stephanie Sinnott, Commissioner,
Finance Services

Report Number: FIN-22-09

Date of Report: February 9, 2022

Date of Meeting: February 14, 2022

Subject: 2021 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 2021 audit of the City's Consolidated Financial Statements.

2.0 Recommendation

That the Finance Committee recommend to City Council:

That Report FIN-22-09 concerning the 2021 External Audit Service Plan, dated February 9, 2022 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 2021 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.

The Audit Service Plan is attached to this report 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 2021 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 March 21, 2022 and requires approximately 2 weeks of field work performed by Deloitte staff.

In the past, the work performed by Deloitte staff has been on-site however due to COVID-19, the 2019 and 2020 audits were performed remotely. It is planned that the 2021 audit will also take place remotely. Deloitte's secure, online portal allows City staff to provide data samples, files, documents and feedback as requested by the auditors for the audits. The remote audits have resulted in an efficient and time saving process.

With the utilization of technology and digitization of paper files over the last few years, staff have retained documents electronically, where possible. These initiatives have resulted in the efficient and effective transfer of internal and external files, which is important for external audits and aligns with the City's continuous improvement framework.

5.1 Audit Scope

The City's 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 materiality threshold for the City's consolidated financial statements is \$5,300,000. 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 to financial report.

5.3 Audit Risk/Focus for 2021

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

- Revenue recognition – a significant risk of fraud can be directly linked to improper revenue recognition (both earned revenue and deferred revenue). Significant revenue sources that will be reviewed include property tax revenue, contributions from developers, revenue from assumed assets, grant revenue, and related deferred revenue. Deloitte will test the design and implementation of controls in these revenue streams and perform substantive analytic procedures and detailed testing to ensure revenue has been recognized in the appropriate fiscal accounting 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.
- Accounting estimates - prepared by management requiring significant judgement and assumptions. Major estimates contained in the City's financial statements include allowance for significant property tax appeals, contingent liabilities, estimated accrued liabilities, and employee future benefits. Deloitte will perform specific audit procedures on these estimates to assess the appropriateness of the rationale and related calculations.

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 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 of management and/or the Committee for their consideration.

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.

A handwritten signature in black ink, appearing to read 'S. Sinnott', with a long horizontal line extending to the left.

Stephanie Sinnott, Commissioner,
Finance Services