
Subject: 2023 External Audit Planning Report

Report to: Audit Committee

Report date: Monday, September 18, 2023

Recommendations

1. That this report **BE RECEIVED** for information

Key Facts

- The purpose of this report is to share the Deloitte audit plan for the December 31, 2023, consolidated audit and March 31, 2024, fiscal programs.
- The requirement for an annual audit is established in the Municipal Act, S.O. 2001, c paragraph 294.1 through 296.1.
- Deloitte's initial five-year agreement with the Niagara Region to provide auditing services ended the fiscal year ending March 31, 2021. As per Report AC-C 4-2021, Audit Committee and Council approved an extension of the audit services contract with Deloitte for an additional two-year term to leverage remote audit strategies in place during the pandemic. An additional one-year extension was granted as per Report AC-C 9-2023, for efficiency in auditing new Niagara Transit Commission and new accounting standards coming into effect in the year, therefore Deloitte will continue to provide auditing services until the fiscal year ending March 31, 2024.
- The first-time inclusion of the Niagara Transit Commission (NTC) in the consolidated financial statements of the Niagara Region and the adoption of the new Asset Retirement Obligations (ARO) accounting standard significantly increases the amount of time and level of support required from finance and departmental staff for the 2023 audit and increases the risk of not meeting audit timelines.

Financial Considerations

The consolidated financial statements will be prepared in compliance with legislation and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of Chartered Professional Accountants of Canada. Upon completion of the 2023 Annual Report, the audited financial statements will be available to the public on the Niagara Region's website:

[Annual and Quarterly Financial Reports](https://www.niagararegion.ca/government/budget/finance/default.aspx)

(<https://www.niagararegion.ca/government/budget/finance/default.aspx>)

The audit fees for 2023/2024 are estimated at \$183,000. In addition, one-time audit fees relating to the implementation of the ARO standard are estimated to be \$15,000 - \$25,000. As disclosed in Report AC-C 9-2023, the estimated audit fees for 2022/2023 were \$173,600. The 2023/2024 estimated fees include the audit of the Niagara Region's consolidated financial statements, program-specific audits required by various Ministries and other reports. It does not include the fees for an audit of the Niagara Regional Police Services or the Niagara Region Police Services special bank as that will be approved and presented to their Board as required. The audit of the consolidated financial statements has been budgeted within the Corporate Services department and the audit fees for program specific audits have been budgeted within the respective program areas.

Analysis

The audit planning report is a communication provided to Audit Committee to inform the Committee of the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and timing of the external audit. It also provides Audit Committee with the opportunity to assess the audit plan and communicate any concerns to Deloitte prior to the commencement of the audit, which is scheduled to begin in December.

The Audit Service Plan (Appendix 1 to Report AC-C 14-2023), applies to the audit of the Niagara Region consolidated financial statements for the fiscal year ending December 31, 2023. The report also applies to program-specific audits completed annually due to provincial requirements (as in the case of provincially funded programs), or in certain situations where audits or reviews are performed to ensure that an independent audit or review report on those operations is provided to appropriate oversight body.

The first-time inclusion of NTC in the consolidated financial statements of the Niagara Region involves the initial recognition of the various assets and liabilities that were assumed by the Niagara region on January 1, 2023 from the previous transit operators. This is a significant undertaking that requires substantial estimates, assumptions, reconciliations, and disclosure requirements that are incremental to the audit for 2023 and will require significant support from staff.

Similarly, the new ARO standard requires a significant investment of time on the part of Finance to engage with all departmental asset managers to identify where any legal obligations may exist that impose a financial obligation upon retirement of the asset. These obligations may be due to legislation for example related to designated substance or by way of a legal agreement, for example a lease that calls for leasehold improvements to be removed at expiry. Staff must identify, estimate, record and report the Region's liability associated with these obligations to be compliant with the new standard. The Region has been working through this process since the start of the year. Given the size and nature of the various assets held by the Niagara Region impacted by the standard, a significant amount of staff time and resources continues to be required to implement the standard, educate the organization, amend policy and procedures where necessary, modify systems and support the incremental audit effort for the adoption of the standard.

Alternatives Reviewed

The consolidated financial statements are prepared using Public Sector Accounting Standards and therefore no alternative is available.

Relationship to Council Strategic Priorities

The preparation and audit of the consolidated financial statements of the Niagara Region is a key component of the Niagara Region's overall system of control over the reliability of financial reporting, which supports the Council Strategic Priority of being an Effective Region.

Other Pertinent Reports

- AC-C 4-2021 Appointment of Auditors
- AC-C 9-2023 Appointment of Auditors

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Chief Administrative Officer

This report was prepared in consultation with Helen Furtado, Director, Financial Management & Planning/Deputy Treasurer

Appendices

Appendix 1 2023 External Audit Service Plan



Regional Municipality of Niagara
2023 Audit service plan

For the year ending December 31, 2023

August 15, 2023

Private and confidential

Members of the Audit Committee
Regional Municipality of Niagara
1815 Sir Isaac Brock Way
Thorold ON L2V 4T7

2023 Audit service plan

Dear Audit Committee Members:

We are pleased to provide you with our audit service plan for the Regional Municipality of Niagara (“the Region”) for the year ending December 31, 2023. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, and our team.

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of professionals. Our professionals will continue providing you with best practices and insights to face the increasingly complex array of issues and challenges encountered by the Region.

Our audit will include the following, as at, and for the year ending December 31, 2023:

- An audit of the Region’s consolidated financial statements, prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”);
- An audit of the financial statements of Niagara Regional Housing (“NRH”), prepared in accordance with PSAS;
- An audit of the financial statements of the Regional Municipality of Niagara Trust Funds (the “Trust Funds”), prepared in accordance with Canadian accounting standards for not-for-profit organizations;
- An audit of the financial statements of the Regional Municipality of Niagara Sinking Funds (the “Sinking Funds”), prepared in accordance with PSAS; and
- An audit of the various agencies, boards, commissions, and programs (the “Programs”).

Herein after, collectively referred to as the “Financial Statements”.

This report has been provided to the Audit Committee (the “Committee”) on a confidential basis. It is intended solely for the use of the Committee to assist you in discharging your responsibilities with respect to the audit of 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,

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

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Executive summary

Audit scope and terms of engagement

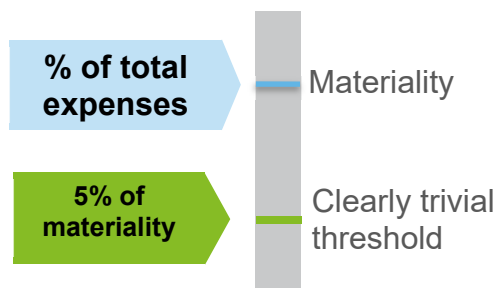
We have been engaged to perform the audits of the financial statements of the Region, NRH, the Trust Funds, Sinking Funds, and to perform various audits on the Programs (collectively, the “Region”) prepared in accordance with Canadian public sector accounting standards (“PSAS”) as at, and for the year ending December 31, 2023. Our audit will be conducted in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”).

The terms and conditions of our engagement are described in the Master Services Agreement for Professional Services dated November 8, 2016 and Confirmation of Changes letters dated May 15, 2017, January 30, 2019, November 12, 2020, and February 10, 2022.

Audit risks

- | | |
|---|--|
| 1 | Revenue and deferred revenue amounts (Region) |
| 2 | Tangible capital assets (Region) |
| 3 | Year-end accruals and other estimates (Region) |
| 4 | Year-end cut off (Region) |
| 5 | Management override of controls (Region/NRH) |
| 6 | Tenant and other receivables/revenue (NRH) |
| 7 | Long-term debt (NRH) |
| 8 | Adoption of new PSAS accounting standards |
| 9 | Niagara Transit Commission |

Materiality



Our materiality for the year ending December 31, 2023 will be determined by applying professional judgment, on the basis of total expenses.

We will report to the Committee uncorrected misstatements greater than our current year clearly trivial amount (5% of materiality).

Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Enquiry of those involved in the financial reporting process about inappropriate or unusual activity.
2. Testing a sample of journal entries throughout the period as well as adjustments made at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.
5. Evaluating whether the judgements and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask the Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Region and their role in the oversight of management's antifraud programs.

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

Use of work of specialists

The Region employs an actuary in their determination of the Region's post-employment benefits.

We will review and test any data and assumptions used, ensure the disclosure in the financial statements is adequate, and that the actuary is in good standing with the Canadian Institute of Actuaries.

We also intend to use the work of the Region's specialist to determine the calculation of the Region's post closure landfill liability and liability for contaminated sites determined in accordance with PSAS 3260.

The Region employs specialists to assist in the adoption of new accounting standards relating to asset retirement obligations.

We will review and test any data and assumptions used, ensure the disclosure in the financial statements is adequate, and that the specialists are in good standing with any applicable regulating bodies.

Audit risks

During our risk assessment, we identified some areas of audit risks that will require special audit consideration. These areas of risks, together with our planned responses, are described below.

The following tables set out certain areas of audit risk that we identified during our preliminary planning activities, including 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 Region.

Region of Niagara

Revenue and deferred revenue amounts*

Audit risk

Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition.

This represents a fraud risk for the 2023 audit.

Our proposed audit response

- We will evaluate the design and implementation of controls relating to revenue.
 - We will perform substantive testing to determine if restricted contributions (i.e., development charges, gas tax, conditional grants, etc.) have been recognized as revenue in the appropriate period.
-

Tangible capital assets

Audit risk

Appropriate accounting and disclosure of tangible capital assets.

Our proposed audit response

- We will test assumptions used in determining completeness, valuation, recording and cut-off of additions and disposals, and
 - We will test the calculations of amortization.
-

Year-end accruals and other estimates (including salaries, employee future benefits, contaminated sites, and allowance for doubtful accounts)

Audit risk

Estimates require management judgments and assumptions.

Our proposed audit response

- We will obtain documentation on management’s controls over accounting estimates.
- We will review and assess the consistency of major assumptions used to develop significant accounting estimates.
- We will compare actual historical experience to models employed in such calculations.
- We will obtain calculations from experts for accruals such as employee future benefit liability, and assess assumptions and data used to prepare the report.
- We will review actual outcomes of prior year estimates.

Year-end cut off

Audit risk

Determine if cut-off of revenues and expenses is appropriate.

Our proposed audit response

- We will perform substantive testing on accounts payable, accrued liabilities, deferred revenue and accounts receivable, and
 - We will test disbursements subsequent to year-end.
-

Management override of controls* (Region/NRH)

Audit risk

Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant audit risk.

Our proposed audit response

- We will discuss fraud with management.
- We will ask the Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Region and their role in the oversight of management's antifraud programs.
- We will test a sample of journal entries made throughout the period and adjustments made at the end of the reporting period.
- We will evaluate the business rationale for any significant unusual transactions.
- We will determine whether the judgments and decisions related to management estimates indicate a possible bias, which will include performing retrospective analysis of significant accounting estimates.

Niagara Regional Housing Tenant and other receivables/revenue*

Audit risk

Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition. We have pinpointed this risk to tenant revenue as well as valuation of tenant and other receivables.

Our proposed audit response

- We will review aging reports and estimate allowance for doubtful tenant receivables for reasonableness.
- We will confirm subsidies received from the Service Manager.
- We will perform detail testing of tenant and other receivables and related revenue.

Long-term debt

Audit risk

Appropriate accounting and disclosure of the long-term debt.

Our proposed audit response

- We will confirm long-term debt balances with third parties.
- We will recalculate interest expense.

Adoption of new PSAS accounting standards

Audit risk

In fiscal 2023, two new accounting standards, PS 3280 Asset retirement obligations (“ARO”), and PS 3450 Financial instruments, will come in effect. The Region has been preparing for the adoption of both standards, including development of accounting policies, information gathering with various Region departments, engagement of external consultants (where needed) to assist with valuation, and development of go-forward processes for policy maintenance.

Our proposed audit response

- We will continue discussions with management on the implementation plan for the new standards.
 - Through the implementation and information gathering process, we will connect with management to monitor status and ensure implementation decisions are reasonable and judgments are properly documented and substantiated. We will provide input as requested by management and have done an initial review of management’s memo over the PS 3280 implementation approach and process.
 - We will work with management to review the disclosure of the first time adoption in the financial statements, including introduction of new accounting policy notes and financial statements presentation.
 - We will perform audit procedures to test the completeness, existence and accuracy of ARO liabilities recorded by testing a sample of inputs and assumptions made by management and cross-referencing ARO liabilities to fixed asset registers.
-

Niagara Transit Commission

Audit risk

In fiscal 2023, the Region and Niagara Transit Commission will assume transit related tangible capital assets, inventory, prepaids, long-term debt, deferred revenue, reserves, employees and the employee future benefits and post-employment liabilities to be reported in the Region's 2023 consolidated financial statements.

Our proposed audit response

- We will continue discussions with management on the status of the transition.
- We will work with management to review the updated disclosures relating to the first time consolidation of Niagara Transit Commission in the financial statements, changes of accounting policy notes and financial statements presentation.
- We will perform audit procedures to test the balances being transferred in at January 1, 2023 and any balances deemed significant at December 31, 2023.
- We will use the audited financial statements of the City of St. Catharines and Niagara Falls to verify the January 1, 2023 balances assumed by the Region relating to Niagara Transit Commission.

*These areas have been identified as areas of significant risk.

We will inform you of any significant changes to the areas of audit risk discussed above and the reasons for those changes as part of our year-end communication, or earlier if deemed necessary.

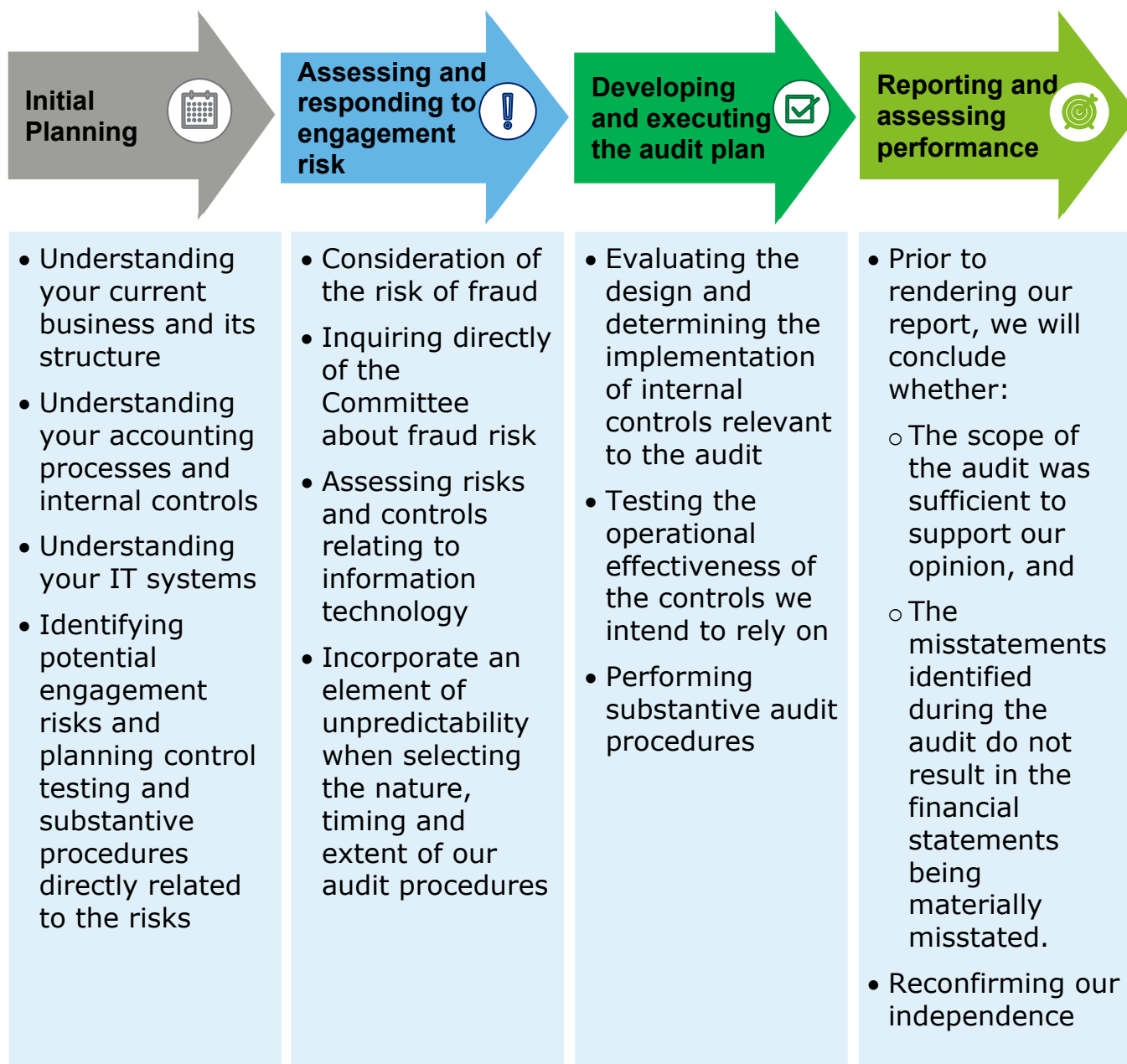
Appendix 1 – Audit approach

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 Region.



Delivering professional excellence

Focus area	
Risk based audit	<ul style="list-style-type: none"> • Deliver a customized risk assessment, focusing our attention and resources on the audit areas that are most relevant to the Region.
Confidential Information	<ul style="list-style-type: none"> • Protecting the privacy and confidentiality of our clients and the firm is a cornerstone of the professional standards every Deloitte partner and practitioner commits to upholding every day. • Deloitte employs technical, physical, and procedural safeguards, including our Confidential Information Program, to appropriately safeguard your data before, during, and after the course of the engagement.
Professional skepticism	<ul style="list-style-type: none"> • Obtain a thorough understanding of the relevant facts and information, analyze reasonable alternatives, apply a questioning mindset and challenge management’s assumptions. • Perform a more rigorous review of potential contradictory evidence.
Consultations	<ul style="list-style-type: none"> • Involve additional resource or consult with technical resources concerning the significant or unusual events.



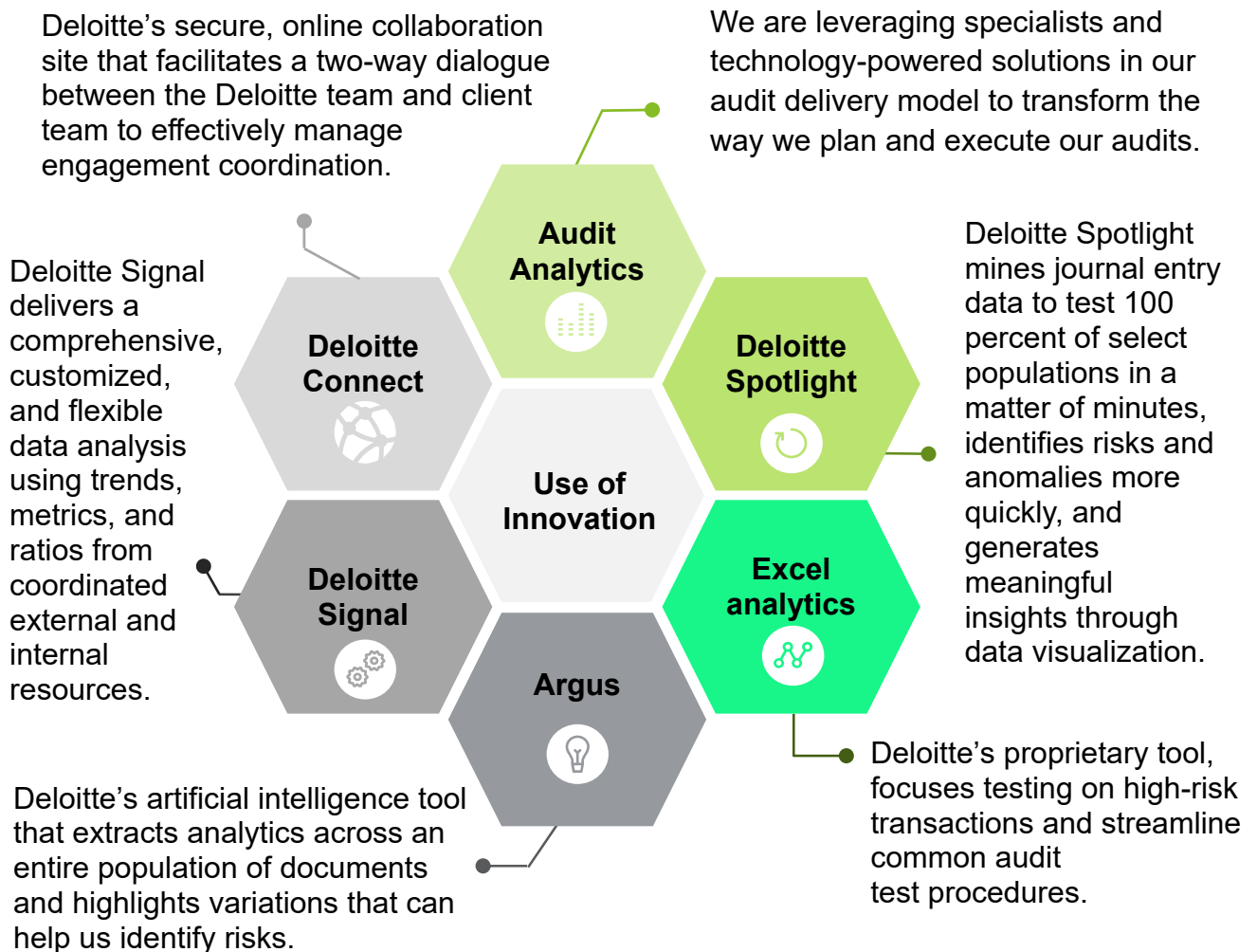


Innovating our audit approach

Focus area

Audit technology

- **Deloitte Connect** – Use Deloitte’s secure, online collaboration site to facilitate a two-way dialogue between the Deloitte team and the Region team to effectively manage engagement coordination and provide greater transparency allowing both management and auditor visibility over client request status.
- **Spotlight** – Spotlight is a key component in delivering a high quality and efficient audit. It is a Deloitte’s proprietary tool that focuses testing on high-risk transactions and streamline common audit test procedures.



Focus area	
Processes	<ul style="list-style-type: none">• Optimizing interim - Proactively shift work forward from peak periods to our interim visit.• Project management - Enhance project management oversight and effective communications between the audit team and management.

Appendix 2 – Communication requirements

Required communication	Reference
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS ¹ 260.14
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk 	CAS 260.15
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27
Enquiries of those charged with governance	
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks	CAS 240.21
5. Any known suspected or alleged fraud affecting the Region	CAS 240.22
6. Whether the Region is in compliance with laws and regulations	CAS 250.15
Year-end communication	
7. Modification to our audit plan and strategy	CAS 260.A26
8. Fraud or possible fraud identified through the audit process	CAS 240.40-.42
9. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.
10. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.
11. Matters related to going concern	CAS 570.25
12. Management judgments and accounting estimates	CAS 260.16 a.

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference
13. Significant difficulties, if any, encountered during the audit	CAS 260.16 b.
14. Material written communications between management and us, including management representation letters	CAS 260.16 c.
15. Circumstances that affect the form and the content of the auditor's report	CAS 260.16d.
16. Modifications to our opinion	CAS 260.A21
17. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A22
18. Significant matters discussed with management	CAS 260.A.22
19. Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including illegal or possibly illegal acts that come to our attention	CAS 250.23
20. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	CAS 265
21. Uncorrected misstatements and disclosure items	CAS 450.12-13,
22. Any significant matters arising during the audit in connection with the Region's related parties	CAS 550.27

Appendix 3 – New and revised Canadian Public Sector Accounting Standards

The following is a summary of certain new or revised accounting standards that will become effective in fiscal 2023 and beyond.

Canadian Public Sector Accounting Standards

Topic	Description	Effective Date
Section PS 2601 - Foreign currency translation	This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements.	This Section is effective for (i) Government organizations - April 1, 2012; and (ii) Governments – April 1, 2022. Earlier adoption is permitted.
Section PS 3280 - Asset retirement obligations	This Section establishes standards on how to account for and report a liability for asset retirement obligations.	Effective April 1, 2022, earlier application is permitted.
Section PS 3400 - Revenue	This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations.	Effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. The Section may be applied retroactively or prospectively.
Section PS 3450 - Financial instruments	This Section establishes standards on how to account for and report all types of financial instruments including derivatives.	This section is effective for: (i) Government organizations - April 1, 2012 (ii) Governments - April 1, 2022. Governments and government organizations would also adopt Section PS 2601 Foreign currency translation, at the same time. Earlier adoption is permitted.

Appendix 4 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

Register [here](#) to receive practical insights, invitations to Deloitte events/webcasts, and newsletters via email and other electronic channels. You will be able to select business topics and industries that align with your interests.

<input type="checkbox"/> Canada's Best Managed Companies (www.bestmanagedcompanies.ca)	The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.
Target audience <ul style="list-style-type: none">• Directors and CEO/CFO	
<input type="checkbox"/> Centre for financial reporting (https://www.iasplus.com/en-ca/standards)	Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.
Target audience <ul style="list-style-type: none">• Directors and CEO/CFO• Controller and Financial reporting team	
<input type="checkbox"/> Deloitte Viewpoints (https://www.iasplus.com/en-ca/tag-types/deloitte-viewpoints)	Electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.
Target audience <ul style="list-style-type: none">• CFO• Controller and Financial reporting team	

<input type="checkbox"/> CFO's corner (https://www.iasplus.com/en-ca/cfos-corner)	Editorial providing insights into key trends, developments, issues and challenges executives face, with a Deloitte point of view.
Target audience	
<ul style="list-style-type: none">• CFO and VP Finance• Controller and Financial reporting team	
<hr/>	
<input type="checkbox"/> Deloitte Dbriefs (https://www.iasplus.com/en-ca/dbriefs/webcasts)	Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.
Targeted audience	Recent publications (ASPE)
<ul style="list-style-type: none">• CFO and VP Finance• Controller and Financial reporting team	<ul style="list-style-type: none">• Revenue (Jan 13, 2020)• Accounting for shares issued in tax planning arrangements (ROMRS) (Dec, 18, 2019)• Agriculture (Dec 18, 2019)
