



Regional Municipality of Niagara 2019 Audit service plan

For the year ending December 31, 2019

July 31, 2019

Private and confidential

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

2019 Audit service plan

Dear Audit Committee Members:

We are pleased to provide you with our audit service plan for Regional Municipality of Niagara ("the Region") for the year ending December 31, 2019. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, and our team.

Our audit will include the following, as at, and for the year ending December 31, 2019:

- Consolidated financial statements of the Region
- Financial statements of Niagara Regional Housing ("NRH")
- Financial statements of the Regional Municipality of Niagara Trust Funds (the "Trust Funds")
- Financial statements of the Regional Municipality of Niagara Sinking Funds (the "Sinking Funds"), and
- Various agencies, boards, commissions, and programs (the "Programs").

Herein after, collectively referred to as the "financial statements".

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists. 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.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,

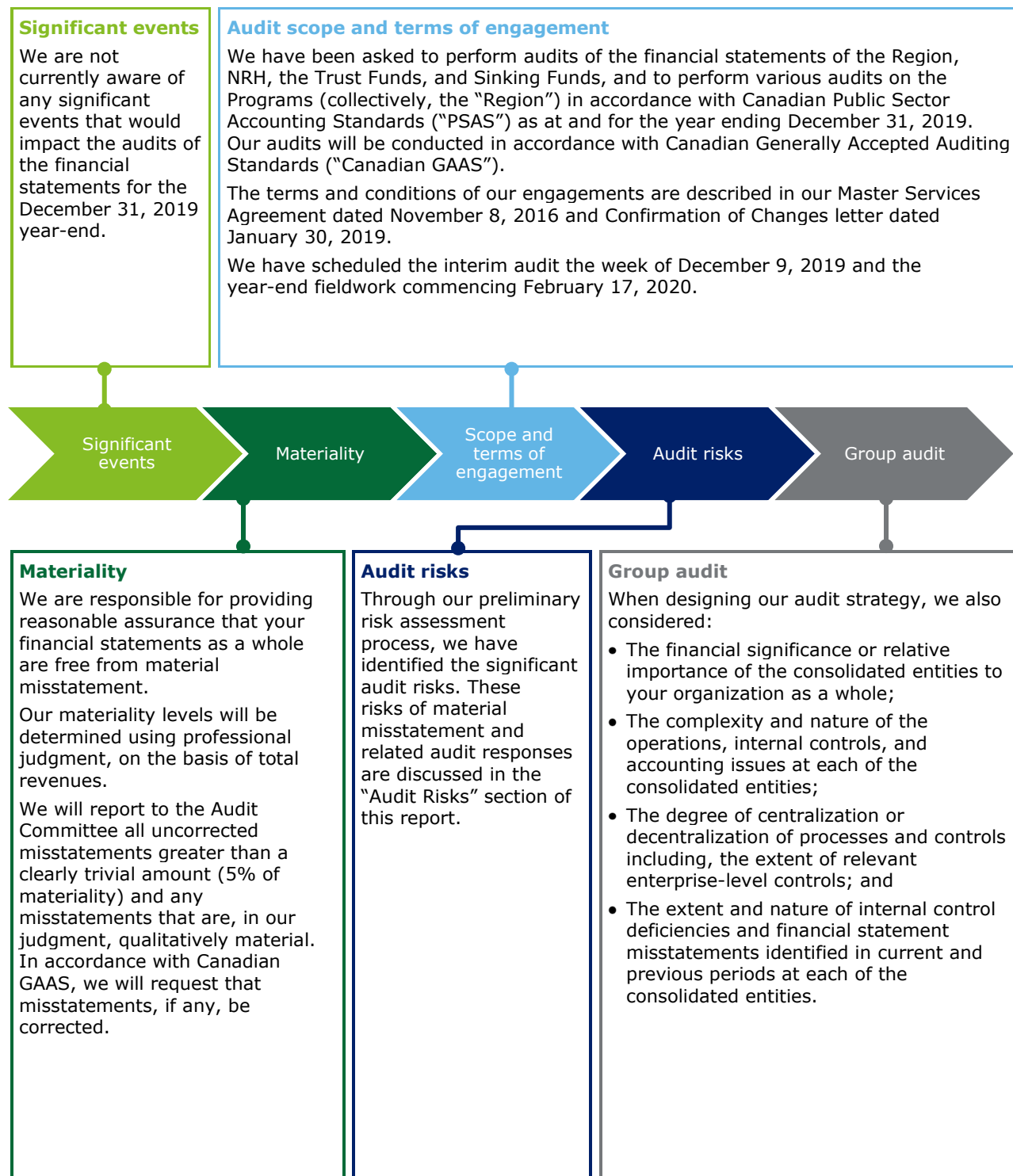


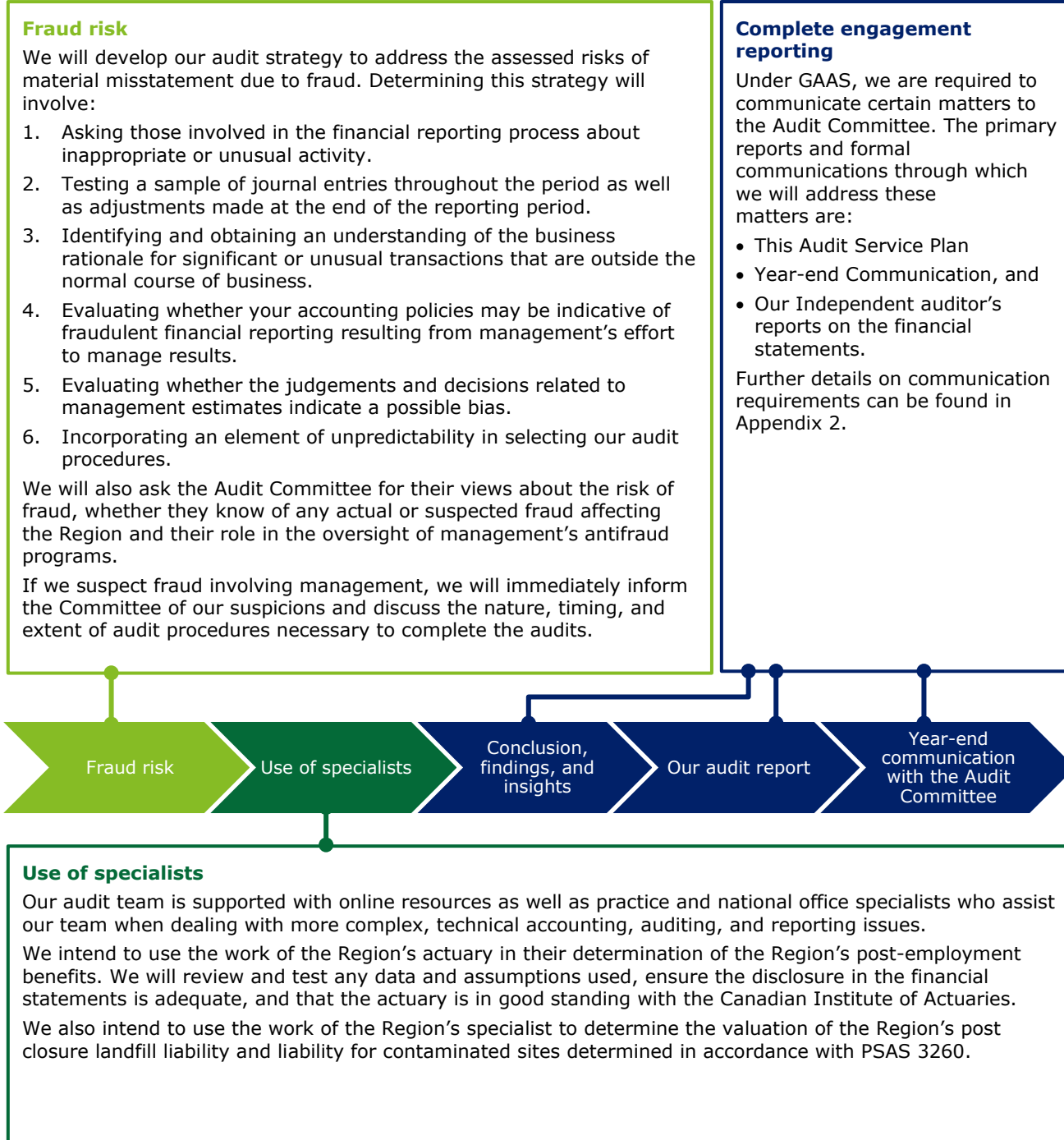
Chartered Professional Accountants
Licensed Public Accountants

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Our audits explained





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

Canadian Auditing Standards include the presumption of a fraud risk involving improper revenue recognition.

Our proposed audit response

- Substantive testing to determine if restricted contributions (i.e., development charges, conditional grants, etc.) have been recognized as revenue in the appropriate period.

Year-end cut off

Audit risk

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

Our proposed audit response

- Substantive testing on accounts payable, accrued liabilities, deferred revenue, and accounts receivable, and
- Test disbursements subsequent to year-end.

Tangible capital assets

Audit risk

Appropriate accounting and disclosure.

Our proposed audit response

- Test assumptions used in determining completeness, valuation, recording and cut-off of additions and disposals, and
- Testing of calculations of amortization.

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

Audit risk

Estimates require management judgments and assumptions.

Our proposed audit response

- Obtain documentation on management's control over accounting estimates and assess risk
- Review and assess the consistency of major assumptions used to develop significant accounting estimates
- Compare actual historical experience to models employed in such calculations
- Obtain calculations from experts for accruals such as employee future benefit liability and landfill liability, and assess assumptions and data used to prepare the report
- Review actual outcome of prior year estimates

Management override of controls*

Audit risk

Management override of controls is a presumed area of risk in a financial statement audit due to management's ability to override controls that otherwise appear to be operating effectively.

Our proposed audit response

- Our audit tests the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements.
- We will obtain an understanding of the business rationale for significant transactions that we become aware of that are outside of the normal course of business, or that otherwise appear to be unusual given our understanding of the Region and its environment.
- We will review accounting estimates for bias and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement.
- In addition, experienced Deloitte personnel will be assigned to the testing and review of journal entries and areas of estimates.
- Professional skepticism will be maintained throughout the audit.

Niagara Regional Housing Tenant and other receivables/revenue*

Audit risk

Canadian Auditing Standards include the presumption of a fraud risk involving improper revenue recognition. Valuation of tenant and other receivables.

Our proposed audit response

- Review aging reports and estimate allowance for doubtful tenant receivables for reasonableness
- Confirm subsidies received from the Service Manager
- Perform detail testing of tenant and other receivables and related revenue

Long-term debt

Audit risk

Appropriate accounting and disclosure.

Our proposed audit response

- Confirm long-term debt balances
- Recalculate interest

Financial statement disclosures

Audit risk

Appropriate disclosure of proposed future operational changes.

Our proposed audit response

- Ensure changes to future operations are appropriately disclosed as subsequent events in the financial statements.

*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.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audits are being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks

2. Assessing and responding to engagement risk

Our Audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audits, particularly the reliability of management representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill, and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether the Region’s selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management’s effort to manage earnings.
- Incorporate an element of unpredictability when selecting the nature, timing, and extent of our audit procedures.

We will inquire directly of the Audit Committee regarding:

- Its views about the risk of fraud,
- Whether it has knowledge of any actual or suspected fraud affecting the Region, and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Audit Committee is aware of tips or complaints regarding the Region's financial reporting and, if so, the Audit Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audits, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audits.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audits, and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audits.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audits, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audits, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent, and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for management's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing, and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Audit Committee and management of any significant deficiencies that are identified in the course of conducting the audits.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the clearly trivial threshold has been set at 5% of materiality), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audits were sufficient to support our opinion, and
- The misstatements identified during the audits do not result in the financial statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to the Region.

We are independent of the Region and we will reconfirm our independence in our final report to the Audit Committee.

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 audits 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 d. Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audits 	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 240.20
5. Any known suspected or alleged fraud affecting the Region	CAS 240.21
6. Whether the Region is in compliance with laws and regulations	CAS 250.14
Year-end communication	
7. Fraud or possible fraud identified through the audit process	CAS 240.40-.42
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.
10. Matters related to going concern	CAS 570.23
11. Management judgments and accounting estimates	CAS 260.16 a.
12. Significant difficulties, if any, encountered during the audits	CAS 260.16 b.
13. Material written communications between management and us, including management representation letters	CAS 260.16 c.
14. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16d.
15. Modifications to our Independent Auditor's Reports.	CAS 260.A18
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	CAS 260.A19

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

Required communication	Reference
17. Significant matters discussed with management	CAS 260.A.19
18. Matters involving non-compliance with laws and regulations that come to our attention	CAS 250.23
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audits of the financial statements	CAS 265
20. Uncorrected misstatements and disclosure items	CAS 450.12-13
21. Any significant matters arising during the audits in connection with the Region's related parties	CAS 550.27

Appendix 3 – New and Revised Accounting Standards

The following is a summary of certain new standards, amendments and proposals that will become effective in 2019 and beyond.

To review all recent amendments that will impact your organization in the foreseeable future, we invite you to review our revamped [Standard-setting Activities Digest](http://www.cfr.deloitte.ca), included in our Centre for Financial Reporting (www.cfr.deloitte.ca).

Public Sector Accounting Standards

Topic	Description	Effective Date
Section PS 3430 - Restructuring transactions	This new section was published by PSAB in June 2015. It establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities	This section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.
Section PS 1201 - Financial statement presentation	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements.	This Section applies in the period Section PS 2601 Foreign currency translation, and Section PS 3450 - Financial instruments, are adopted. Earlier adoption is permitted.
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, 2021. 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, 2021, earlier application is permitted.
Section PS 3041 - Portfolio investments	This Section establishes standards on how to account for and report portfolio investments in government financial statements.	This Section applies in the period Section PS 1201 - Financial statement presentation, Section PS 2601 Foreign currency translation, and Section PS 3450 - Financial instruments, 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, 2022. Earlier adoption is permitted. The Section may be applied retroactively or prospectively.

Topic	Description	Effective Date
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, 2021. 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.

<input type="checkbox"/> Canada's Best Managed Companies (www.bestmanagedcompanies.ca)	<ul style="list-style-type: none"> • Directors • CEO/CFO 	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.
<input type="checkbox"/> Centre for financial reporting (https://www.iasplus.com/en-ca/standards)	<ul style="list-style-type: none"> • Directors • CEO/CFO • Controller • Financial reporting team 	Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.
<input type="checkbox"/> Deloitte Viewpoints (https://www.iasplus.com/en-ca/tag-types/deloitte-viewpoints)	<ul style="list-style-type: none"> • CFO • Controller • Financial reporting team 	Electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.
<input type="checkbox"/> CFO's corner (https://www.iasplus.com/en-ca/cfos-corner)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Editorial providing insights into key trends, developments, issues and challenges executives face, with a Deloitte point of view.
<input type="checkbox"/> Deloitte Dbriefs (https://www.iasplus.com/en-ca/dbriefs/webcasts)	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.