



LACOMBE COUNTY

AUDIT PLANNING REPORT TO THE MEMBERS OF COUNCIL

November 30, 2021



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EXECUTIVE SUMMARY



The audit is scheduled to start on November 30, 2021 with final completion scheduled for the week of April 18, 2022. See the [Audit Timeline](#) section of the report for the detailed milestones.



Significant Audit Risks

Our audit is focused on risks specific to your business and key accounts. Specifically, we have identified the following areas on which to focus:

- ▶ Revenue recognition
- ▶ Management override of controls



Materiality

We have determined that materiality for the current year audit will be based on revenues, as that is the best indicator of the size of the operations of the County. Preliminary materiality is set at \$960,000 for the year ended December 31, 2021.



Engagement Objectives

Our overall responsibility is to form and express an opinion on the financial statements. The performance of this audit does not relieve management or those charged with governance of their responsibilities. Our engagement letter has been presented to management under separate cover.



Fraud Discussion

Through our planning process, and prior years' audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the County. Please see Appendix C for clarification of the auditor's responsibilities for detecting fraud.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the County, we request that you provide us with this information.

AUDIT TIMELINE

The following schedule outlines the anticipated timing of the audit of the financial statements of the County.

As part of the year end Members of Council meeting, we will provide the Members of Council with a copy of our draft audit opinion, discuss our findings, including significant estimates utilized by management, accounting policies, financial statement disclosures, and significant transactions completed during the year. We will also report any significant internal control deficiencies identified during our audit and reconfirm our independence.



SIGNIFICANT AUDIT RISKS AND PLANNED RESPONSES

Based on our knowledge of the County’s business, our past experience, and knowledge gained from management and the Members of Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Members of Council has identified.

AREAS OF FOCUS	RISKS NOTED	AUDIT APPROACH
Revenue Recognition	There is an inherent fraud risk related to grant revenue and the recognition of the revenue.	Review revenue recognition policy for consistency with the professional standards.
Management Override of Controls	There is an inherent fraud risk related to management’s ability to override the control environment.	Specific testing of journal entries and accounting estimates.

MATERIALITY



Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

Preliminary materiality was determined to be \$960,000, based on 2% of revenues.

Our materiality calculation is based on the County's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Members of Council as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Members of Council, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

APPENDICES

Appendix A: BDO audit strategy

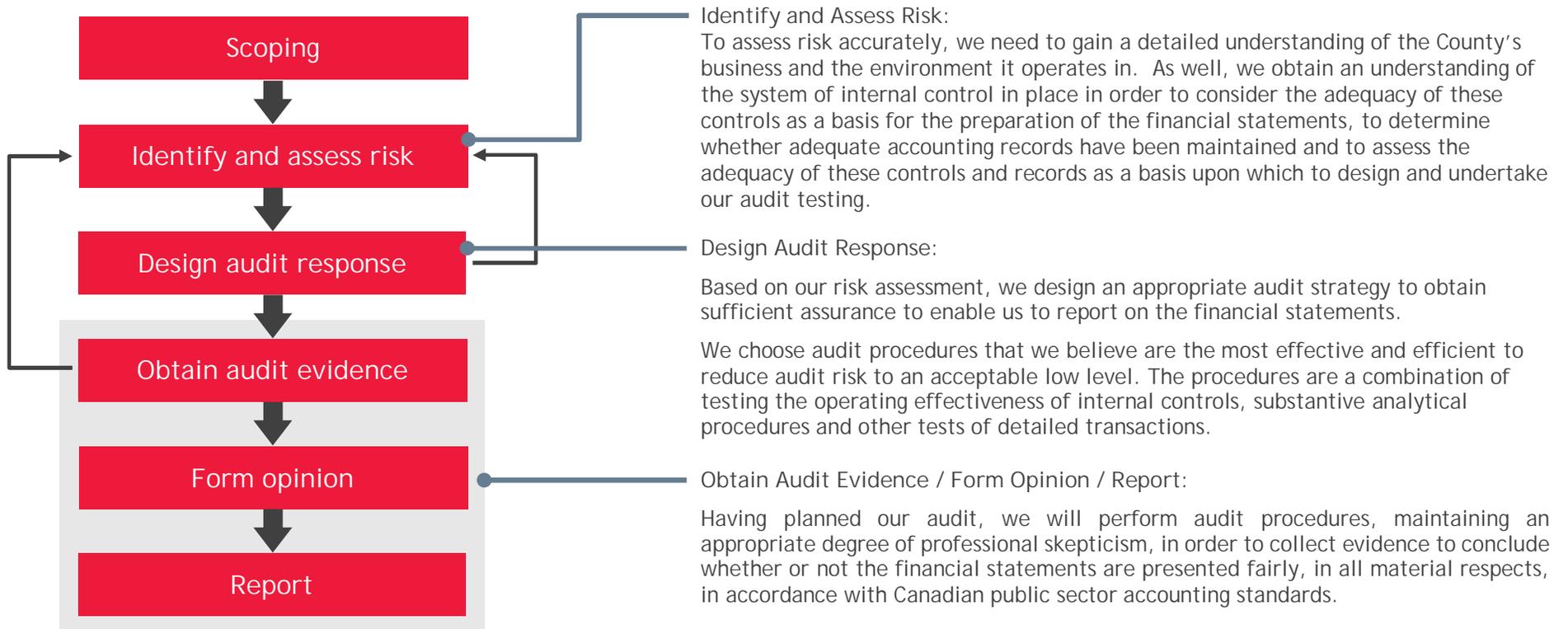
Appendix B: Independence letter

Appendix C: Responsibilities

APPENDIX A: BDO AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the County.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Members of Council.





APPENDIX B: INDEPENDENCE LETTER

November 30, 2021

Members of Council
Lacombe County

Dear Members of Council:

We have been engaged to audit the financial statements of Lacombe County (the "County") for the year ended December 31, 2021.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the County and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we have considered the applicable legislation and relevant rules and related interpretations prescribed by the appropriate provincial institute/order, covering such matters as:

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 22, 2021, the date of our last letter.

We are not aware of any relationships between the County and our Firm that, in our professional judgment, may reasonably be thought to bear on independence that have occurred from April 22, 2021 to November 30, 2021.

We hereby confirm that we are independent with respect to the County within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of November 30, 2021.

This letter is intended solely for the use of County Council, management and others within the County and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

APPENDIX C: RESPONSIBILITIES

It is important for the Members of Council to understand the responsibilities that rest with the County and its management, those that rest with the external auditor, and the responsibilities of those charged with governance. BDO’s responsibilities are outlined below and within the annual engagement letter. The oversight and financial reporting responsibilities of management and the Audit Committee are also summarized below.

AUDITOR’S ENGAGEMENT OBJECTIVES

Our overall objective is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the County in accordance with Canadian public sector accounting standards.

Year-End Audit Work	Year-Round Work
<ul style="list-style-type: none"> ▶ Work with management towards the timely issuance of financial statements, tax returns and consents for offering documents. ▶ Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit. ▶ Present significant findings to the Members of Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work. 	<ul style="list-style-type: none"> ▶ Perform timely interim reviews in accordance with applicable assurance standards and issue interim review reports, as applicable. ▶ Read interim financial statements and provide general comments, when requested. ▶ Consult regarding accounting, income tax and reporting matters as requested throughout the year.

AUDITOR'S RESPONSIBILITIES FOR DETECTING FRAUD

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- ▶ Identifying and assessing the risks of material misstatement due to fraud;
- ▶ Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- ▶ Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

