



SUBJECT: External audit service plan for 2019

TO: Audit Committee

FROM: Finance Department

Report Number: F-04-20

Wards Affected: not applicable

File Numbers: 430-04

Date to Committee: February 12, 2020

Date to Council: February 24, 2020

Recommendation:

Approve the external audit service plan for the fiscal year ended December 31, 2019 as presented by Deloitte LLP outlined in finance department report F-04-20.

PURPOSE:

The purpose of this report is to provide Audit Committee with the external audit plan for 2019.

Background and Discussion:

Each year an external audit is conducted by the City's external audit firm. As the Audit committee has oversight responsibility for all external audit matters, the external audit plan is presented to committee for approval prior to the audit.

Areas of audit risk that have been identified by the external auditors include:

- Revenue recognition and deferred revenue amounts
- Year end cut-off
- Accounting and disclosure of tangible capital assets
- Estimates including employee future benefits and liability for contaminated sites
- Management override of controls

These identified areas of risk will be a focus of the external audit.

An interim audit was conducted during the week of November 18, 2019 and year-end fieldwork will begin March 9, 2020. The City's external audit includes audits of the statements of the local boards that are consolidated with the City. The external audit for the year ended December 31, 2019 will include the audit of the statements of the Art Gallery of Burlington. Although the Art Gallery is not consolidated with the City, the City provides financial services to the Gallery. For this reason, a decision was made by the Board of Directors of the Art Gallery, with agreement from Finance staff, to include them in the scope of the audit. The oversight and management of the City's external audit are conducted by Trevor Ferguson, Partner and Lilian Cheung, Senior Manager. Trevor and Lilian have extensive experience with the City's external audit.

Strategy/process

Some of the key elements of the audit service plan are as follows:

- Audit Scope – designed to search for potential misstatements that, individually or collectively, are material.
- Materiality – any misstatements that are in the judgment of the auditors qualitatively material (5% of materiality) will be reported to the audit committee. The auditors will request that misstatements be corrected. Materiality levels will be determined based on 3% of total expenses.
- Audit risks – the audit scope will reflect the significant risks as identified previously in this report.
- Fraud Risk – the audit strategy includes incorporating an element of unpredictability in the selection of the nature, timing and extent of the audit procedures. Any suspicions of fraud will be communicated to the Audit Committee. The Committee will also be asked for their views about the risk of fraud and whether they have knowledge of actual or suspected fraud.
- Group Audit – this element considers consolidated entities and their relative importance to the organization.
- Engagement reporting – upon satisfactory completion of the audit, an audit report on the financial statements of the city will be presented to the Audit Committee. Reports to the Audit Committee assist the committee to fulfill its responsibilities as required by applicable auditing standards.

The external audit also involves gaining an understanding of:

- The importance of the computer environment relative to the risks to financial reporting
- The way in which that environment supports the control procedures relied on when conducting the audits
- The computer-based information that supports substantive procedures.

Financial Matters:

Audit fees will be based on the scope of service as outlined in the proposal for audit services dated August 6, 2015.

Enterprise Risk:

- Financial Sustainability

Conclusion:

As the Audit Committee responsibilities include oversight of the external audit function, the external audit service plan is presented for approval.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

Ext 7648

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.