

**MNP**

## Rocky View County

2020 Audit Service Plan

Report to Council

For Year-Ended December 31, 2020

To be presented February 9, 2021

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Members of Council of Rocky View County

Dear Sirs/Mesdames:

We are pleased to present our Audit Service Plan for Rocky View County ("the County"). In this plan we describe MNP's audit approach, our engagement team, the scope of our audit and a timeline of anticipated deliverables. We are providing this Audit Service Plan to Council on a confidential basis. It is intended solely for the use of Council and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Our audit will include an audit of the County's financial statements for the year ended December 31, 2020, prepared in accordance with Canadian public sector accounting standards. Our audit will be conducted in accordance with Canadian generally accepted auditing standards.

At MNP, our objective is to perform an efficient, high quality audit which focuses on those areas that are considered higher risk. We adhere to the highest level of integrity and professionalism. We are dedicated to maintaining open channels of communication throughout this engagement and will work with management to coordinate the effective performance of the engagement. Our goal is to exceed Council's expectations and ensure you receive outstanding service.

Additional materials provided along with this report include both our Engagement Letter and draft Independence Communication. Our Engagement Letter is the formal written agreement of the terms of our audit engagement as negotiated with management and outlines our responsibilities under Canadian generally accepted auditing standards. Our draft Independence Communication formally confirms in writing MNP's independence.

We look forward to discussing our Audit Service Plan with you and look forward to responding to any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and slanted to the right.

**Chartered Professional Accountants**

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## AUDIT SERVICE PLAN OVERVIEW

To make strategic business decisions with confidence, your stakeholders and Council of the County need relevant, reliable and independently audited financial information. But that's not all. You need an audit team that can deliver insight beyond the numbers and enhance the County's strategic planning and implementation processes so you can embrace new opportunities while effectively managing risk. Our audit strategy is risk based, and considers the limitations and opportunities you encounter each day, allowing our recommendations to be implemented with greater ease. Committed to your success, MNP delivers meaningful, reliable financial information to not only help you fulfill your compliance obligations, but also to achieve your key strategic goals.

Our Audit Service Plan outlines the strategy we will follow to provide the County's Council with our Independent Auditor's Report on the December 31, 2020 financial statements.




## TOPICS FOR DISCUSSION

We are committed to providing superior client service by maintaining effective two-way communication. Topics for discussion include, but are not limited to:

- Changes to your business operations and developments in the financial reporting and regulatory environment
- Business plans and strategies
- Any other issues and/or concerns
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- The management oversight process
- Your specific needs and expectations

### KEY CHANGES AND DEVELOPMENTS

Based on our knowledge of the County and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed considering these factors.

ISSUES AND DEVELOPMENTS	SUMMARY
 <b>NEW REPORTING DEVELOPMENTS</b>	<ul style="list-style-type: none"> <li>• PS 1201 Financial Statement Presentation (New)</li> <li>• PS 2601 Foreign Currency Translation (New)</li> <li>• PS 3041 Portfolio Investments (New)</li> <li>• PS 3450 Financial Instruments (New and Amendment)</li> <li>• 2018 – 2019 Annual Improvements to Public Sector Accounting Standards (Amendment)</li> <li>• PS 3450 Financial Instruments (Amendment)</li> <li>• PS 3280 Asset Retirement Obligations (New)</li> <li>• PS 3400 Revenue (New)</li> <li>• 2019 - 2020 Annual Improvements to Public Sector Accounting Standards (Exposure Draft)</li> </ul>
 <b>NEW ASSURANCE DEVELOPMENTS</b>	<ul style="list-style-type: none"> <li>• CAS 315 Identifying and Assessing the Risks of Material Misstatement (Amendment)</li> <li>• CAS 540 Auditing Accounting Estimates and Related Disclosures (New)</li> </ul>
 <b>COVID 19</b>	<p>Covid-19 is discussed further in other matters.</p>

Detailed information on Key Changes and Developments are included as Appendix A.

## THE MNP AUDIT APPROACH

Council is responsible for approval of the financial statements and County policies, and for monitoring management's performance. Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. Council, through delegation to management, is also responsible for the integrity of the accounting and financial reporting systems, including controls to prevent and detect fraud and misstatement, and to monitor compliance with relevant laws and regulations.

Effective discharge of these respective responsibilities is directed toward a common duty to provide appropriate and adequate financial accountability, and quality financial disclosure.

Key responsibilities of MNP and management are outlined in the Engagement Letter (see attached). More detailed discussion about MNP's audit process is provided in Appendix B.

## AUDIT MATERIALITY

Materiality is an important audit concept. It is used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. Specifically, a misstatement or the aggregate of all misstatements in financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures) is considered to be material if it is probable that the decision of the party relying on the financial statements, who has reasonable understanding of business and economic activities, will be changed or influenced by such a misstatement or the aggregate of all misstatements.

The scope of our audit work is tailored to reflect the relative size of operations of the County and our assessment of the potential for material misstatements in the County's financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures). In determining the scope, we emphasize relative audit risk and materiality, and consider a number of factors, including:

- The size, complexity, and growth of the County;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.

**\$3,500,000 will be used for materiality  
based on 3% of revenue.**

Judgment is applied separately to the determination of materiality in the audit of each set of financial statements (and, if applicable, for particular classes of transactions, account balances or disclosures) and is affected by our perception of the financial information needs of users of the financial statements. In this context, it is reasonable to assume that users understand that financial statements are prepared, presented and audited to levels of materiality; recognize uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and consideration of future events; and make reasonable economic decisions based on the financial statements. The foregoing factors are taken into account in establishing the materiality level.

Materiality for the current and prior year is detailed in the table below.

2020 PLANNING MATERIALITY	2019 PLANNING MATERIALITY	2019 FINAL MATERIALITY
\$ 3,500,000	\$ 3,500,000	\$ 3,500,000

## RISK ASSESSMENT

Our audit process focuses on significant risks identified during the pre-planning and planning and risk assessment stage, ensuring that audit procedures are **tailored to your specific circumstances** and appropriately address those risks.

Based on the preliminary risk assessment procedures performed, we have identified the following significant and high risks which will be addressed during our audit. We have also outlined the proposed audit response to address those risks. We will update our risk assessment as the audit progresses for additional risks identified and will inform management of any additional significant risks identified.

SIGNIFICANT RISK AREA	PROPOSED AUDIT RESPONSE
<b>Inventory</b>  The nature of inventory makes it susceptible to theft.	Observe physical safeguards; compare pit surveys to knowledge from attendance at a sample pit.
<b>Cash</b>  The nature of cash makes it susceptible to misappropriation.	Observe safeguards over cash and cash receipts.
<b>Sale of goods/rendering of services</b>  Some fines or services may be paid for in cash which is subject to misappropriation.	Walkthrough additional procedures of City View, bank reconciliations, bad debt and adjustments.
<b>Tax revenues</b>  Values used for calculating property tax are subjective. Risk that improvements on a property do not get reflected in value therefore property tax revenue would not be complete.	Recalculate overall values for property taxes using approved millrates and compare property values to those submitted to the Alberta government. Walkthrough processes to ensure improvements get reflected in property values.
<b>Government transfers</b>  Contributions received are subject to restrictions imposed by the contributors and can only be recognized when expenditures related to the restricted use have been incurred.	Select a sample of projects and review a sample of expenditures to ensure that expenditures are eligible for that grant and therefore the stipulations are met.  Review grant contracts and backup to ensure proper revenue and deferred revenue recognition.
<b>Expenses</b>  An unauthorized expense may be paid.	Expense testing and payables testing includes ensuring that invoices are approved before they are paid.
<b>Deposit liabilities</b>  Risk of inaccurate deposit liabilities due to unrecorded deposits or deposits for which all criteria has been met and they should be cleared from the listing.	Complete substantive testing on deposits to ensure that all deposits on the listing are appropriate. Discuss completeness of deposits with employees and corroborate explanations.

SIGNIFICANT RISK AREA	PROPOSED AUDIT RESPONSE
<p><b>Deferred revenue and restricted contributions</b></p> <p>Government transfers are significant and could be manipulated by recording in the wrong period.</p>	<p>Complete testing on invoices to ensure that all expenditures allocated to projects are eligible expenditures.</p> <p>Sample of grants are chosen and all backup is reviewed to ensure that expenses are eligible expenses and that the grant revenue can be recognized or deferred as appropriate for the circumstances.</p>
<p><b>Site contamination and landfill liabilities</b></p> <p>The calculation of site contamination and landfill closure and post-closure liabilities is complex and subject to significant estimation.</p>	<p>Discuss with client to ensure all liabilities have been set up in the year. Compare methodology and estimates to the prior period and obtain explanation for changes. New changes for asset retirement obligations to come into effect in subsequent years have been discussed with management.</p>
<p><b>Tangible capital assets</b></p> <p>Risk of treating upgrades to capital Items inconsistently. This risk includes the risk of contributed assets not being recorded.</p>	<p>Ensure capital items tested are appropriately recorded. Test values used for contributed assets and completion of contributed assets.</p>



## OTHER MATTERS

### Impact of COVID-19 on our Audit

The COVID-19 ("COVID") outbreak in Canada has had a significant impact on business through the restrictions put in place by governments regarding travel, business operations and isolation/quarantine orders. MNP remains fully operational and we have taken steps to ensure we will be able to continue to carry out our work for you under changing circumstances. We have a robust continuity plan in place and have taken precautionary measures to ensure the health and well being of our clients, team members, and families. Our team members continue to be available to connect with you and manage your engagement by phone, email, and video messaging. Your information will remain confidential and secure on our servers. Given these uncertain and challenging times, we expect the COVID outbreak to impact our audit as follows:

**Timing of our audit** - As our team members are fully operational, working remotely, we do not expect any changes to the timing of the annual audit. We have been in communication with Rocky View County and confirmed the timing to be similar to prior years. Should the timing of our deliverables change, or unforeseen circumstances arise, we will notify you immediately.

**Additional considerations & procedures to undertake** - As the full impact of COVID-19 on operations and the economy is not fully known, and continues to change, we expect our audit approach to evolve and adapt as required. Additional considerations, at this time, are as follows:

**Valuation of receivables** – as most receivables relate to amounts receivable from government entities or will be collectible through the property tax recovery mechanisms, and the overall receivable balance is generally small, we do not expect a significant impact on our audit approach.

**Impairment** – consideration will be given to the County's capital assets to determine if any assets have been impacted by COVID and are being carried at an amount in excess of their fair value. We will ask management to determine whether there has been any impact on the fair value of capital assets. Thereafter, an assessment will be performed, on a sample basis and with a focus on high value assets, whereby the team will investigate the circumstances surrounding specific assets.

**Estimates** – the County uses limited estimates in the preparation of its financial statements. As such, we do not anticipate a significant impact on the County or our audit work.

**Controls environment** – business disruptions could result in changes in controls and processes which were previously followed by management and staff. When performing walk-throughs, the audit team inquired with regards to changes in processes that have occurred as a result of COVID.

**Audit evidence** – in light of restrictions on travel and visiting client offices, the audit team will request that all supporting documents be scanned, or copied and couriered. Professional judgment will be applied in assessing electronic documents for manipulation or falsification.

**Financial statement disclosures** – We anticipate that disclosure of the impact of COVID on the County will be included in the audited financial statements, specifically any impacts on the nature and extent of business risks

### TIMING OF THE AUDIT

Based on the audit planning performed and areas of audit risks identified, the following timelines for key deliverables have been discussed and agreed upon with management:

KEY DELIVERABLE	EXPECTED DATE
Presentation of December 31, 2020 Audit Service Plan to Council	February 9, 2021
Year-end fieldwork procedures	March 15, 2021 to March 26, 2021
Draft year-end financial statements to be discussed with management	April 13, 2021
Presentation of December 31, 2020 Audit Findings Report to Council	April 27, 2021
Presentation of Management Letter to Council	April 27, 2021
Issuance of Independent Auditor's Report	April 27, 2021

### AUDIT TEAM

In order to ensure effective communication between Council and MNP, we outline below the key members of our audit team that will be responsible for the audit of the County and the role they will play:

TEAM MEMBERS	CONTACT INFORMATION
Julie Oliver, CPA, CA Engagement Partner	E: Julie.Oliver@mnp.ca
Melisa Milne, CPA, CA Concurring Partner	E: Melisa.Milne@mnp.ca
Lindsey Schmidt, CPA Manager	E: Lindsey.Schmidt@mnp.ca
Sean Reynolds, Audit Team	E: Sean.Reynolds@mnp.ca
Madison Bruce, Audit Team	E: Madison.Bruce@mnp.ca

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other MNP professionals whose consultation will assist us to evaluate and resolve complex, difficult and/or contentious matters identified during the course of our audit.

Any changes to the audit team will be discussed with you to ensure a seamless process and that all concerned parties' needs are met.



### FEES AND ASSUMPTIONS

DESCRIPTION	2020 ESTIMATE	2019 ACTUAL
Base audit fee as per our fee quote June 4, 2018	\$ 42,000	\$ 42,000

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the engagement partner, so a mutually agreeable solution can be reached.

Invoices will be rendered as work progresses in accordance with the following schedule:

DESCRIPTION	AMOUNT
Progress billing #1 upon commencement of field work	\$ 21,000
Progress billing #2 upon completion of field work	\$ 16,800
Final billing – upon release of the independent auditor's report	\$ 4,200

## APPENDIX A – KEY CHANGES AND DEVELOPMENTS

We would like to bring to your attention the following accounting and auditing developments, which may have some impact on your financial reporting.

### ISSUES AND DEVELOPMENTS SUMMARY

#### NEW REPORTING DEVELOPMENTS

##### **PS 1201 Financial Statement Presentation (New)**

In June 2011, as a result of the issuance of PS 3450 *Financial Instruments*, the Public Sector Accounting Board (PSAB) issued new PS 1201 *Financial Statement Presentation*, which revises and replaces PS 1200 *Financial Statement Presentation*. The main features of the new standard are:

- Remeasurement gains and losses are reported in a new statement: the statement of remeasurement gains and losses.
- Other comprehensive income arising when a government includes the results of government business enterprises and government business partnerships in its financial statements, is reported in the statement of remeasurement gains and losses.
- Accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and the accumulated remeasurement gains and losses.

The Section is effective in the same period PS 2601 *Foreign Currency Translation* and PS 3450 are adopted. PS 2601 and PS 3450 are to be adopted together and were to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

##### **PS 2601 Foreign Currency Translation (New)**

In June 2011, as a result of the issuance of PS 3450 *Financial Instruments*, the Public Sector Accounting Board (PSAB) issued new PS 2601 *Foreign Currency Translation*, which revises and replaces PS 2600 *Foreign Currency Translation*. The main features of the new standard are:

- The definition of currency risk is conformed to the definition in PS 3450.
- Removal of the exception relating to the measurement of items on initial recognition that applies when synthetic instrument accounting is used.
- Subsequent to initial recognition, non-monetary foreign currency items included in the fair value category in accordance with PS 3450 are adjusted at each financial statement date to reflect the exchange rate at that date.
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency monetary items is discontinued.
- Exchange gains and losses are recognized in the statement of remeasurement gains and losses until the period of settlement.
- Removal of hedge accounting and the presentation of items as synthetic instruments.

The transitional provisions in this standard were amended in May 2012, effective at the time the standard is initially applied, to clarify application to hedging instruments for government organizations transitioning from the standards in Part V of the CPA Canada Handbook – Accounting. Gains or losses yet to be recognized in net income prior to the transition date associated with designated hedging instruments are accounted for in accumulated remeasurement gains or losses at transition. Additionally, a new transitional provision has been added that applies to government organizations transitioning from the standards in Part V with self-sustaining foreign operations. Accumulated other comprehensive income (OCI) from translation of self-sustaining foreign operations is recognized in accumulated remeasurement gains or losses on transition.

The Section is effective in the same period PS 3450 is adopted. PS 2601 and PS 3450 were to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

## APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

### PS 3041 Portfolio Investments (New)

In March 2012, as a result of the issuance of PS 3450 *Financial Instruments*, the Public Sector Accounting Board (PSAB) issued new PS 3041 *Portfolio Investments*, which revises and replaces PS 3030 *Temporary Investments* and PS 3040 *Portfolio Investments*. The main features of the new standard are:

- PS 3041 does not make a distinction between temporary and portfolio investments, and is cross referenced and conformed to the requirements of PS 3450.
- Investments previously within the scope of PS 3030, which are not cash equivalents, are now accounted for within the scope of PS 3041.

This Section is effective in the same period PS 1201 *Financial Statement Presentation*, PS 2601 *Foreign Currency Translation* and PS 3450 are adopted. PS 1201, PS 2601 and PS 3450 are to be adopted together and were to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

### PS 3450 Financial Instruments (New and Amendment)

In June 2011, the Public Sector Accounting Board (PSAB) issued new PS 3450 *Financial Instruments*. The new standard establishes requirements for recognition, measurement, derecognition, presentation and disclosure of financial assets and financial liabilities, including derivatives. The main features of the new standard are:

- Financial instruments are classified into two measurement categories: fair value, or cost or amortized cost.
  - Almost all derivatives, including embedded derivatives not closely related to the host contract, are measured at fair value.
  - Portfolio investments in equity instruments quoted in an active market are measured at fair value.
  - Other financial assets and financial liabilities are generally measured at cost or amortized cost.
  - An entity may elect to measure any group of financial assets or financial liabilities (or both) at fair value when the entity has a risk management or investment strategy to manage those items on a fair value basis.
- Remeasurement gains and losses on financial instruments measured at fair value are reported in the statement of remeasurement gains and losses until the financial instrument is derecognized.
- Budget to actual comparisons are not required within the statement of remeasurement gains and losses;
- Financial liabilities are derecognized when, and only when, they are extinguished.
- Financial assets and financial liabilities are only offset and reported on a net basis if a legally enforceable right to set off the recognized amounts exists, and the entity intends to settle on a net basis or realize/settle the amounts simultaneously.

In May 2012, the transitional provisions for this Section were amended, effective at the time the standard is initially applied, to clarify that the measurement provisions are applied prospectively. Adjustments to previous carrying amounts are recognized in opening accumulated remeasurement gains or losses. Additionally, a new transitional provision has been added that applies to government organizations transitioning from the standards in Part V of the CPA Canada Handbook – Accounting with items classified as available for sale. Accumulated other comprehensive income (OCI) from items classified as available for sale is recognized in accumulated remeasurement gains or losses on transition.

PS 3450 was to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section and amendments are now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted. In the period that a public sector entity applies PS 3450, it also applies PS 1201 and PS 2601.

### 2018 – 2019 Annual Improvements to Public Sector Accounting Standards (Amendment)

In September 2019, the Public Sector Accounting Board (PSAB) issued annual improvements to correct errors in wording or clarify the PSA Handbook and other guidance. The amendments include:

- Removal of due process procedures from the PSA Handbook and other guidance as PSAB's Due Process Manual contains the due process the Board must follow.
- Various amendments to correct inconsistencies and update terminology in affected Standards related to the introduction of the government component category in 2014.
- Various amendments to PS 3060 *Government Partnerships*, mainly to update terminology.

## APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

- Other minor amendments to address further inconsistencies or areas requiring clarification, as well as consequential amendments to various other standards.

The amendments are effective for fiscal years beginning on or after April 1, 2020 and should be applied retrospectively. Early adoption is permitted.

### **PS 3450 Financial Instruments (Amendment)**

In April 2020, the Public Sector Accounting Board (PSAB) issued amendments to PS 3450 *Financial Instruments*. The main features of the amendments include:

#### *Bond Repurchase Transactions*

- Bond repurchase transactions are only to be treated as extinguishments when they are either:
  - Legally discharged;
  - An exchange of debt instruments with substantially different terms; or
  - A substantial modification of the terms of an existing financial liability or part of it.

#### *Section Application*

- Clarification that PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable. By definition, there must be a contract for there to be a financial instrument.
- Clarification for how to account for a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract.
- Addition of application guidance explaining that derecognition of a financial asset does not occur if the transferor of a financial asset retains substantially all the risks and benefits of ownership.

#### *Transitional Provisions*

- Clarification that a controlling government should use carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization.
- For financial assets or financial liabilities in the cost or amortized cost category which have an associated unamortized discount, premium or transaction costs, the unamortized discount, premium or transaction costs should be included in the item's opening carrying value.
- For derivatives which may not have been recognized or may not have been measured at fair value prior to the adoption of PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses.

The amendments were to be effective for fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section and amendments are now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

### **PS 3280 Asset Retirement Obligations (New)**

In August 2018, new PS 3280 *Assets Retirement Obligations* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3280 establishes standards on how to account for and report a liability for asset retirement obligations (ARO). As asset retirement obligations associated with landfills are included in the scope of new PS 3280, PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability* will be withdrawn.

The main features of this standard are as follows:

- An ARO represents a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner.
- When an asset is no longer in productive use, the associated asset retirement costs are expensed.
- Measurement of the ARO liability should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date.
- Subsequent measurement of the ARO liability results in either a change in the carrying amount of the related tangible capital asset or an expense. The accounting treatment depends on the nature of the remeasurement and whether the asset remains in productive use.
- The best method to estimate the liability is often a present value technique.

This standard was to be effective for fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now

## APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

### **PS 3400 Revenue (New)**

In November 2018, new PS 3400 *Revenue* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3400 establishes standards on how to account for and report on revenue by distinguishing between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The main features of this Section are as follows:

- Performance obligations are enforceable promises to provide specific goods or services to a specific payor.
- Performance obligations can be satisfied at a point in time or over a period of time.
- The new standard outlines five indicators to determine if the revenue would be recognized over a period of time.
- Revenue from a transaction with a performance obligation(s) is recognized when, or as, the entity has satisfied the performance obligation(s).
- Revenue from transactions with no performance obligation is recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event that gives rise to a claim of economic resources has occurred.

Further editorial changes have also been made to other standards as a result of the issuance of PS 3400.

This Section was to be effective for fiscal years beginning on or after April 1, 2022. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2023. Early application continues to be permitted.

### **2019 - 2020 Annual Improvements to Public Sector Accounting Standards (Exposure Draft)**

In January 2020, the Public Sector Accounting Board (PSAB) issued its annual improvements Exposure Draft (ED) to correct errors in wording or clarify the PSA Handbook and other guidance. The ED reflects the following proposed improvements:

- Clarification of the transitional provisions, i.e., method of application and effective dates, for consequential amendments;
- Updates to the disclosure requirements in various standards to reflect the requirement of PS 3380 *Contractual Rights* relating to disclosure of contractual rights.
- Replacement of the term “contingencies” with “contingent assets and contingent liabilities” in various standards.

PSAB approved the amendments in July 2020 and the amendments are expected to be issued in the fall of 2020. The amendments will be effective for fiscal years beginning on or after April 1, 2021. Earlier application will be permitted. The amendments are proposed to be applied retrospectively.



## APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

### NEW ASSURANCE DEVELOPMENTS

#### **CAS 315 Identifying and Assessing the Risks of Material Misstatement (Amendment)**

In May 2020, the Auditing and Assurance Standards Board (AASB) issued the revised CAS 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, to align with the International Auditing and Assurance Standards Board's (IAASB) changes to International Standards on Auditing (ISA) 315 (revised), with the same title.

The revised CAS 315 incorporates changes to establish more robust requirements and detailed guidance to assist auditors in performing appropriate risk assessment procedures corresponding with the size and nature of the entity. It also includes changes to enhance the application of professional skepticism in audits. The revised CAS 315 accomplishes the following:

- Distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- Clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- Highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling based on the complexity of the situation;
- Clarifies the definition of "significant risk" and introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- Introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- Introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- Separates the assessment of inherent and control risk;
- Enhances the auditor's considerations regarding the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- Introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- Uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- Clarifies the threshold for identifying possible risks of material misstatement in CAS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*.

As a result of issuing the revised CAS 315, requirements for several other standards have been amended to better articulate the auditor's responsibilities regarding identifying and assessing the risks of material misstatement:

- CAS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
- CAS 330 *The Auditor's Responses to Assessed Risks*
- CAS 402 *Audit Considerations Relating to an Entity Using a Service Organization*
- CAS 540 *Auditing Accounting Estimates and Related Disclosures*

The revised CAS 315 and other conforming amendments to other standards are effective for audits of financial statements for periods beginning on or after December 15, 2021. Earlier application is permitted.

#### **CAS 540 Auditing Accounting Estimates and Related Disclosures (New)**

In March 2019, the Auditing and Assurance Standards Board (AASB) revised and replaced CAS 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. The revised CAS 540 incorporates changes to establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

This revised CAS:

- Introduces the concept of inherent risk factors, including estimation uncertainty, complexity, subjectivity and others;
- Introduces a separate assessment of inherent risk and control risk for accounting estimates;
- Explicitly recognizes the spectrum of inherent risk;
- Enhances requirements for risk assessment procedures related to obtaining an understanding of the entity and its environment, including internal control;
- Introduces objectives-based work effort requirements to design and perform further audit procedures to respond to



## APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

- assessed risks of material misstatement;
- Enhances the “stand-back” requirements by adding an evaluation of corroborative and contradictory audit evidence obtained regarding the accounting estimates;
- Enhances requirements to obtain audit evidence about whether the disclosures are reasonable; and
- Includes a requirement to consider matters regarding accounting estimates when communicating with those charged with governance.

As a result of issuing revised CAS 540, the following standards have been amended to clarify the auditor's responsibilities regarding auditing accounting estimates and related disclosures:

- CAS 500 *Audit Evidence*;
- CAS 700 *Forming an Opinion and Reporting on Financial Statements*; and
- CAS 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

Further editorial changes have also been made to other standards as a consequence of revising CAS 540.

The revised CAS 540 is effective for audits of financial statements for periods beginning on or after December 15, 2019. Earlier application is permitted.

## APPENDIX B – THE AUDIT PROCESS

### OUR PLAN

Our overall audit strategy is risk-based and controls-oriented. Assessment and identification of risk is performed continuously throughout the audit process. We focus on the risks that have a potential impact on the financial accounting systems and subsequent financial reporting.

Our overall audit strategy does not, and is not intended to involve the authentication of documents, nor are our team members trained or expected to be experts in such authentication. Unless we have reason to believe otherwise, we accept records and documents as genuine. The subsequent discovery of a material misstatement resulting from fraud does not, in and of itself, indicate a failure to comply with Canadian generally accepted auditing standards.

### AUDIT PROCEDURES


To meet our responsibilities in accordance with Canadian generally accepted auditing standards, our audit examination includes:

- Obtaining an understanding of the entity and its environment, including its controls, in order to identify and assess the risk that the financial statements contain material misstatements due to fraud or misstatement;
- Assessing the adequacy of and examining, on a test basis, the key controls over significant transaction streams and over the general organizational and computer environments;
- Assessing the systems used to ensure compliance with applicable legislative and related authorities pertaining to financial reporting, revenue raising, borrowing, and investing activities;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the appropriateness and consistency of accounting principles used and their application;
- Assessing the significant estimates used by management; and,
- Assessing the entity's use of the going concern basis of accounting in the preparation of the financial statements.

As part of our planning process, we will also undertake to inform Council of concerns relating to management's implementation and maintenance of controls, and the effects of any such concerns on the overall strategy and scope of the audit. These concerns might arise from the nature, extent and frequency of management's assessments of controls in place to detect fraud and misstatement, and of the risk that the financial statements may be misstated; from a failure by management to appropriately address significant deficiencies in controls identified in prior audits; and, from our evaluation of the County's control environment, and management's competence and integrity.

## APPENDIX B – THE AUDIT PROCESS (continued from previous page)

### OVERALL RELIANCE

CONTROL RELIANCE LEVEL	LOW/NONE	MODERATE	HIGH
DESCRIPTION	<p>Where we cannot rely on controls because they are weak or absent, or <b>where it is deemed to be more efficient to carry out a high level of direct substantive tests of transactions</b> and balances. Audit evidence is primarily obtained through detailed verification procedures and sufficient substantive tests of details and transactions.</p> <p><b>For Rocky View County, while there are many controls in place, it is more efficient to do a substantive audit.</b></p>	<p>Where there are some deficiencies in systems application or procedural controls, or where it is deemed to be inefficient to test systems application controls, but where we can test and rely on the management monitoring systems in place to detect and correct material misstatements in the financial reporting systems. Testing of controls is supplemented with a moderate level of substantive tests of details and transactions.</p>	<p>Where a high degree of control is in place in the areas of management monitoring controls AND systems application and procedural controls. Our audit work focuses on testing both management monitoring and systems application and procedural controls, and is supplemented with a low level of substantive tests of details and transactions.</p>
PLANNED RELIANCE		—	—

For the December 31, 2020 audit, we are planning to place low reliance on the County's accounting systems. This level of reliance is consistent with the prior year, and will involve mainly substantive tests of transactions and balances.

The amount of substantive work will be reduced for cycles where there are controls in place that MNP can test and rely on.

As part of our audit work we will update our understanding of the entity and its environment, including the controls relevant to our audit of the principal transaction cycles, sufficient to identify and assess the risks of material misstatement of the financial statements resulting from fraud or misstatement. This will be accomplished through inquiries with management and others within the entity, analytical procedures and observation and inspection. Furthermore, we will consider whether effective controls have been established to adequately respond to the risks arising from the use of IT or manual systems and test the operation of those controls to an extent sufficient to enable us to reduce our substantive work. Our review of the County's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.



Although we will provide Council with any information about significant deficiencies in internal control that have come to our attention, we may not be aware of all the significant deficiencies in internal control that do, in fact, exist.

## **APPENDIX B – THE AUDIT PROCESS (continued from previous page)**

### **USE OF SPECIALISTS**

To obtain sufficient appropriate audit evidence to support our opinion, we intend to solicit the assistance of Airborne Engineering. By relying on their calculation on the estimated gravel inventory, the specialist will form part of our audit strategy in relation to ensure the County's calculation of gravel inventory is correct.

We have sole responsibility for the audit opinion being expressed, and that responsibility is not reduced by our use of a specialist. We will, in accordance with Canadian generally accepted auditing standards, evaluate the competence, capabilities and objectivity of any specialists we employ to ensure their work is adequate for our purposes.

### **INHERENT LIMITATIONS IN THE AUDITING PROCESS**

An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected due to factors such as the use of significant judgment regarding the gathering of evidence and the drawing of conclusions based on the audit evidence acquired; the use of testing of the data underlying the financial statements; inherent limitations of controls; and, the fact that much of the audit evidence available to the auditor is persuasive, rather than conclusive in nature.

Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. While effective controls reduce the likelihood that misstatements will occur and remain undetected, they do not eliminate that possibility. Therefore, the auditor cannot guarantee that fraud, misstatements and non-compliance with laws and regulations, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

The likelihood of not detecting material misstatements resulting from management fraud is greater than for employee fraud, because management is in a position to manipulate records, present fraudulent information or override controls.

We will inform the appropriate level of management or Council with respect to identified:

- Misstatements resulting from errors, other than clearly trivial misstatements;
- Fraud, or any information obtained that indicates that fraud may exist;
- Evidence obtained that indicates non-compliance or possible non-compliance with laws and regulations, other than that considered inconsequential;
- Significant deficiencies in the design or implementation of controls to prevent and detect fraud or misstatement; and
- Related party transactions that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

Our concern as auditors is with material misstatements, and thus, we are not responsible for the detection of misstatements that are not material to the financial statements taken as a whole.

## APPENDIX C – AUDITOR INDEPENDENCE

### AUDITOR INDEPENDENCE

An essential aspect of all our services to the County is an independent viewpoint, which recognizes that our responsibilities are to the members. While the concept of independence demands a questioning and objective attitude in conducting our audit, it also requires the absence of financial or other interests in the County. In accordance with our firm's policy, and the Rules of Professional Conduct, which govern our profession, neither MNP nor any of its team members assigned to the engagement or any of its partners, are permitted to have any involvement in or relationship with the County that would impair independence or give that appearance. As auditors, we subscribe to the highest standards and are required to discuss the auditor's independence with Council on an annual basis. Under the standard an auditor shall:

- Disclose to, Council in writing, all relationships between the auditor and the County that in the auditor's professional judgment may reasonably be thought to bear on our independence;
- Confirm in writing that, in its professional judgment, MNP is independent within the meaning of the Rules of Professional Conduct as of February 9, 2021; and,
- Discuss the auditor's independence with Council.

Our draft Independence Communication to Council discussing our independence, the general form and content of which we expect to provide to Council upon the conclusion of our audit, is attached to this report.

During the course of the audit, we will communicate any significant new matters that come to our attention that, in our professional judgment, may reasonably be thought to bear on our independence. At the completion of our audit, we will reconfirm our independence.

## **INDEPENDENCE COMMUNICATION**

**(See Attached)**



February 9, 2021

Council  
Rocky View County  
262075 Rocky View Point  
Rocky View County, AB T4A 0X2

Dear Sirs/Mesdames:

We have been engaged to audit the financial statements of Rocky View County ("the County") as at December 31, 2020 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the County and its related entities or persons in financial reporting oversight roles at the County and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) 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 or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance services in addition to the audit engagement.

We are not aware of any relationship between the County and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2020 to February 9, 2021.

We hereby confirm that MNP is independent with respect to the County within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of February 9, 2021.

The total fees charged to the County for 2020 audit services interim billings were \$21,000 during the period from January 1, 2020 to February 9, 2021. In addition, the total fees charged for the 2019 audit services during the period noted was \$21,000. There was also \$4,000 in fees charged for other services (LAPP and FCSS reporting) during the period. There were no billings for non-audit services.

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

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you at our meeting on February 9, 2021. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,

**Chartered Professional Accountants**

## **ENGAGEMENT LETTERS**

**(See Attached)**





October 13, 2020

Mr. Woods  
Rocky View County  
262075 Rocky View Point  
Rocky View County, AB T4A 0X2

Dear Mr. Woods:

This letter will confirm the arrangements discussed with you regarding the services we will render to Rocky View County ("the County") for the fiscal year ended December 31, 2020.

### **Our responsibilities**

We will audit the financial statements of Rocky View County for the year ended December 31, 2020. We will also audit the financial information return of Rocky View County for the year ended December 31, 2020.

Our audits will be conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we will plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error. The financial information return will be prepared within the required presentation and financial reporting provisions of the Municipal Financial Information Return Manual as provided by Alberta Municipal Affairs.

Our statutory function as auditors is to report to Council by expressing an opinion on the financial statements. At the conclusion of our audit we will submit to you reports containing our opinions on the financial statements and the financial information return. If, during the course of our work, it appears for any reason that we will not be in a position to render an unmodified opinion on the financial statements or financial information return, we will discuss this with you.

Our responsibilities, objective, scope, independence and the inherent limitations of an audit conducted in accordance with Canadian generally accepted auditing standards are detailed in Appendix A, which forms part of our mutual understanding of the terms of this engagement.

### **Management's responsibilities**

The operations of the County are under the control of management, which has responsibility for the accurate recording of transactions and the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards. This includes the design, implementation and maintenance of internal control relating to the preparation and presentation of the financial statements.

Appendix B, which describes in detail management's responsibilities with respect to this engagement, forms part of our mutual understanding of the terms of this engagement.

### **Reporting**

Unless unanticipated difficulties are encountered, our reports will be substantially in the form illustrated in Appendix C. We will also provide a report on the audited financial information return.

### **Fees and expenses**

Our fees and expenses are discussed in detail in Appendix D.

## Other matters

We will, as permitted by the Rules of Professional Conduct, provide additional services upon request, in areas such as taxation, leadership and human resource management, communication, marketing, strategic planning, financial management and technology consulting.

Our standard terms and conditions, included as Appendix E, form part of our mutual understanding of the terms of this engagement. In the event that you choose to terminate this engagement based on the terms outlined in Appendix E, we reserve the right to notify all financial statement users of the change.

The privacy and security of the personal information you provide is important to us. We strive to ensure the strictest compliance with all applicable provincial and federal standards of protection and disclosure of personal information by any and all of our employees, agents, divisions and/or affiliates (referred to collectively as "MNP"). You may review our privacy policy at [www.mnp.ca](http://www.mnp.ca). We will not collect, use, or disclose any of your personal information without your knowledge and consent, unless required to do so by legal authority or the applicable provincial Rules of Professional Conduct.

By signing this engagement letter you agree that for the purposes of this engagement MNP may collect, use, and disclose personal information in accordance with our privacy policy. You also agree that MNP may collect and use personal information from you for the purposes of providing other services or informing you of other opportunities from time to time ("Other Matters"). Personal information that is not relevant to the purposes of this engagement or to any Other Matters will not be disclosed to anyone for any reason without your further prior consent.

In accordance with professional regulations (and by Firm policy), our client files must be periodically reviewed by provincial or national practice inspectors and by other Firm personnel to ensure we are adhering to professional and Firm standards. Confidentiality of client information will be maintained throughout this process.

The arrangements outlined in this letter and its appendices will continue in effect from year to year, unless changed in writing.

We believe the foregoing correctly sets forth our understanding, but if you have any questions, please let us know. If you find the arrangements acceptable, please acknowledge your agreement to the understanding by signing and returning the second copy of this engagement letter to us.

It is a pleasure for us to be of service to you. We look forward to many years of association with you and Rocky View County.

Yours truly,

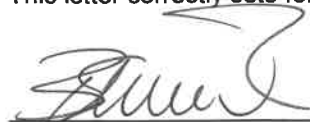
*MNP LLP*

**Chartered Professional Accountants**

encls.

## RESPONSE:

This letter correctly sets forth the understanding of Rocky View County.

  
\_\_\_\_\_  
Officer Signature

*Manager Financial Services*  
\_\_\_\_\_  
Title Date

OCT 28 2020

## **Appendix A: Our Audit Responsibilities, Objective, Scope and Limitations**

The following details our responsibilities as auditors and the objective, scope, independence and inherent limitations of an audit conducted in accordance with Canadian generally accepted auditing standards.

### **Our responsibilities, objective and scope**

Our audit will be planned and performed to obtain reasonable assurance that the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error. If any of the following matters are identified, they will be communicated to the appropriate level of management:

- Misstatements, resulting from error, other than immaterial misstatements;
- Fraud or any information obtained that indicates that a fraud may exist;
- Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern;
- Any evidence obtained that indicates non-compliance or possible non-compliance with laws and regulations has occurred;
- Significant deficiencies in the design or implementation of controls to prevent and detect fraud or misstatements; and
- Related party transactions identified that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed.

Furthermore, we will consider the County's controls over financial reporting for the purpose of identifying types of potential misstatement, considering factors that affect the risks of material misstatement, and determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the financial statements.

### **Independence**

The Rules of Professional Conduct require that we are independent when conducting this engagement. We will communicate to the Council any relationships between the County (including related entities) and MNP LLP ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence.

If matters should arise during this engagement that can reasonably be assumed to have impaired our independence, we may need to withdraw from this engagement.

### **Audit limitations**

An audit involves performing procedures to obtain audit evidence regarding the amounts and disclosures in the financial statements. This includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

It is important to recognize that an auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of factors such as the use of judgment, selective testing of data, inherent limitations of controls, and the fact that much of the audit evidence available is persuasive rather than conclusive in nature.

**Appendix A: Our Audit Responsibilities, Objective, Scope and Limitations** *(continued from previous page)*

Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material misstatement due to fraud.

While effective controls reduce the likelihood that misstatements will occur and remain undetected, they do not eliminate that possibility. Therefore, we cannot guarantee that fraud, misstatements and non-compliance with laws and regulations, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

The audit of the financial statements and the issuance of our audit opinion are solely for the use of the County and those to whom our report is specifically addressed. We make no representations of any kind to any third party in respect of these financial statements and we accept no responsibility for their use by any third party. If our name is to be used in connection with the financial statements, you will attach our independent audit report when distributing the financial statements to third parties.

We ask that our names be used only with our consent and that any information to which we have attached a communication be issued with that communication unless otherwise agreed to by us.

## Appendix B: Management Responsibilities

During the course of our audit, you will be required to provide and make available complete information that is relevant to the preparation and presentation of the financial statements, including:

- Financial records and related data;
- Copies of all minutes of meetings of council and committees;
- Access to personnel to whom we may direct our inquiries;
- Information relating to any known or possible instances of non-compliance with laws, legislative or regulatory requirements (including financial reporting requirements);
- Information relating to all related parties and related party transactions; and
- Allowing access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Management's responsibility with respect to fraud and misstatement includes:

- The design and implementation of controls for its prevention and detection;
- An assessment of the risk that the financial statements may be materially misstated;
- Disclosure of situations where fraud or suspected fraud involving management, employees who have significant roles in controls, or others, where the fraud could have a material effect on the financial statements, have been identified or allegations have been made; and
- Communicating your belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In accordance with Canadian generally accepted auditing standards, we will request a letter of representation from management at the close of our audit in order to confirm oral representations given to us and reduce the possibility of misunderstanding concerning matters that are the subject of the representations. These representations are used as evidence to assist us in deriving reasonable conclusions upon which our audit opinion is based.

If the County plans any reproduction or publication of our report, or a portion thereof, printer's proofs of the complete documents should be submitted to us in sufficient time for our review, prior to making such documents publicly available. It will also be necessary for you to furnish us with a copy of the printed report. Further, it is agreed that in any electronic distribution, for example on Rocky View County's website, management is solely responsible for the accurate and complete reproduction of our report and the subject matter on which we reported, and for informing us of any subsequent changes to such documents. However, we are responsible to read the documents to ensure accuracy, and consider the appropriateness of other information accompanying the audited financial statements, upon initial posting.

## Appendix C: Illustrative Independent Auditor's Report

To the Reeve and Members of Council of Rocky View County:

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Rocky View County (the "County"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations, changes in net financial assets, cash flows and the related schedules for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the County as at December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the County in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the County's financial reporting process.

## Appendix C: Illustrative Independent Auditor's Report *(continued from previous page)*

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Red Deer, Alberta

(date)

Chartered Professional Accountants



## **Appendix C: Illustrative Independent Auditor's Report** *(continued from previous page)*

To the Reeve and Members of Council of Rocky View County:

### **Report on the Audit of the Financial Information Return**

#### **Opinion**

We have audited the municipal financial information return of Rocky View County (the "County"), which comprise the schedule 9A statement of financial position as at December 31, 2020, and schedules 9B through 9AA for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements are prepared, in all material respects, in accordance with the required presentation and financial reporting provisions of the Municipal Financial Information Return Manual as provided by Alberta Municipal Affairs.

#### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the County in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of Matter**

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to comply with the financial reporting requirements with Alberta Municipal Affairs, to be used primarily for statistical purposes. As a result, the financial statements may not be suitable for another purpose. Our report is not modified in respect of this matter. Our report is intended solely for the County and Alberta Municipal Affairs and should not be distributed to or used by parties other than the County or Alberta Municipal Affairs.

#### **Other Matter**

The County has prepared a set of financial statements for the year ended December 31, 2020 in accordance with Canadian public sector accounting standards on which we issued an auditor's report to the Reeve and Council of the County dated April xx, 2021.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of the Municipal Financial Information Return Manual as provided by Alberta Municipal Affairs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the County's financial reporting process.



## Appendix C: Illustrative Independent Auditor's Report *(continued from previous page)*

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Red Deer, Alberta

(date)

Chartered Professional Accountants

## Appendix D: Fees and Expenses

Our fees are determined on the basis of time spent on the engagement at the tariff rates of various members of our team. Any disbursements will be added to the billing.

The estimate of fees for the audit services to be provided is \$42,000.

Invoices will be rendered as work progresses in accordance with the following schedule:

Progress billing #1 upon commencement of field work	\$	21,000
Progress billing #2 upon completion of field work	\$	16,800
Final billing – upon release of the independent auditors' report	\$	4,200

LAPP and FCSS fees will be billed separately at \$2,000 each upon delivery.

In signing this letter, you acknowledge your approval of the above billing schedule and amounts. Invoices expected to be issued that do not adhere to this schedule, or are in excess of the amounts noted above, will be discussed with you for your approval. Fees collected will be applied to overdue invoices first, followed by subsequently issued invoices in order of issuance. If payment is not received in accordance with the above schedule, we will at our discretion cease all work until the scheduled payments are received.

In the event of an outstanding balance for professional services rendered, we reserve the right to exercise a lien over those records in our possession for which a lien is maintainable, including but not limited to our own work product.

You authorize MNP to obtain or exchange any personal information with any personal information agent for the purpose of establishing or verifying your financial standing.

Our estimated fees are based on our audit fee quotation previously presented to you. This estimate relies on the following assumptions:

- No significant deficiencies in internal controls which cause procedures to be extended;
- No major unadjusted misstatement(s) or un-reconciled balances;
- Significantly all adjusting entries are completed prior to trial balance and journal entries being provided to the audit team;
- All management and required staff are available as needed;
- Information and working papers required, as outlined in our letter of fiscal year-end requirements, are provided in the mutually agreed form and timing; and
- There are no changes to the agreed upon engagement timetable and reporting requirements.

We will ask that your personnel, to the extent possible, prepare various schedules and analysis, and make various invoices and other documents available to our team. This assistance will facilitate the progress of our work and minimize the cost of our service to you.

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the practitioner leading your engagement so a mutually agreeable solution can be reached. In accordance with our standard terms and conditions, included as Appendix E, if significant changes to the arrangements set forth in this engagement letter are required, any change in scope of the engagement will need to be agreed in writing, in a "Change Order" agreement.

## Appendix E: Standard Terms and Conditions

The following standard terms and conditions and the engagement letter to which they are attached form one agreement and set out the terms and conditions upon which MNP LLP ("MNP") will provide services to you (the "County").

1. **Timely Performance** - MNP will use all reasonable efforts to complete, within any agreed-upon time frame, the performance of the services described in the engagement letter to which these terms and conditions are attached. However, MNP shall not be liable for failures or delays in performance that arise from causes beyond our control, including the untimely performance by the County of its obligations as set out in the engagement letter.
2. **Right to Terminate Services** - The County may terminate the engagement upon 30 days written notice. If this occurs, the County shall pay for time and expenses incurred by MNP up to the termination date, together with reasonable time and expenses incurred to bring the services to a close in a prompt and orderly manner. Should the County not fulfil its obligations as set out herein and in the engagement letter, and in the event that the County fails to remedy such default within 30 days following receipt of notice from MNP to that effect, MNP may, upon written notification and without prejudice to its other rights and resources, terminate provision of our services as described in the engagement letter. In such case, MNP shall not be responsible for any loss, costs, expenses, or damages resulting from such termination.
3. **Change Order** - If, subsequent to the date of this engagement letter, the County requires significant changes to the arrangements set forth in this engagement letter, the County will be required to agree to the change in scope of the engagement in writing, in a "Change Order" agreement. The "Change Order" agreement will set forth the revised arrangements and scope of services to be performed and any related additional fees associated.
4. **Fees** - Any fee estimates by MNP take into account the agreed-upon level of preparation and assistance from the County's personnel. MNP undertakes to advise the County's management on a timely basis should this preparation and assistance not be provided, or should any other circumstances arise which cause actual time to exceed the estimate.
5. **Administrative Expenses** - Administrative expenses include costs such as long distance telephone and telecommunication charges, photocopying, delivery, postage, and clerical assistance. These expenses are based on a percentage of our fees for professional services (5%). Where applicable, federal, provincial, or other goods and services or sales taxes have been paid on these expenses. Other major costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.
6. **Billing** - Bills will be rendered as indicated in the letter above. Accounts are due and payable upon receipt. Interest may be charged on the balance of any accounts remaining unpaid for more than 30 days, at a rate of 1.5% per month (19.56% per annum).
7. **Taxes** - All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. The County shall assume and pay any such taxes or duties, without deduction from the fees and charges hereunder.
8. **Governing Law** - The engagement will be governed and construed in accordance with the laws of the Province of Alberta, and shall be deemed in all respects to be an Alberta contract. The County and MNP submit to the courts of that jurisdiction with respect to all matters arising under or by virtue of this Agreement.

## Appendix E: Standard Terms and Conditions *(continued from previous page)*

9. **Working Papers** - MNP owns all working papers and files, other materials, reports and work created, developed or performed during the course of the engagement, including intellectual property used in the preparation thereof. We will provide management with a copy of all practitioner-prepared working papers necessary for the County's accounting records. MNP may develop software, including spreadsheets, documents, databases, and other electronic tools, to assist us with our assignment. As these tools and working papers were developed specifically for our purposes and without consideration of any purpose for which the County might use them, any such tools which may be provided to the County, will be made available on an "as is" basis only, at our discretion, and should not be distributed to or shared with any third party. Except as indicated in the Rules of Professional Conduct or by any legal proceeding, we have no responsibility to share our working papers with you or with any other parties.
10. **Out-sourcing** - MNP may out-source to third party service providers certain data-entry functions. To protect our clients, we have imposed detailed contractual obligations on these service providers regarding the safeguarding, confidentiality and security of your personal information. Nevertheless, our service provider may be required by the applicable laws of a foreign country to disclose personal information in its custody to that country's government or agencies pursuant to a lawful court order made in that country.
11. **Nature of the Limited Liability Partnership (LLP)** - MNP is a registered limited liability partnership, as permitted by legislation enacted in our governing jurisdiction of the Province of Alberta. This legislation provides that a partner of an LLP is not personally liable for any of the debts, obligations, or liabilities of the LLP or any of the other partners which may arise as a result of any negligent act or omission of another partner of the LLP, or by any employee of the partnership, unless such act or omission is committed by the partner him or herself or by a person under the partner's direct supervision and control. All partners of an LLP remain personally liable for any acts or omissions arising as a result of their own negligence, and for the acts or omissions of those directly under their supervision or control, and shall continue to be subject to unlimited personal liability for all of the other liabilities of the partnership. The legislation does not reduce or limit in any way the liability of the partnership itself, and all of the partnership's assets and insurance coverage remain at risk.
12. **Release and Limitation of Liability** - The County and MNP agree to the following with respect to MNP's liability to the County:
  - a. In any action, claim, loss or damage arising out of the engagement, the County agrees that MNP's liability will be several and not joint and the County may only claim payment from MNP of MNP's proportionate share of the total liability based on the degree of fault of MNP as finally determined by a court of competent jurisdiction.
  - b. Other than for matters finally determined to have resulted from the gross negligence, fraud or willful misconduct of MNP, whether the claim be in tort, contract, or otherwise:
    - i. MNP shall not be liable to the County and the County releases MNP for all claims, damages, costs, charges and expenses (including legal fees and disbursements) incurred or suffered by the County related to, arising out of, or in any way associated with the engagement to the extent that the aggregate of such amounts is in excess of the total professional fees paid by the County to MNP in connection with this engagement during the 12 month period commencing from the date of the engagement letter to which these terms and conditions are attached; and,
    - ii. MNP shall not be liable to the County for any consequential, indirect, lost profit or similar damages, or failure to realize expected savings, relating to MNP's services provided under the engagement letter to which these terms and conditions are attached.

## Appendix E: Standard Terms and Conditions *(continued from previous page)*

13. **Indemnity** - The County agrees to jointly and severally indemnify and hold harmless MNP against:
- All claims, damages, costs, charges and expenses (including legal fees and disbursements) which are related to, arise out of, or are in any way associated with the engagement, whether the claims are civil, penal, regulatory, or administrative in nature, other than those finally determined by a court of competent jurisdiction to have resulted from MNP's gross negligence, fraud or willful misconduct; and,
  - Notwithstanding "a.," all claims, damages, costs, charges and expenses (including legal fees and disbursements) which are related to, arise out of, or are in any way associated with the engagement, whether the claims are civil, penal, regulatory, or administrative in nature, that arise from or are based on any deliberate misstatement or omission in any material, information or representation supplied or approved by any officer or member of the Board of Directors of the County.

For the purposes of paragraph 12. and 13., "MNP" shall mean MNP LLP and its directors, officers, partners, professional corporations, employees, subsidiaries and affiliates and to the extent providing services under the engagement letter to which these terms are attached, MNP LLP, its member firms, and all of their partners, principals, members, owners, directors, staff and agents; and in all cases any successor or assignee.

14. **Survival of Terms** - The County and MNP agree that clauses 12. and 13. will survive termination of the engagement.
15. **Electronic Communications** - Unless the County prefers we use a particular manner of communication and specifies as much in writing, MNP will use whatever form of communication it deems most efficient in the circumstances. In many instances, this will involve the use of internet e-mail. With respect to internet e-mail, MNP and the County both acknowledge that neither party has control over the performance, reliability, availability, or security of internet e-mail. Additionally, MNP staff may be required or requested to work from your offices during which visits access to and use of and reliance upon your electronic environment (including but not limited to, your network, Internet, and extranet resources) is necessitated. The County accepts that MNP shall not be liable for any loss, damage, expense, harm or inconvenience resulting from any loss, delay, interception, corruption, security breach, delivery failure, incompatibility, incompleteness or alteration of any document or transmission arising from the use of e-mail or the transmission of any document outside of MNP's electronic environment.
16. **Confirmation.com** - By signing this engagement letter, you agree to the use by MNP of Capital Confirmation Inc. ("CCI") as a third party service provider and the use of CCI's platform (the "Platform") to prepare, request and receive confirmations required to perform the engagement. You acknowledge and agree that data being uploaded/downloaded via the Platform may reside on servers located in the United States and that CCI could be required to disclose data, including personal information, in its custody to the United States government, government agencies, courts or law enforcement or regulatory agencies pursuant to the laws of the United States. MNP shall not be liable for any loss or damage arising from your or MNP's use of CCI as a service provider or use of the Platform, including any losses relating to CCI's collection, use, disclosure or loss of your data or personal information. You agree to pay all fees for requesting and receiving confirmations. For more information, you can review the third party service provider's Terms and Conditions and Privacy Policy on CCI's website at: <https://www.confirmation.com/>

## MNP LLP – Wherever Business Takes You

Assurance › Consulting › Tax

### About MNP LLP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.

