

February 19, 2018

Sturgeon County
9613 – 100th Street
Morinville, AB
T8R 1L9

Sent via e-mail: rwojtkiw@sturgeoncounty.ca

Attention: Council Members

Dear: Council Members

RE: 2017 AUDIT PLANNING

A. INTRODUCTION

The objectives of this letter are as follows:

- a) To communicate clearly with Council our responsibilities in relation to the financial statement audit, and provide an overview of the planned scope and timing of the audit;
- b) To obtain from Council information relevant to the audit;
- c) To provide Council with timely observations arising from the audit that are significant and relevant to Council's responsibility to oversee the financial reporting process; and
- d) To promote effective two-way communication between the auditor and Council.

Clear two-way communication between the auditor and those charged with governance is an integral part of every audit. After reviewing this letter please advise us whether there are additional areas of concern to Council which we should consider.

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B. SERVICES TO BE PROVIDED

We have been engaged by Council to perform the following services:

a) Audit services

- Audit of Sturgeon County's 2017 financial statements.
- Audit of Sturgeon County's 2017 *Financial Information Return*.
- Audit of Sturgeon County's compliance with the Local Authorities Pension Plan *e-guide* for the year ended December 31, 2017.

b) Non-audit services

- Review Engagement Report on the 2017 Annual Family and Community Support Services Program Report.

C. AUDITOR INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian Auditing Standards (CAS) recommends that we communicate to Council, at least annually, all relationships between our firm and the County that, in our professional judgment, may reasonably be thought to bear on our independence.

We are currently not aware of any relationships between the County and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence. We will provide our annual letter confirming our independence up to the date of our report at the conclusion of the audit.

D. AUDITOR RESPONSIBILITIES

It is important for Council to understand the responsibilities that rest with the County and its management and those that belong to the auditor in relation to the financial statement audit.

Our audit of the County's financial statements will be performed in accordance with Canadian Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the County in accordance with Canadian public sector accounting standards. Accordingly, we will plan and perform our audit to provide reasonable, but not absolute, assurance of detecting fraud and errors that have a material effect on the financial statements taken as a whole, including illegal acts whose consequences have a material effect on the financial statements.

Canadian Auditing Standards does not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate to Council.

E. MANAGEMENT RESPONSIBILITIES

Management is responsible for the preparation 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. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

F. PLANNED SCOPE AND TIMING OF THE AUDIT

In gathering our audit evidence, we will utilize an approach to the audit of the County that allows us to issue an audit opinion on the financial statements in the most cost-effective manner, while still obtaining the assurance necessary to support our audit opinion. In performing our audit, our work will be focused on, but not limited to, areas that we believe have a higher risk of being materially misstated.

To assess risk correctly, we will require a clear understanding of the County's operations and the environment it operates in. We will gain this understanding primarily through discussions with management and staff.

Audit Strategy

Based on our knowledge of the County, we anticipate utilizing a combination of tests of relevant internal controls and substantive procedures (analysis of data and obtaining direct evidence as to the validity of the items such as third-party confirmation). This type of approach is more appropriate when an entity processes a high volume of transactions and has strong internal controls. By obtaining some of our assurance through tests of controls, we can reduce the substantive procedures that are required.

Our interim audit testing of the County's internal controls and procedures indicated that we will be able to obtain a portion of our audit evidence through reliance on these internal controls and procedures, with the remainder of the required assurance coming from substantive procedures.

Materiality

Materiality in an audit is used as a guide for planning the nature and extent of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found (if any) and determining the appropriate audit opinion to express. We establish an overall materiality for the financial statements as a whole. The planned overall materiality is based on 2% of the lower of operating revenue or total expenses. We may update our materiality if actual amounts differ significantly from the estimates or circumstances suggest particular balances, results or disclosures may impact users' decisions.

A misstatement, or the aggregate of all misstatements in financial statements, is considered to be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities (the user), would be changed or influenced by such misstatement or the aggregate of all misstatements. The materiality decision ultimately is based on the auditors' professional judgment.

Management Representations

Management's representations are integral to the audit evidence we will gather. Prior to the release of our report, we will require management's representations in writing to support the content of our report.

Audit Team

Our team consists of the following skilled professionals who have experience working on local government audits:

Phil Dirks, CPA, CA	Engagement Partner
Curtis Friesen, CPA, CA	File Quality Review Partner
Jeff Alliston, CPA, CA	Senior Manager
Edward Telford, CPA, CA	Manager
Stephen Webber, CPA	Senior
Craig Poeter, CPA student	Junior

Timing of the audit

Interim audit work was performed in November 2017.

The year-end audit fieldwork is scheduled to take place during the week of March 26, 2018.

We anticipate presenting the audited financial statements to Council at the April 24, 2018 Council meeting.

G. NEW AND REVISED PUBLIC SECTOR ACCOUNTING BOARD STANDARDS

The following is a summary of recently issued *Public Sector Accounting Board* pronouncements. We encourage the County's accounting staff to review these to determine the potential impact to the County.

Effective Fiscal Years Beginning on or After January 1, 2017

Introduction to Public Sector Accounting Standards (amended)

- Now provides the framework to be followed by government partnerships.

Effective Fiscal Years Beginning on or After April 1, 2017 (earlier adoption is permitted)

PS 2200 - Related Party Disclosures (new)

- Related parties exist when one party has the ability to control or share control over the other party and can be either an entity or an individual. Individuals that are key management personnel or close family members may also be related parties.
- Disclosure is only required when the transactions between related parties take place at a value other than what would have been recorded if they were not related **and** the transactions could have a material financial impact on the financial statements.

PS 3420 - Inter-Entity Transactions (new)

- Specifies how to account for transactions between public sector entities **within** the government reporting entity and relates to the measurement of related party transactions the provider and the recipient.

PS3210 - Assets (new)

- Provides a definition of assets.

PS 3320 - Contingent Assets (new)

- Defines and establishes disclosure standards for contingent assets.

PS 3380 - Contractual Rights (new)

- Defines contractual rights to future assets and revenue and establishes disclosure requirements.

Effective Fiscal Years Beginning on or After April 1, 2018 (earlier adoption is permitted)

PS 3430 - Restructuring Transactions (new)

- Establishes standards for recognizing and measuring the assets and liabilities transferred in a restructuring transaction.
- The transfer of assets and liabilities in a restructuring transaction will be accounted for at their carrying amounts at the transaction date.

Effective Fiscal Years Beginning on or After April 1, 2019 (earlier adoption is permitted)

PS 1201 - Financial Statement Presentation (new)

- Revised standard upon adoption of PS 2601 and PS 3450.

PS 2601 - Foreign Currency Translation (new)

- Establishes standards on how to account for and report transactions that are denominated in foreign currency.

PS 3041 - Portfolio Investments (new)

- Addresses the distinction between temporary and portfolio investments.

PS 3450 - Financial Instruments (new and amended)

- Establishes recognition, measurement and disclosure requirements for derivative and non-derivative financial instruments.

H. AUDIT FEES

We understand that the County demands value and we strive to provide the highest quality services while working with the County to control costs.

We estimate our fees for the audit of the County's 2017 financial statements will be \$29,500. This estimate, which does not include Goods and Services Tax or out-of-pocket expenses, is based on the assumption our responsibilities will be limited to the expression of an opinion on the County's financial statements. We will not be required to perform accounting work, prepare working papers, or provide any other non-audit responsibilities.

Other applicable fees are estimated to be \$1,500 for the Local Authorities Pension Plan audit and \$1,000 for the Family and Community Support Services review engagement.

I. REQUESTS OF COUNCIL

During the course of your duties as Council, you may become aware of additional areas of concern from an audit perspective that you would like us to address. We welcome discussion on any areas of audit concern that you may have.

Additionally, we request that you inform us (prior to the commencement of our year-end work) whether Council has knowledge of any actual, suspected, or alleged fraud affecting the County.

J. COMMUNICATION OF THE RESULTS

At the completion of our audit, we will communicate to Council matters arising from the financial statement audit. Our communication will include the following:

- Matters required to be communicated to the Council under Canadian Auditing Standards including possible fraudulent activities, possible illegal acts, significant weaknesses in internal control and certain related party transactions;
- Our views about significant qualitative aspects of the County's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Other matters, if any, arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process; and
- Any other matters previously agreed to with Council.

We trust this communication will provide you with an update on the current developments within the accounting profession, as well as clarify our responsibility and audit approach.

Please do not hesitate to contact us about any of the above items or other matters of concern to Council.

Yours truly,

METRIX GROUP LLP



Philip J. Dirks, CPA, CA
Partner

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cc: Bill Minnes, Interim Chief Administrative Officer