



LACOMBE COUNTY

AUDIT FINAL REPORT TO THE MEMBERS OF COUNCIL

April 23, 2020

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SUMMARY

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Members of Council in fulfilling its responsibilities. This report has been prepared solely for the use of the Members of Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

Status of the Audit

As of the date of this report, we have substantially completed our audit of the 2019 consolidated financial statements, pending completion of the following items:

- ▶ Receipt of signed management representation letter
- ▶ Receipt of outstanding legal confirmations
- ▶ Receipt of outstanding bank and derivative confirmations
- ▶ Subsequent events review through to financial statement approval date
- ▶ Approval of consolidated financial statements by the Members of Council

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement.

Except as described in this report, the scope of the work performed was substantially the same as that described in our Planning Report to the Members of Council dated January 20, 2020.



Materiality

As communicated to you in our Planning Report to the Members of Council, preliminary materiality was \$960,000. Final materiality changed from our preliminary assessment to \$948,000.



Audit Findings

Our audit focused on the risks specific to your business and key accounts. Our discussion points below focus on areas of significant risks of material misstatement, or the following items:

- ▶ Revenue Recognition
- ▶ Management override of controls



Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified. The specifics of this communication are included in our report below.



Independence

Our annual letter confirming our independence was previously provided to you. We know of no circumstances that would cause us to amend the previously provided letter.



Adjusted and Unadjusted Differences

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions identified through the course of our audit engagement. Each of these items has been discussed with management.

Management has determined that the unadjusted differences are immaterial both individually and in aggregate to the consolidated financial statements taken as a whole. Should the Members of Council agree with this assessment, we do not propose further adjustments.



Management Representations

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the consolidated financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

A summary of the representation we have requested from management is set out in the representation letter.



Fraud Discussion

Through our planning process, and current and prior years' audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the municipality.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the Municipality since our discussions held at planning, we request that you provide us with this information.

Please refer to the Auditor's Responsibilities for Detecting Fraud in the Planning Report to the Members of Council.

AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Municipality's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT	RISKS NOTED	AUDIT FINDINGS
Revenue Recognition	Fraud risk that revenues may be recognized early and not in accordance with the applicable financial reporting standards.	<p>Grant income was agreed to grant agreement and applications, as well deferred income was verified as at year-end. Property taxes were agreed and in line with the budget as passed by council and an analytical analysis was performed on all other revenue accounts. Total revenue is as follows:</p> <ul style="list-style-type: none"> • Grant revenue - • User fee revenue - • Taxation revenue - <p>Management asserts that all revenue has been appropriately recorded in accordance with Public Sector Accounting Standards. The Municipalities revenue recognition policy was reviewed and was in line with Public Sector Accounting Standards.</p>
Management Override of Controls	Fraud risk relating to the fact that senior management have the ability to override controls.	Control testing was performed with no exceptions indicating no overrides existed. Journal entry testing was done as part of audit procedures, leading to no indications of override. Management has represented that the risk of fraud in the Municipality is low, and that they are not aware of any fraud (actual, suspects, or alleged) that may have occurred within the Municipality's financial statements during the year ended December 31, 2019, or to date.

INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the Municipality's internal control environment:

- ▶ Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- ▶ Discussed and considered potential audit risks with management.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant

deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the Municipality's consolidated financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the consolidated financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

No control deficiencies were noted that, in our opinion, are of significant importance to discuss with those charged with governance.

APPENDIX A: INDEPENDENCE UPDATE

April 23, 2020

Members of the Members of Council
Lacombe County

Dear Members of Council:

We have been engaged to audit the consolidated financial statements of Lacombe County (the "Municipality") for the year ended December 31, 2019.

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

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute/order and applicable legislation, covering such matters as:

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since January 20, 2020, the date of our last letter.

We are not aware of any relationships between the Municipality and our Firm that, in our professional judgment may reasonably be thought to bear on independence that have occurred from January 20, 2020 to April 23, 2020.

We hereby confirm that we are independent with respect to the Municipality within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of April 23, 2020.

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

Yours truly,

Chartered Professional Accountants