Regional District of Nanaimo

Audit Service Plan

Year Ending December 31, 2018

For presentation to the Board of Directors

MNP LLP

November 20, 2018

Members of the Board of Directors of the Regional District of Nanaimo

Dear Members of the Board of Directors:

We are pleased to present our Audit Service Plan for the Regional District of Nanaimo (the "Regional District"). 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 the Board of Directors on a confidential basis. It is intended solely for the use of the Board of Directors and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Our engagement will include an audit of the Regional District's consolidated financial statements for the year ended December 31, 2018, 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 the Board of Directors' expectations and ensure you receive outstanding service.

Our Engagement Letter has also been included along with this report. 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.

We look forward to discussing our audit service plan with you and look forward to responding to any questions you may have.

Sincerely,

MNP LLP

MNP LLP
Chartered Professional Accountants

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MNP LLP

OVERVIEW

To make strategic business decisions with confidence, your stakeholders and the Board of Directors of the Regional District of Nanaimo 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 Regional District of Nanaimo's strategic planning and implementation processes so you can embrace new opportunities while effectively managing risk. Our senior team members have extensive knowledge of municipalities from many years of experience. Our audit strategy is risk based, and takes into account 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 Regional District of Nanaimo's Board of Directors with our Independent Auditors' Report on the December 31, 2018 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
- The management oversight process
- Fraud:
    - How could it occur?
    - Risk of fraud and misstatement?
    - Actual, suspected or alleged fraud?
- Your specific needs and expectations
- Audit Service Plan
- Any other issues and/or concerns

KEY CHANGES AND DEVELOPMENTS

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

Issues and Developments	Summary
Entity specific	New Director of Finance
New reporting developments	PS 2200 Related Party Disclosures (New) PS 3210 Assets (New) PS 3320 Contingent Assets (New) PS 3380 Contractual Rights (New) PS 3430 Restructuring Transactions (New)

Issues and Developments	Summary
New assurance developments	New and Revised Auditor Reporting Standards

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

MNP'S AUDIT PROCESS

MNP's audit methodology, "The MAP", is a risk based audit approach that is divided into four separate stages: Pre-planning, Planning and Risk Assessment, Risk Response and Completion and Reporting. 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.

The Board of Directors is responsible for approval of the consolidated financial statements and Regional District policies, and for monitoring management's performance. The Board of Directors should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. The Board of Directors, together with 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.

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 consolidated 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 consolidated 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 Regional District and our assessment of the potential for material misstatements in the Regional District's consolidated 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 Regional District
- Changes within the organization, management or accounting systems
- Concerns expressed by management

Judgment is applied separately to the determination of materiality in the audit of each set of consolidated 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.

We propose to use $3,000,000 as overall materiality for audit planning purposes.

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
Delivery of December 31, 2018 Audit Service Plan to the Board of Directors	December 2018
Interim procedures	December 2018
Year-end fieldwork procedures	April 8, 2019 to April 12, 2019
Draft year-end consolidated financial statements to be discussed with management	April 2019
Presentation of December 31, 2018 Audit Findings Report to the the Board of Directors	May 2019
Issuance of Independent Auditors' Report	May 2019

AUDIT TEAM

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

NAME	POSITION
Cory Vanderhorst, CPA, CA	Engagement Partner
Debbie Bass, CPA, CA	Concurring Partner
Janna Olynyk, CPA, CA	Engagement Manager
James Kungel, CPA, CA	Tax Partner

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. Additionally, reliance on specialists including actuaries may be necessary in order to obtain appropriate audit evidence. 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

Our audit fees for the year ended December 31, 2018 are estimated to be the following, exclusive of applicable taxes:

	DECEMBER 31, 2018 ESTIMATE	DECEMBER 31, 2017 ACTUAL
Base fee	**26,000**	25,500
Administrative - 5%	**1,300**	1,275
Total	**27,300**	26,775

Our audit fees are based on our estimated audit hours which consider our expectations of required work and our knowledge of the Regional District. These estimated hours rely on the following assumptions:

- No significant deficiencies in internal controls which cause procedures to be extended
- No major unadjusted misstatements or un-reconciled balances
- Significantly all adjusting entries are completed prior to trial balance and journal entries being provided to 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
- There are no changes to the agreed upon audit timetable and reporting requirements

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.

Pursuant to our billing policy, we will issue interim bills as follows:

a) On delivery of the audit service plan 50% of the estimated fee
b) At the start of year-end field work, 25% of the estimated fee
c) Upon the delivery of the final consolidated financial statements and independent auditors' report, the balance

AUDITOR INDEPENDENCE

An essential aspect of all our services to the Regional District is an independent viewpoint, which recognizes that our responsibilities are to the Board of Directors. 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 Regional District. 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 Regional District that would impair independence or give that appearance. As auditors, we subscribe to the highest standards and are required to discuss the auditors' independence with the Board of Directors on an annual basis. Under the standard an auditor shall:

- Disclose to the Board of Directors in writing, all relationships between the auditor and the Regional District that in the auditors' 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 of the Chartered Professional Accountants of British Columbia; and,

- Discuss the auditors' independence with the Board of Directors.

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.

We look forward to discussing with you the matters addressed above. We will be prepared to answer any questions you may have regarding our independence, as well as any other matters of interest to you.

APPENDIX A - New and Proposed Reporting Developments

PS 2200 Related Party Disclosures (New)
In March 2015, the Public Sector Accounting Board (PSAB) issued a new standard, PS 2200 *Related Party Disclosures.*

This new Section defines a related party and established disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

This Section is effective for fiscal years beginning on or after April 1, 2017. Early adoption is permitted.

PS 3210 Assets (New)
In June 2015, new PS 3210 *Assets* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section provides guidance for applying the definition of assets set out in PS 1000 *Financial Statement Concepts*. The main features of this standard are as follows:

- Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.
- Economic resources can arise from such events as agreements, contracts, other government's legislation, the government's own legislation, and voluntary contributions.
- The public is often the beneficiary of goods and services provided by a public sector entity. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services.
- A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset, if the interest extends only to the regulatory use of the economic resource and does not include the ability to control access to future economic benefits.
- A public sector entity acting as a trustee on behalf of beneficiaries specified in an agreement or statute is merely administering the assets, and does not control the assets, as future economic benefits flow to the beneficiaries.
- An economic resource may meet the definition of an asset, but would not be recognized if there is no appropriate basis for measurement and a reasonable estimate cannot be made, or if another Handbook Section prohibits its recognition. Information about assets not recognized should be disclosed in the notes.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3320 Contingent Assets (New)
In June 2015, new PS 3320 *Contingent Assets* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

- Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.
- Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date.
- Elected or public sector entity officials announcing public sector entity intentions after the financial statement date cannot create an existing condition or situation at the financial statement date.
- Disclosures should include existence, nature, and extent of contingent assets, as well as the reasons for any non-disclosure of extent, and the bases for any estimates of extent made.

- When a reasonable estimate can be made, disclosure should include a best estimate and a range of possible amounts (or a narrower range of more likely amounts), unless such a disclosure would have an adverse impact on the outcome.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3380 Contractual Rights (New)
In June 2015, new PS 3380 *Contractual Rights* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). This new Section establishes disclosure standards on contractual rights, and does not include contractual rights to exchange assets where revenue does not arise. The main features of this standard are as follows:

- Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.
- Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.
- Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right.
- Disclosures should include descriptions about nature, extent, and timing.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3430 Restructuring Transactions (New)
In June 2015, new PS 3430 *Restructuring Transactions* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

- A restructuring transaction is defined separately from an acquisition. The key distinction between the two is the absence of an exchange of consideration in a restructuring transaction.
- A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities that does not involve an exchange of consideration.
- Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor at their carrying amount and recognized by the recipient at their carrying amount with applicable adjustments.
- The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction, is recognized as revenue or as an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Individual assets and liabilities received in a restructuring transaction are initially classified based on the accounting policies and circumstances of the recipient at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- Disclosure of information about the transferred assets, liabilities and related operations prior to the restructuring date by the recipient is encouraged but not required.

The Section is effective for new restructuring transactions that occur in fiscal periods beginning on or after April 1, 2018. Earlier application is permitted.

New and Revised Auditor Reporting Standards
In April 2017, the Auditing and Assurance Standards Board adopted the new and revised auditor reporting standards, effective for year ends ending on or after December 15, 2018. As a result of this, the independent auditor’s report will be presented in a revised format. The new report provides reporting of going concern matters, as well as entity-specific reporting of other information, and provides enhanced transparency by clarifying the scope of the auditor’s work as well as the roles and responsibilities of the auditor, management, and those charged with governance.

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 consolidated 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 consolidated financial statements
- Assessing the appropriateness and consistency of accounting principles used and their application;
- Assessing the significant estimates used by management
- Assessing the entity's use of the going concern assumption in the preparation of the consolidated financial statements

As part of our planning process, we will also undertake to inform the Board of Directors 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 consolidated 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 Regional District's control environment, and management's competence and integrity.

Overall Reliance

In general, there are three levels of reliance that we can place on controls, or the absence thereof:

Low/None – where we cannot rely on controls because they are weak or absent, or where it is deemed to be more efficient to carry out a high level of direct substantive tests of transactions and balances. Audit evidence is primarily obtained through detailed verification procedures and sufficient substantive tests of details and transactions.

Moderate – 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.

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Testing of controls is supplemented with a moderate level of substantive tests of details and transactions.

High – 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.

For the December 31, 2018 audit, we are planning to place low/no reliance on the Regional District's accounting systems. This level of reliance is consistent with the prior year, and will involve substantive tests of transactions and balances.

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 consolidated 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 Regional District's controls will not be sufficient to express an opinion as to their effectiveness or efficiency. Although we will provide the Board of Directors 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.

Inherent Limitations in the Auditing Process

An auditor cannot obtain absolute assurance that material misstatements in the consolidated 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 consolidated 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 the Board of Directors 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
- Related party transactions that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure

APPENDIX B – The Audit Process *(continued from previous page)*

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 consolidated financial statements taken as a whole.