

Detailed audit plan

Our audits are to be conducted in four distinct phases:

- I. Planning
- II. Testing
- III. Reporting

Planning

The objective of our planning phase is to:

1. Develop a tentative audit strategy that provides a general framework for the audit; and
2. To redefine that strategy on an ongoing basis, including the preparation of a detailed audit program for the expected nature, extent and timing of our audit procedures.

Our goal is to ensure that the scope of our work is sufficient, but not excessive, to support our expression of an opinion on the financial statements.

In order to satisfy this goal, we must at the planning stage:

- Collaboratively assess and respond to engagement risk, utilizing management's preliminary assessment of risk;
- Update our understanding of the City;
- Obtain and update understanding of the accounting processes, including understanding entity-level controls and process-level controls. This will include entity-level control components such as the control environment, risk assessment, information and communication, monitoring and process-level components;
- Conduct interviews with senior management personnel to identify areas of audit risk, significant transactions or changes in your business;
- Give careful consideration to the current year's circumstances to determine the current year's audit strategy;
- Make an assessment of audit risk to identify the areas on which we will concentrate our efforts;
- Calculate an appropriate planned materiality guideline for the financial statements;
- Co-ordinate our planning with the staff assigned to the City; and
- Complete procedures with respect to CICA Section 5135, "*The Auditor's Responsibility to Consider Fraud*" and 5136, "*Misstatements - Illegal Acts.*"

Testing

Our tests of internal control will include entity-level control components, such as the control environment, risk assessment, information and communication, monitoring and process-level components. Our process-level control testing will include tests of controls for all relevant assertions of significant accounts in the payroll and personnel and treasury business cycles, at a minimum. This approach may be modified to include other business cycles, should we determine it is most efficient to do so.

We rely on those internal controls that our review and evaluation indicate are operating satisfactorily and that are considered to be the most efficient means of gaining sufficient and appropriate audit evidence. For these controls, we test compliance to determine their effectiveness and thereby justify our intended reliance on them.

- **Process-level controls** – Our approach to controls is "top-down." That is, we determine the highest levels of management controls over each application system and test controls at those levels, thus minimizing detailed control testing.

Detailed audit plan (continued)

Testing (continued)

- **Computer system controls** – Because many of the controls exercised by management rely on accurate information being generated by the computer system, where a control reliance strategy is adopted, our work will include reviewing and testing the controls over the general computer environment, including input, processing and output controls.

The 10 areas of general computer controls are information resource strategy and planning, information systems operations, relationships with outsourced vendors, information security, business continuity planning, application systems implementation and maintenance, database implementation and support, network support, systems software support and hardware support. Controls in each of these areas will be identified and tested through discussions with the City's staff, observation, examination of documents and other such methods we may consider necessary.

The anticipated results of tests of controls determine our planned substantive auditing procedures. When controls are operating effectively and consistently throughout the period of intended reliance, we may determine that a control-reliance strategy is appropriate and thereby reduce the level of substantive auditing procedures. This is determined on an account summary basis.

We will review and assess work performed by the Office of the City Auditor and integrate the results of projects completed by the Office of the City Auditor into our audit work as appropriate.

As we perform the audit, we will consider our initial assessment of audit risk and, if necessary, modify our audit scope and coverage.

In addition, we will:

- Carry out interviews to document both entity and process-level controls and determine their efficiency and effectiveness;
- Complete our substantive testing;
- Evaluate the overall financial statement presentation and consider whether it is consistent with our knowledge of the City's operations, our understanding of individual balances and relationships and the evidence accumulated throughout our audit of individual accounts;
- Review events occurring subsequent to year end up to the date of our Audit Report;
- Assess the appropriateness and consistency of accounting principles used; and
- Obtain written acknowledgements from management of its responsibility for the financial statements and specific representations to supplement our audit support in significant areas.

Reporting

Our audit opinion is issued only after the following quality control procedures have been performed:

- A detailed review of all audit files, draft financial statements, auditors' reports and other reporting documents including the management letter;
- The clearing of all review queries;
- An overall review by the engagement partner; and
- A technical review by a second partner.

Before our final meeting with management, at the conclusion of our examination for the year, we discuss our audit findings and the financial statements with senior management of the entities. In addition, weaknesses in internal control and accounting procedures that come to our attention during the course of the audit are brought to the attention of appropriate officials and suggestions for improvements are made.

Detailed audit plan (continued)

Areas of audit significance

Through our prior year's experience with the City and our other municipal and public sector audit clients, our understanding of your operations and risks and review of the City Auditor's reports, we have identified the following audit risks:

1. Cutoff of investment income and transactions.
 - We will review investment statements subsequent to year-end to ensure that income and transactions related to the year ended December 31, 2007 are recorded in the correct period.
2. Value of long-term investments and compliance with investment policy related to EdTel Fund.
 - We will confirm through brokerage statements and other third party sources the market value of long-term investments. We will test a sample of purchase and disposal transactions to ensure that investment transactions are completed in accordance with the City's investment policies.
3. Completeness of accounts payable and accrued liabilities.
 - We will review and test a sample of transactions recorded subsequent to year end to identify any unrecorded liabilities. We will also review Council minutes, legal confirmations, hold discussions with management and rely on knowledge of the City organization to identify any unrecorded liabilities.
 - We will review contracts and related accruals for contract settlement costs for employee union contracts settled during the year and outstanding at year-end.
4. Environmental liabilities and asset retirement obligations including accrual of post closure landfill liabilities and clean-up costs of contaminated properties.
 - We will review the City's estimates of post closure landfill liabilities. We will review Council minutes, legal confirmations, hold discussions with management and rely on knowledge of business to identify other environmental liabilities. We will require representations to be signed by management that all environmental liabilities and clean-up costs are appropriately disclosed.
5. The City and its controlled entities are subject to claims and litigation.
 - We will make enquiries with City's legal counsel to determine the status of outstanding legal matters.
 - We will review this legal correspondence and discuss the status of such matters with City management and others as necessary. We will then work with City management to assess the appropriateness of any contingent liabilities and financial statement disclosures.
6. Accounting for investment in EPCOR and other subsidiaries.
 - We will review the City's accounting policies related to recording of the results of operations of its subsidiaries. We will verify that the subsidiaries have been accounted for and disclosed in accordance with the City's accounting policies and GAAP. We will also obtain an auditor reliance letter from KPMG, which is EPCOR's external auditor.

Detailed audit plan (continued)

Areas of audit significance (continued)

7. Presentation and disclosure requirements in funding contracts.
 - We will review a sample of funding agreements to determine if the contract requires financial statement disclosure. We will review the related disclosure.
8. Completeness and accuracy of deferred revenue balances.
 - We will review deferred revenue for compliance with GAAP. We will test expenditures and ensure related revenue has been recognized.
 - We will specifically review federal and provincial transfer payments received during the year to fund specific projects. We will review the related funding agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period.
9. Cutoff of capital expenditures and deferred revenue related to increasing capital funding and costs.
 - We will confirm funding with significant external funders and review deferred amounts for completeness. We will select a sample of capital projects in progress over year-end and ensure costs and related revenue is recorded in the correct period.
10. Completeness, existence and accuracy of tax revenues.
 - We will perform reasonability tests on tax revenue balances. We will review and test the tax revenue business cycle process controls.
11. Completeness of liabilities and disclosure of commitments under contracts for City funding of third party projects.
 - We will review management's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered in the year.
 - We will review a sample of funding contracts entered into in the year to audit management's treatment.