



# City of Courtenay

2025 Audit Service Plan

Report to Mayor and Council

December 31, 2025

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September 11, 2025

To the Mayor and Council of the City of Courtenay

Dear Mayor and Council:

We are pleased to present our Audit Service Plan for City of Courtenay (the "City"). 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 Mayor and Council on a confidential basis. It is intended solely for the use of Mayor and 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 City's consolidated financial statements for the year ended December 31, 2025, 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 Mayor and Council's expectations and ensure you receive outstanding service.

Additional materials provided along with this report include our Engagement Letter. 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

**Chartered Professional Accountants**

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# MNP's Client Service Commitment

To make strategic business decisions with confidence, your stakeholders and Mayor and Council of the City 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 City'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 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 City's Mayor and Council with our Independent Auditor's Report on the December 31, 2025 consolidated 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
- Documents comprising the annual report, and their timing of issuance
- 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 City and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed considering these factors.

Key Issues and Developments		Summary
	<b>New Reporting Developments</b>	<ul style="list-style-type: none"><li>• Concepts Underlying Financial Performance (New Conceptual Framework for Financial Reporting in the Public Sector)</li></ul>

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

# Risk Assessment

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## Risk Assessment

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
Management override of internal controls	To respond to the overall risk of material misstatement due to fraud regarding management's override of controls, we perform the following procedures: 1. Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements 2. Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud, if applicable 3. Evaluate the rationale behind significant transactions that are not in the normal course of business and whether they have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets

## Key Milestones

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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, 2025 Audit Service Plan to Mayor and Council	September 2025
Interim procedures	October 27, 2025 to October 31, 2025

Key Deliverable	Expected Date
Year-end fieldwork procedures	March 23, 2026 to March 27, 2026
Draft year-end consolidated financial statements to be discussed with management	April 2026
Presentation of December 31, 2025 Audit Findings Report to Mayor and Council	April 2026
Presentation of Management Letter to Mayor and Council	April 2026
Issuance of Independent Auditor's Report	April 2026

# 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 City and our assessment of the potential for material misstatements in the City'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 City;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.

**The scope of our audit work is tailored to reflect the relative size of operations of the City and our assessment of the potential for material misstatements in the City's consolidated financial statements as a whole.**

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 consolidated financial statements. In this context, it is reasonable to assume that users understand that consolidated 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 consolidated financial statements. The foregoing factors are taken into account in establishing the materiality level.

We propose to use \$3,800,000 as overall materiality for audit planning purposes.

## Audit Team

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

Team Members	Contact Information
Cory Vanderhorst, CPA, CA, Engagement Partner	E: Cory.Vanderhorst@mnp.ca
Graham Roberts, CPA, CA, Engagement Manager	E: Graham.Roberts@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 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	2025 ESTIMATE	2024 ACTUAL
Base audit fee	\$ 41,000	\$ 40,950
<b>Total</b>	<b>\$ 41,000</b>	<b>\$ 40,950</b>

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
On delivery of the audit service plan, 50% of the estimated fee	\$ 20,500
At the start of year-end field work, 25% of the estimated fee	\$ 10,250
Upon the delivery of the Independent Auditor's Report, 25% of the estimated fee	\$ 10,250
<b>Total</b>	<b>\$ 41,000</b>

# Appendix A – Key Changes and Developments

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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

#### Concepts Underlying Financial Performance (New Conceptual Framework for Financial Reporting in the Public Sector)

In December 2022, the Public Sector Accounting Board (PSAB) issued *The Conceptual Framework for Financial Reporting in the Public Sector* (the Conceptual Framework) which replaces conceptual aspects of Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*.

The Conceptual Framework outlines:

- Characteristics of public sector entities;
- The objective of financial reporting;
- Primary users of financial reporting and their expectations;
- The role, foundations and objectives of financial statements;
- Qualitative characteristics of information in financial statements and related considerations;
- Definitions of elements;
- Criteria of general recognition and derecognition; and
- Concepts of general measurement and presentation.

The Conceptual Framework applies for fiscal years beginning on or after April 1, 2026, with earlier adoption permitted.

As a result of the issuance of the Conceptual Framework, various Sections and Guidelines of the PSA Handbook have been withdrawn or amended. Most notably, Section PS 1000 and Section PS 1100 have been withdrawn and replaced with the Conceptual Framework. Other consequential amendments include updates to:

- References to the Conceptual Framework
- The Introduction to the Public Sector Accounting Handbook
- Section PS 1150 *Generally Accepted Accounting Principles*
- Section PS 1201 *Financial Statement Presentation*
- Section PS 1300 *Government Reporting Entity*
- Section PS 2100 *Disclosure of Accounting Policies*
- Section PS 2120 *Accounting Changes*
- Section PS 2130 *Measurement Uncertainty*
- Section PS 2200 *Related Party Disclosures*
- Section PS 3150 *Tangible Capital Assets*
- Section PS 3200 *Liabilities*
- Section PS 3210 *Assets*

# Appendix A – Key Changes and Developments (continued from previous page)

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- Section PS 3400 *Revenue*
- Section PS 3430 *Restructuring Transactions*
- Section PS 3450 *Financial Instruments*
- Section PS 4230 *Capital Assets Held by Not-for-Profit Organizations*

# Appendix B – The Audit Process

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## Our Plan

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.

Mayor and Council is responsible for approval of the consolidated financial statements and City policies, and for monitoring management's performance. Mayor and Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. Mayor and Council, 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.

Key responsibilities of MNP and management are outlined in the Engagement Letter.

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, the applicable financial reporting framework and the entity's system of internal controls, in order to identify and assess the risk that the consolidated financial statements contain material misstatements due to fraud or misstatement;
- Assessing the design and implementation 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;


# Appendix B – The Audit Process

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- 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 consolidated financial statements.

As part of our planning process, we will also undertake to inform Mayor and 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 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 City’s control environment, and management’s competence and integrity.

## Overall Reliance

Control Reliance Level	Low/None	Moderate	High
Description	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 details. Audit evidence is primarily obtained through detailed verification procedures and sufficient substantive tests of details.	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.	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.
Planned Reliance		—	—

# Appendix B – The Audit Process

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For the December 31, 2025 audit, we are planning to place low reliance on the City's controls. This level of reliance is consistent with the prior year, and will involve mainly substantive tests of details.

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, the applicable financial reporting framework and the entity's system of internal 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 City's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.



Although we will provide Mayor and 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.

## 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 Mayor and Council with respect to identified:

- Misstatements resulting from errors, other than clearly trivial misstatements;

# Appendix B – The Audit Process

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- 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 consolidated financial statements taken as a whole.

# MADE <sup>IN</sup> CANADA

And proud of it!

At MNP we're proud to be the national accounting, consulting and tax firm that is 100% Made in Canada.

Our history defines who we are and our approach to business. Being a Canadian firm has helped shape our values, our collaborative approach, and the way we work with our clients, engaging them every step of the way.

We have a unique perspective. Our decisions are made here – decisions that drive Canadian business and help us all achieve success — and we know the impact that our choices have on the cities and towns we call home.

Throughout our six decades of work, we've seen our communities are more than just a place we do business in. They're a place where our families live, play, and thrive, and we work to make them the best places they can be.

Being 100% Canadian is something we wear proudly. This country provides us with great opportunities, and we're here to help our clients seize the opportunities so we can create a brighter future for the generations to come.



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