

City of St. Albert

Audit Findings Report
for the year ended December 31, 2021

KPMG LLP

Prepared for the City Council
meeting on April 19, 2022

KPMG



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Audit Quality: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

'**Perform quality engagements**' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



Doing the right thing. Always.

Audit highlights

Purpose of this report¹

The purpose of this report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of the City of St. Albert (the “City”) as at and for the year ended December 31, 2021. This report builds on the Audit Plan we presented to Council on September 13, 2021.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with Council;
- Obtaining evidence of Council’s approval of the consolidated financial statements;
- Completing subsequent event procedures to the date of Council’s approval of the consolidated financial statements;
- Obtaining the signed management representation letter; and
- Completing our review of the final annual report and any other publications containing the consolidated financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures (expected April 19, 2022).

Areas of audit focus and results

We discussed with you at the start of the audit the existence of a significant financial reporting risk related to the presumed risk of fraud involving improper revenue recognition and the presumption of the risk of fraud resulting from

management override of controls, among other areas of focus. These risks and other areas of focus have been addressed in our audit.

Consolidated financial statement presentation and disclosure

There have been no changes to, or initial selections of, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City’s relevant financial reporting framework (Canadian Public Sector Accounting Standards).

Adjustments and differences

Materiality for fiscal 2021 was set at \$6,000,000.

We identified one difference that remains uncorrected resulting in an overstatement of the current year annual surplus of \$850,000; however, this difference is not considered to be material and does not impact our audit report on the consolidated financial statements.

In addition, we provided certain recommendations with respect to financial statement presentation and disclosure all of which were adopted by management.

¹ This report to the audit committee is intended solely for the information and use of Management and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit highlights (continued)

Control and other observations

We identified certain control and other observations in the current year and prior years we believe may be of interest to Council.

We raised one new observation in the current year relating to developing an understanding of the relationship between the City and the newly established Edmonton Metropolitan Transit Services Commission.

We are satisfied that the City is making appropriate progress with respect to matters raised in prior years except for its processes to support the valuation of contributed tangible capital assets which require improvement.

None of these matters impact our audit report on the consolidated financial statements of the City.

Additional reporting responsibilities

In addition to reporting on the consolidated financial statements of the City for the year ended December 31, 2021, we have been engaged to separately report on the following:

- Municipal Financial Information Return (FIR) for the City;
- Local Authorities Pension Plan (LAPP) special reporting; and
- Family and Community Support Services (FCSS) special reporting.

Also, we were separately engaged to perform the audit of the St. Albert Public Library financial statements as at and for the year ended December 31, 2021. The Library's operations are included within the consolidated financial statements of the City.

Independence

We confirm that we are independent from the City within the meaning and relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulations.

Areas of audit focus and results

We highlight our significant findings in respect of **significant financial reporting risks** as identified in our Audit Plan.

Significant risk – professional requirements	New or changed?	Estimate?
Presumption of the risk of fraud involving improper revenue recognition	No	No

Our response

The risk of fraud from revenue recognition has been rebutted given revenue does not involve elements of significant judgment. As this risk has been rebutted, our audit methodology in relation to revenue is limited to analytical procedures and external confirmations of significant revenue inflows.

Significant risk – professional requirements	New or changed?	Estimate?
Presumption of the risk of fraud resulting from management override of controls.	No	No

Our response

Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the risk of management override of controls will vary from entity to entity, the risk is nevertheless, present in all entities.

Significant findings

Our procedures included evaluating the design and implementation of controls surrounding journal entries and other adjustments, performing testing over journal entries and other adjustments determined to meet our high-risk criteria, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

We have no significant findings to report.

Areas of audit focus and results (continued)

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Other area of focus	Why are we focusing here?	Our response and significant findings
Recognition of revenue amounts subject to external restrictions	Revenue may not be appropriately recognized for amounts received with external restrictions attached to them (special taxes and levies, government transfers and other amounts).	<ul style="list-style-type: none"> – We assessed the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. – We confirmed all significant government transfers or other similar inflows and examined related agreements. – We updated our understanding of the developer levy model and the process the City has in place to recognize revenue related to developer levies. The developer levy model utilizes forecasted development costs, staging and financing requirements to calculate the levy. Changes to these estimated inputs directly impacts deferred development levies and levy revenue. <p>No misstatements or findings were identified as a result of performing the above procedures.</p>
Accuracy and valuation of contributed tangible capital assets	Contributions of tangible capital assets may not be appropriately captured in the consolidated financial statements.	<ul style="list-style-type: none"> – We updated our understanding of the process by which departments capture tangible capital assets which are contributed from developers and other parties and assessed the consistency of the process applied across all departments. – We tested a sample of developments which were completed by the City during the year to assess whether the assets have been appropriately recorded. – We reviewed the value ascribed to assets contributed to the City for reasonableness. – We reviewed a sample of developments currently ongoing in the City to ensure that they are appropriately not recorded as contributed in the year. <p>We have again raised observation with respect to how management ascribes values to contributed tangible capital assets as this process requires improvement. Refer to the <i>'Control and other observations'</i> sections of this report.</p> <p>No misstatements or other findings were identified as a result of performing the above procedures.</p>

Other area of focus

Why are we focusing here?

Our response and significant findings

Accuracy and valuation of investments

Investments may not be appropriately valued; specifically, impairment of investments is not appropriately assessed, and valuation adjustments are not recorded where appropriate.

- We have tested the existence and accuracy of investment accounts through external confirmations, including the cost and market value of investments.
- We have recalculated investment premiums/discounts for investments recorded at amortized cost.
- We have tested management's assessment of impairment and considered if any potential impairment of the investments exists.
- We have assessed the portfolio of investments to ensure compliance with the City's risk management and investment policies.

No misstatements or findings were identified as a result of performing the above procedures.

Existence and accuracy of capital expenditures related to approved capital projects

Capital expenditures may not be appropriately recorded in the financial statements and are not appropriately recorded related to approved capital projects.

- We reviewed a sample of capital expenditures and ensured they were applied against the appropriate capital projects.

No misstatements or findings were identified as a result of performing the above procedures.

Completeness and accuracy of environmental obligations and other contingencies

Environmental obligations and other contingent liabilities may not be appropriately identified and reasonably estimated.

- We updated our understanding of the process for annual monitoring and how the City develops the estimate of environmental obligations, other contingencies, and specifically, environmental liabilities.
- We reviewed the City's update of land and other assets for the potential risk of contamination and determination of a resulting obligations, if any.
- We are satisfied that the City has procedures in place to ensure consistent and accurate identification of environmental obligations and other contingencies.

No misstatements or findings were identified as a result of performing the above procedures.

Other area of focus

Why are we focusing here?

Our response and significant findings

Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities

Appropriate cut-off of accounts payable and accrued liabilities may not be achieved.

- We used our understanding of the City's operations, our discussions with management and our review of Council minutes to evaluate the completeness of accruals as at December 31, 2021.
- We performed work over the City's budgeting process and obtained a detailed understanding of significant variances from the approved budget.
- Our year-end procedures included a search for unrecorded liabilities (primarily through a review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals.
- We performed an assessment of the nature of liabilities accrued at year-end to ensure the amounts payable or accrued meet the definition of a liability.

No misstatements or findings were identified as a result of performing the above procedures.

Completeness, existence and accuracy of property tax revenue

Property assessments and approved tax rates may not be applied appropriately.

- We evaluated the application of assessments through the tax roll and taxation rates established by the City.

No misstatements or findings were identified as a result of performing the above procedures.

Completeness and accuracy of salaries and benefits note disclosures

Salaries and benefits note disclosures may not be complete and accurately reported.

- We reviewed a sample of employment contracts to ensure salaries and benefits are appropriately disclosed.

No misstatements or findings were identified as a result of performing the above procedures.

Adjustments and differences

Differences and adjustments include disclosure and presentation differences and adjustments. The management representation letter includes all adjustments and differences identified as a result of the audit.

Corrected audit misstatements

In the current year, the City provided loan guarantees of up to \$1.7 million relating to the indebtedness of the Edmonton Metropolitan Transit Services Commission (“EMTSC”), a newly established entity that the City is a member of. Canadian Public Sector Accounting Standards Section 3310, *Loan Guarantees*, requires the City to recognize an expense and liability for losses related to loan guarantees and disclose the nature and terms of significant classes of loan guarantees. We requested that management disclose in its consolidated financial statements the authorized value of the loan guarantee and total outstanding indebtedness at year end, and this change was adopted by management. Management did not correct for the understatement of the expense and liability, as noted in the ‘Uncorrected audit misstatements’ section below.

We proposed certain other minor recommendations with respect to financial statement presentation and disclosure all of which were adopted by management.

Uncorrected audit misstatements

As at December 31, 2021	Annual Surplus Increase (Decrease)	Financial position Increase (Decrease)		
Description of differences greater than \$300,000 individually		Assets	Liabilities	Ending Accumulated Surplus
To record the City’s proportion of the net debt of EMTSC. Net impact is an understatement of expenses.	\$ (850,000)	\$ –	\$ 850,000	\$ (850,000)
Total uncorrected difference	\$ (850,000)	\$ –	\$ 850,000	\$ (850,000)

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences – individually and in the aggregate – are, in their judgment, not material to the consolidated financial statements.

We concur with management’s representation that the differences are not material to the consolidated financial statements. Accordingly, the differences have no effect on our auditors’ report.

Control and other observations

Below is a summary of matters that we identified during the current year audit:

Item	Observation and recommendations (2021)
Relationship between the City and the Edmonton Metropolitan Transit Services Commission (2021)	<p>The Edmonton Metropolitan Transit Services Commission (EMTSC) was established in the current year as a partnership between the City and a number of other municipalities to provide integrated transit services members within the Edmonton metropolitan region.</p> <p>In the current year, the City provided a \$1.7 million loan guarantee to EMTSC to support initial operational expenses as EMTSC commences operations. It is expected that further loan guarantees may be required over the next number of years and formal operating agreements among the member municipalities will need to be established.</p> <p>We recommend that City review the current nature of its membership interest in EMTSC to ensure the relationship is fully understood and reflected within the consolidated financial statements of the City. Matters to be considered include the nature and valuation of outstanding loan guarantees, the nature of ongoing operating and capital subsidies that the City may need to provide in future years and assessing whether all or a part of the activities of EMTSC need to be included in the City's consolidated financial statements.</p>

Control and other observations (continued)

Below is a follow-up to matters that were identified as part of the audit in the prior year:

Item	Prior year observations and recommendations	2021 Update
<p>Capital budgeting, including budgeting for contributed tangible capital assets (2017)</p>	<p>We noted that the budgeted amount for the acquisition of tangible capital assets does not reflect actual acquisitions for the year. This is because the capital budget is based on projects approved which may span multiple years instead of planned cash flow for the year including carry forward amounts from prior years.</p> <p>We further noted that budgeted amortization expense does not reflect that incurred in the year due to amortization being determined based on historical consolidated City results (i.e. amortization as a percentage of tangible capital assets applied against current year tangible capital assets) rather than actual expected amortization.</p> <p>We recommended that the City review its current budget process to ensure contributed tangible capital assets are budgeted for and that this information is provided to and approved by Council during its regular budget deliberations. Further, given the predictability of amortization expense, we recommend the City incorporate this into the budget process to provide more meaningful comparisons within the consolidated financial statements of the City.</p>	<p>In progress</p> <p>In response to our prior year recommendation, we noted that there is approximately an \$8 million (2020 - \$9 million) difference between budgeted and actual amortization for the year due to the application of the same process to determine budgeted amortization as in fiscal 2020.</p> <p>Similarly, we noted a difference between the budgeted amounts for the contributions of tangible capital assets and acquisitions of tangible capital assets in the current year and the actual amounts incurred of \$21 million and \$119 million (2020 - \$7 million and \$143 million), respectively.</p> <p>We understand that our prior year recommendations with respect to presenting the budgeted amortization, acquisition of tangible capital assets, and contributions of tangible capital assets have been incorporated in the fiscal 2022 budgeting process and will be appropriately disclosed in fiscal 2022.</p> <p>We will follow up on the final implementation of this recommendation in 2022.</p>

Control and other observations (continued)

Item	Prior year observations and recommendations	2021 Update
<p>Valuation of contributed tangible capital assets (2017)</p>	<p>We noted that current and relevant costing information has not been provided to the City from developers when tangible capital assets are contributed. As a result, the City may be using outdated or inaccurate costing information to value contributions of tangible capital assets.</p> <p>We noted in 2019 that the engineering department started requesting costing information. However, we noted in 2020 that this failed to be incorporated as a requirement of the Municipal Engineering Standards. We further noted that management continues to work with the engineering department to update the developer’s requirements to submit asset cost information to obtain their construction completion certificate, which would allow the City to utilize the developer costing information as a reasonability check against the standard costs currently utilized.</p> <p>We recommended that costing information is provided to the City by developers, and if not possible, that that the City develop an appropriate process by which to assign values to contributed tangible capital assets, such as performing regular assessments of standard costs used to value contributed tangible capital assets by reference to actual costs incurred by the City for comparable assets.</p>	<p>Repeated</p> <p>We noted that effective September 1, 2021, the City’s Municipal Engineering Standards have been updated to require Developer’s to submit costing information when tangible capital assets are contributed to the City, as evidenced by a signed Construction Completion Certificate (CCC).</p> <p>While there is now a policy in place requiring that developers shall provide the City with actual cost information, we note that the process by which costs are submitted to the City is still in development. As such, current and relevant costing information has not been provided to the City from developers related to contributed tangible capital assets during fiscal 2021, consistent with our prior year observations.</p> <p>We continue to recommend that the City implement an appropriate process to obtain costing information from developers to support the amounts being recorded as contributed tangible capital assets in the City’s consolidated financial statements. We further recommend that the City ensure it has established an appropriate process to review all such information for reasonableness and consistency prior to including the results in the City’s consolidated financial statements.</p> <p>We understand that the process will be finalized in 2022 and will follow up on the final implementation of this recommendation in 2022.</p>

Control and other observations (continued)

Item	Prior year observations and recommendations	2021 Update
Purchase orders (2019)	<p>We noted that the City does not consistently require the use of purchase orders. Certain departments require a purchase order to be completed for each purchase, regardless of the dollar value of the purchase, and other departments only utilize purchase orders if required by the vendor. In addition, we noted that in some instances purchase orders are created after receipt of the invoice; therefore, the approval for the purchase is occurring after the purchase is made.</p> <p>We recommended that the City implement a purchase order policy for all departments which requires that all purchases greater than a certain dollar threshold have a purchase order prepared and approved prior to a purchase being made.</p>	<p>Implemented</p> <p>Through our review of the Purchases and Accounts Payable process, we noted that management updated the Purchases process to ensure that all purchases greater than \$50,000 have a formal competitive bid obtained, and all purchases between \$10,000 and \$50,000 have an informal competitive bid created. Further, purchase orders are required for all purchases where an invoice is available.</p> <p>We consider this matter resolved and it will be removed from future reports.</p>
Operating budget presentation (2020)	<p>We noted the City presented a revised budget in its consolidated financial statements which is not in accordance with PSAS; however, the revisions were not historically significant. Given the value and nature of the budget revisions in 2020 in response to the COVID-19 pandemic, this was identified in 2020 and we requested that management update their internal process going forward to present the originally approved budget on the consolidated financial statements.</p> <p>We recommended that the City clarify its conclusion about what represents the City's originally approved budget in accordance with PSAS requirements. As part of this process, we further recommended that the City review its current budget reconciliation process to ensure it separately identifies all adjustments and eliminations, such as non-cash items, reserve eliminations, departmental allocations, and subsequent budget amendments to facilitate the inclusion of approved budget information.</p>	<p>Implemented</p> <p>Through our review of the fiscal 2021 financial statements, we noted that management has not presented a reconciliation from the originally approved budget to the revised budget in the financial statements. As such, management is in compliance with PSAS as the originally approved budget figures are those that are presented in the financial statements.</p> <p>We consider this matter resolved and it will be removed from future reports.</p>

Control and other observations (continued)

Item	Prior year observations and recommendations	2021 Update
Insurance accruals and holdbacks payable (2020)	<p>We noted that the City had not performed a regular review and update of the basis supporting the recording of certain liabilities including:</p> <ul style="list-style-type: none"> a) Insurance accrual: we noted that the City did not have a formalized process to review and update the appropriateness of the amounts classified as accrued liabilities at year-end, versus the amounts that should be included in the reserve. b) Holdbacks payable: we noted that Finance had identified specific projects and holdbacks that remain payable, as well as holdbacks that should have been released to revenue; however, the Finance team did not obtain an updated on each project's status. <p>We recommended that the City refresh its insurance liability and holdbacks payable processes to ensure the amounts payable or accrued meet the definition on a liability. We further recommended that management review the nature of their accounts payable and accrued liability accounts on a regular basis.</p>	<p>Implemented</p> <p>Through our review of the Purchases and Accounts Payable Process, we noted that management has implemented a process specific to holdbacks payable. We noted that reports are sent to departments on a quarterly basis requesting a status update on each project and holdback account. Management then addresses the holdback balance based on the response provided by the respective project team.</p> <p>Through our review of the insurance accrual, we noted that management has performed a review to update the claims reported on the annual summary. Management accrued an amount only for claims that have a high chance of payout and are reasonable estimable, thereby ensuring that the reserve is appropriate given the claims outstanding.</p> <p>We consider this matter resolved and it will be removed from future reports.</p>

Appendices

Content

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[Appendix 2: Draft auditors' report](#)

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Appendix 1: Other required communications

Audit Quality in Canada

The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Inspections Results](#)

Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to management.

Appendix 2: Draft auditors' report



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of the City of St. Albert

Opinion

We have audited the consolidated financial statements of the City of St. Albert (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report".



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report therein, included in the "Annual Report", as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants

Edmonton, Canada

April 19, 2022

Appendix 3: Management representation letter



FINANCIAL SERVICES

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File: F06

April 19, 2022

KPMG LLP
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Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of the City of St. Albert (“the Entity”) as at and for the period ended December 31, 2021.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated August 31, 2017 and as amended on January 8, 2019 and November 18, 2020, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
 - the names of all related parties and information regarding all relationships and transactions with related parties; and
 - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.

- d) providing you with complete responses to all enquiries made by you during the engagement.
- e) providing you with additional information that you may request from us for the purpose of the engagement.
- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including assumptions used in determining the fair value of contributed tangible capital assets, are reasonable.
- 9) We have disclosed to you the nature of all environmental liabilities of which we are aware.

Going concern:

- 10) We have provided you with all information relevant to the use of the going concern assumption in the financial statements, including information regarding the key risk factors, assumptions and uncertainties of which we are aware to assess the impacts of COVID-19 on the going concern assumption in the financial statements
- 11) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

- 12) The effects of the uncorrected misstatements described in [Attachment II](#) are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- 13) We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).

Other information:

- 14) We confirm that the final version of the 2021 Annual Report will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 15) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

- 16) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

Kerry Hilts
Interim Chief Administrative Officer

Anne Victoor, CPA, CGA
Interim Director, Financial Services & Information Technology/CFO

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Attachment II – Summary of Audit Misstatements

Uncorrected misstatements:

As at December 31, 2021	Annual Surplus Increase (Decrease)	Financial position Increase (Decrease)		
Description of differences greater than \$300,000 individually		Assets	Liabilities	Ending Accumulated Surplus
To record the City's proportion of the net debt of EMTSC. Net impact is an understatement of expenses.	\$ (850,000)	\$ –	\$ 850,000	\$ (850,000)
Total uncorrected difference	\$ (850,000)	\$ –	\$ 850,000	\$ (850,000)

Corrected misstatements:

In the current year, the City provided loan guarantees of up to \$1.7 million relating to the indebtedness of the Edmonton Metropolitan Transit Services Commission ("EMTSC"), a newly established entity that the City is a member of. Canadian Public Sector Accounting Standards Section 3310, *Loan Guarantees*, requires the City to recognize an expense and liability for losses related to loan guarantees and disclose the nature and terms of significant classes of loan guarantees. We requested that management disclose in its consolidated financial statements the authorized value of the loan guarantee and total outstanding indebtedness at year end, and this change was adopted by management. Management did not correct for the understatement of the expense and liability, as noted in the 'Uncorrected audit misstatements' section below.

We proposed certain other minor recommendations with respect to financial statement presentation and disclosure all of which were adopted by management.

Appendix 4: Current developments

Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary	Reference
Accelerate 2022	The key issues driving the audit committee agenda in 2022	Learn more
Audit Committee Guide – Canadian Edition	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada	Learn more
Unleashing the positive in net zero	Real solutions for a sustainable and responsible future	Learn more
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards.	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more
KPMG Climate Change Financial Reporting Resource Centre	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	Learn more
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	Learn more



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KPMG member firms around the world have 227,000 professionals, in 146 countries.

