City of St. Albert

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Prepared for the City Council
meeting on April 19, 2021

kpmg.ca/audit

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Our refreshed Values

What we believe

Integrity
We do what is right.

Excellence
We never stop learning and improving.

Courage
We think and act boldly.

Together
We respect each other and draw strength from our differences.

For Better
We do what matters.

Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to Council on September 21, 2020.

Finalizing the audit

As of April 19, 2021, 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
- Reviewing 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, 2021).

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 fraud risk of management override of controls, among other areas of focus. This risk and other areas of focus have been addressed in our audit.

What's new in 2020

The potential impacts of COVID-19 have been incorporated into our audit.

CAS 540 *Auditing Accounting Estimates and Related Disclosures* was effective for the current year. The new standard was applied on contributed tangible capital assets as there is a risk of material misstatement due to estimation uncertainty. We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method.

[1] This Audit Findings Report 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 Audit Findings 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.

Executive summary (continued)

Significant accounting policies and practices

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

Note 1(l) to the consolidated financial statements describes future accounting standards which may impact the City's reporting in the future.

Consolidated financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are included in the management representation letter.

Adjustments and differences

Materiality for fiscal 2020 was set at $6,000,000. We identified certain differences that remain uncorrected; however, these differences are not considered to be material and do not impact our audit report on the consolidated financial statements.

We proposed certain other adjustments regarding the City's consolidated financial statement disclosures. The most substantive of these changes were accepted by management and included in the consolidated financial statements.

Control and other observations

We identified certain control and other observations we believe may be of interest to Council. None of these matters impact our audit report on the consolidated financial statements of the City.

Additional reporting responsibilities

We have been engaged to report on the following for the year ended December 31, 2020:

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

In addition, 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, 2020. 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 financial reporting risk	Why is it significant?
Fraud risk from management override of controls	Canadian Auditing Standards (CASs) presume a risk of fraud related to revenue recognition.

Our response and significant findings

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.

We took the following steps to address this risk as required under professional standards:

- We evaluated the design and implementation of controls surrounding journal entries and other adjustments;
- Determined criteria to identify high-risk journal entries and other adjustments; and
- Tested high-risk journal entries and other adjustments made at the end of the reporting period.

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 Audit Plan.

Area of focus	Why are we focusing here?	Our response and significant findings
Recognition of revenue amounts subject to external restrictions	There is a risk of inappropriate revenue recognition of amounts received with external restrictions attached to them (special taxes and levies, government transfers and other amounts).	– We reviewed the recognition of amounts subject to external restrictions, including government transfers and development levies, to ensure they are recognized appropriately. – We confirmed all significant government transfers 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. No misstatements or other findings were identified as a result of performing the above procedures.
Completeness, existence and accuracy of property assessments and taxation	There is a risk that property assessments and approved tax rates are not applied appropriately.	– We evaluated the application of assessments through the tax roll and taxation rates established by the City. No misstatements or other findings were identified as a result of performing the above procedure.
Accuracy and valuation of investments	There is a risk that investments are not 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 tested management's assessment of impairment, including the potential impact of COVID-19, and considered if any potential impairment of the investments exists. No misstatements or other findings were identified as a result of performing the above procedures.

Areas of audit focus and results (continued)

Area of focus	Why are we focusing here?	Our response and significant findings
Accuracy and valuation of contributed tangible capital assets	There is a risk that contributions of tangible capital assets are not appropriately captured in the consolidated financial statements.	– 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. We identified an adjustment with respect to cut-off of recorded contributed tangible capital assets and an observation with respect to how management ascribes values to contributed tangible capital assets. Refer to the *'Adjustments and differences' and 'Control and other observations'* sections of this report.
Existence and accuracy of capital expenditures related to planned capital projects	There is a risk that capital expenditures are not appropriately recorded in the consolidated financial statements and are not 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 other findings were identified as a result of performing the above procedure.
Completeness and accuracy of environmental obligations and other contingencies	There is a risk that environmental obligations and other contingent liabilities are not appropriately identified and reasonably estimated.	– We updated our understanding of the process for annual monitoring. – 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 other findings were identified as a result of performing the above procedures.

Areas of audit focus and results (continued)

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	There is a risk that appropriate cut-off of accounts payable and accrued liabilities is not 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, 2020. – 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. No misstatements were identified as a result of performing the above procedures; We identified an observation with respect to insurance accruals and holdbacks payable. Refer to the *'Control and other observations'* section of this report.
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits note disclosures are not complete and accurately reported.	– We reviewed a sample of employment contracts to ensure salaries and benefits are appropriately disclosed. No misstatements or other findings were identified as a result of performing the above procedure.

Impact of COVID-19

Area of Impact	Key Observations
Financial reporting impacts	— We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the consolidated financial statements as a result of the significant judgements. Refer to Note 1 to the consolidated financial statements. — The areas of the consolidated financial statements most affected include government grants and the disclosure of budget information; refer to Note 5, Note 16 and Note 19, respectively, in the consolidated financial statements. — As a result of the changes in the City's operations during the year and difficulties using prior period trends to predict current year results, we modified our substantive analytical procedures. This did not have a significant impact on our audit.
Internal control over financial reporting	— Along with the City's remote working environment, the financial reporting impacts above necessitated certain changes to the City's internal control over financial reporting related to electronic approval and data storage processes. As a result of the changes to the components of internal control over financial reporting due to the COVID-19 pandemic, we evaluated the design and implementation of the new relevant controls, the City's risk assessment process, information and communication, and monitoring components of internal control over financial reporting. We have no significant findings to report.
Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the consolidated financial statements. No changes have been made from what was communicated in the audit planning report.
Risk assessment	— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID 19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud). We did not identify any additional risks of material misstatement.
Working remotely	— The partner, manager and engagement team used Microsoft Teams virtual work rooms and video calls, as well as internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. — We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence and used Microsoft Teams to conduct walkthrough procedures and inspect physical documents, as required.
Direction and supervision of the audit	— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the City's financial reporting and changes in the City's internal control over financial reporting. — Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

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.

Uncorrected differences

We identified certain uncorrected differences with respect to the original and final operating and budgets presented in the financial statements with those approved by Council. The identified differences are not material and were not adjusted by management.

We also identified certain cut-off errors related to contributed tangible capital assets, which are attributable to construction completion certificates ("CCCs") that are signed as of the date of the asset's inspection rather than the date that the City takes ownership of the asset. It was noted that the CCCs signed after year-end were not provided to Finance to accrue in consolidated the financial statements, which is not in accordance with the City's policy.

As at December 31, 2020	Annual Surplus Increase (Decrease)	Financial position Increase (Decrease)		
Description of differences greater than $300k individually		**Assets**	**Liabilities**	**Ending Accumulated Surplus**
To record the uncorrected misstatement in 2019 for the contributed tangible capital asset transferred to the City in 2019, but not recorded until fiscal 2020.	$ (605,000)	$ –	$ –	$ –
To record the uncorrected misstatement in 2020 for contributed tangible capital assets transferred to the City in 2020, but not recorded until fiscal 2021.	848,000	848,000	–	848,000
Total uncorrected difference	**$ 243,000**	**$ 848,000**	**$ –**	**$ 848,000**

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.

Adjustments and differences (continued)

Corrected adjustments

Canadian Public Sector Accounting Standards ("PSAS") Section 1201, *Financial Statement Presentation,* require the City to present a comparison of actual and budgeted amounts on its statement of operations and accumulated surplus and its statement of changes in net financial assets. Per PSAS 1201.130, the statement of operations and accumulated surplus and the statement of changes in net financial assets should present a comparison of the results for the accounting period with those originally planned. During our audit, we noted that the budget presented incorporated budget revisions in response to the COVID-19 pandemic, as approved by Council in May 2020, among other budget revisions and amendments throughout the year. To comply with PSAS, we requested that management present the original operating and capital budgets in its consolidated financial statements and this change was adopted by management.

We proposed certain other adjustments regarding the City's consolidated financial statement disclosures. The most substantive of these changes were accepted by management and included in the consolidated financial statements.

Control and other observations

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

Item	Observation and Recommendations (2020)
Operating budget presentation (2020)	As noted in the *'Adjustments and differences'* section of this report, we identified a corrected adjustment to ensure management presented its budget originally approved by Council on the consolidated financial statements that has been reconciled to conform with PSAS. In prior years, 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. We recommend 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 recommend 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 in accordance with PSAS in the consolidated financial statements.
Insurance accruals and holdbacks payable (2020)	During our audit of certain amounts included in accounts payable and accrued liabilities, we noted that the City has not performed a regular review and update of the basis supporting the recording of certain liabilities including: (a) Insurance accrual: We understand that this balance stems from a 2011 analysis completed by an external consultant which created a standard costing assessment for insurance amounts to reserve for and the related liabilities to accrue. In the current year, we noted that the City does 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: Through our review of the outstanding holdbacks, we noted that Finance had identified specific projects and holdbacks that remain payable, as well as holdbacks that should be released to revenue; however, the Finance team did not obtain an updated on each project's status to allow them to make any related adjustments in the City's financial statements on a regular basis. We recommend 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 recommend that management review the nature of their accounts payable and accrued liability accounts on a regular basis.

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	2020 Update
Capital budgeting, including budgeting for contributed tangible capital assets (2017)	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. We further noted that the City does not include contributed tangible capital assets or amortization expense in its annual budget. 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.	***Repeated*** In response to our prior year recommendation, the City included a budgeted amount for amortization of tangible capital assets in the current year. We noted that there is approximately a $9 million difference between budgeted and actual amortization for the year. Based on further review, this difference appears to have arisen since amortization was estimated on the basis of historical consolidated results (i.e. amortization as a percentage of tangible capital assets applied against current year tangible capital assets) rather than actual expected amortization to form a more reasonable expectation of current year results. Similarly, the City included budgeted contributions of tangible capital assets and budgeted acquisitions of tangible capital assets in the current year. The difference between the budgeted amount and actual amount is $7 million and $143 million, respectively, for these items. We continue to recommend that the City review the components of its capital plan and budgeting process to ensure the budgeted results provided to and approved by Council reflect actual anticipated annual results.

Control and other observations (continued)

Item	Prior year observations and recommendations	2020 Update
Valuation of contributed tangible capital assets (2017)	We noted that current and relevant costing information is not 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. We further we noted in 2019 that the engineering department started requesting costing information and planned to implement this as a requirement as part of the Municipal Engineering Standards in fiscal 2020. We recommend that costing information is provided to the City by developers.	***Repeated*** We continue to note that current and relevant costing information is not provided to the City from developers when tangible capital assets are contributed, and the requirement was not incorporated in the Municipal Engineering Standards in fiscal 2020. Management continues to work with the engineering department to update the developer's requirements to submit asset cost information in order to obtain their construction completion certificate. This will allow the City to utilize the developer costing information as a reasonability check against the standard costs currently utilized. In lieu of a formalized policy to submit costing information, we recommend that the City develop an appropriate process by which to assign values to contributed tangible capital assets. This could involve 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, among other options.
Purchase orders (2019)	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. 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 prepared and approved prior to a purchase being made.	***In progress*** Through our review of the purchasing process, we noted that management is in the process of updating its Purchasing Administrative Directive to ensure that all purchases between $10,000 and $50,000 have a minimum of three quotes and a purchase order is created for the selected vendor. We will follow up on the implementation of this recommendation in 2021.

Control and other observations (continued)

Item	Prior year observations and recommendations	2020 Update
Capital accruals - completeness (2019)	We noted that the City does not have a process in place to validate the accounts payable and accrued liabilities related to construction projects. More specifically, the City does not consistently review the status of projects at year-end to determine if all invoices have been received or if additional accruals are required. We recommended that the City enhance the year-end review of the Capital Carry Forward report for municipal and utility projects by individually reviewing all projects with a significant budget to actual variance. Through a review of this report and the related contract, management can determine and track when the next progress billing is expected to be received to assess whether work performed to date has been fully accrued at year-end. We further recommend that the City hold regular discussions with dependent components to ensure capital projects, inclusive of the related funding to be provided, are appropriately recorded in the correct period.	***Implemented*** We noted that management prepared a capital report at year-end, which included spend to date compared to total budget by project, and a thorough review was completed. Further, management has implemented a year-end process of reviewing invoices posted after year-end to determine if there are invoices related to the current year that are significant enough to warrant a post-close accrual entry. During our audit, we did not identify any significant unaccrued balances at year-end. We consider this matter resolved and it will be removed from future reports.
Deposit liabilities – tracking and monitoring (2019)	We noted that the City does not have a formalized process to track and monitor outstanding deposit liabilities. Specifically, it was noted that the City was not performing a detailed review of individual deposit balances to evaluate whether deposits remain payable, or if they should be released. This leads to a risk that the deposit liabilities balance is overstated. We recommended that management prepare a listing of all outstanding deposits and review it on a recurring basis. As part of this review, the City should validate individual project deposits by determining if the project remains in progress and therefore the deposit remains payable, or if deficiencies were noted in the project and there is no intent to repay the balance to ensure the related deposit is appropriately released.	***Implemented*** We noted that management prepared a listing of all outstanding deposits at year-end and a thorough review was completed, which included assessing if the status of each deposit liability is consistent with the status of the project. We consider this matter resolved and it will be removed from future reports.

Appendices

Content

Appendix 1: Required communications

Auditors' Report	Representations of management
The conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements.	A copy of the management representation letter is attached in Appendix 2.

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: 2020 Interim Inspection Results
- CPAB Audit Quality Insights Report: 2019 Annual Inspections Results

Visit our Audit Quality Resources page **for more information including access to our** Transparency report

Appendix 2: Management representation letter

KPMG LLP
2200, 10175 – 101 Street NW
Edmonton, AB
T5J 0H3

April 19, 2021

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, 2020.

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

      — others

      where 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 2020 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,

____

Kevin Scoble
City Manager

DRAFT

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Diane McMordie
Director, Financial Services & Information Technology/Chief Financial Officer

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 differences:

As at December 31, 2020	Annual Surplus Increase (Decrease)	Financial position Increase (Decrease)		
Description of differences greater than $300k individually		**Assets**	**Liabilities**	**Ending Accumulated Surplus**
To record the uncorrected misstatement in 2019 for the contributed tangible capital asset transferred to the City in 2019, but not recorded until fiscal 2020.	$ (605,000)	$ –	$ –	$ –
To record the uncorrected misstatement in 2020 for contributed tangible capital assets transferred to the City in 2020, but not recorded until fiscal 2021.	848,000	848,000	–	848,000
Total uncorrected difference	**$ 243,000**	**$ 848,000**	**$ –**	**$ 848,000**

We also identified certain uncorrected differences with respect to the original and final operating budgets presented in the financial statements with those approved by Council. The identified differences are not material and were not adjusted by management.

Corrected adjustments:

Canadian Public Sector Accounting Standards ("PSAS") Section 1201, *Financial Statement Presentation,* require the City to present a comparison of actual and budgeted amounts on its statement of operations and accumulated surplus and its statement of changes in net financial assets. Per PSAS 1201.130, the statement of operations and accumulated surplus and the statement of changes in net financial assets should present a comparison of the results for the accounting period with those originally planned. During our audit, we noted that the budget presented incorporated the budget revisions in response to the COVID-19 pandemic, as approved by Council in May 2020, among other budget revisions and amendments. To comply with PSAS, we requested that management present the original operating and capital budgets in its consolidated financial statements and this change was adopted by management.

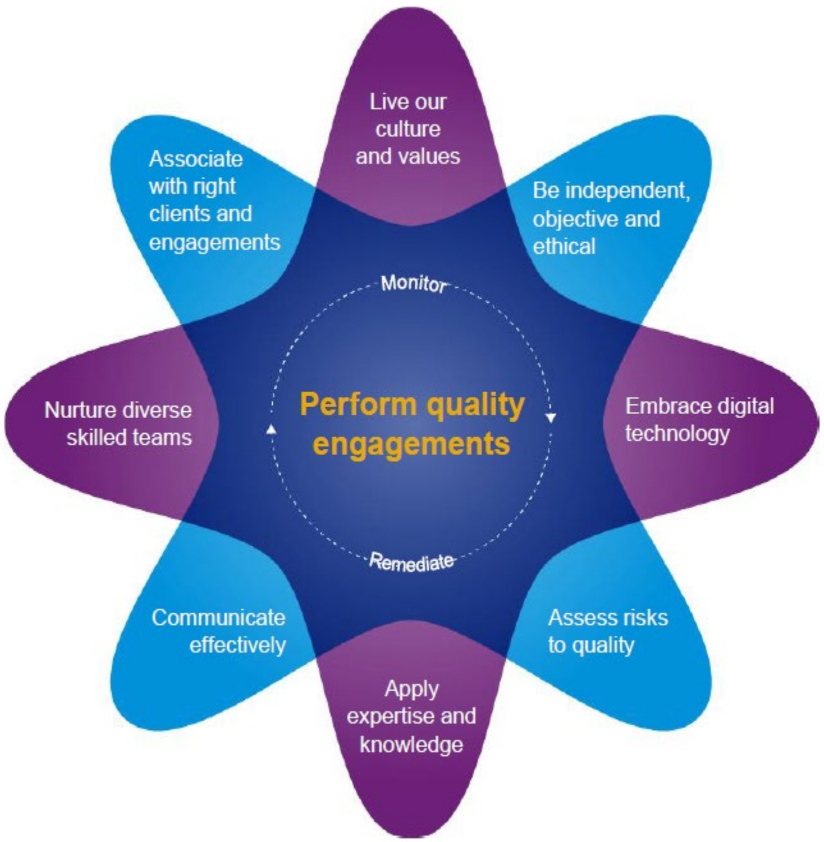
Appendix 3: Global quality framework

Transparency report

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.

Appendix 4: Current developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. Current Canadian public sector accounting standards contain no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.
Employee Future Benefit Obligations	– Standard setters have initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, standard setters approved a revised project plan. – Standard setters to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, standard setters will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.
Public Private Partnerships ("P3")	– Standard setters have proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership and are in the process of reviewing feedback provided by stakeholders on the exposure draft. – The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. – The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023.

Standard	Summary and implications
Concepts Underlying Financial Performance	– Standard setters are in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – Standard setters have released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021. – Standard setters are proposing a revised, ten-chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, Standard setters are proposing: • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Standard	Summary and implications
International Strategy	– Standard setters reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. Standard setters noted that the decision will apply to all projects beginning on or after April 1, 2021. – An exposure draft to modify the GAAP hierarchy has been issued with responses due by February 15, 2021.
Purchased Intangibles	– In October 2019, standard setters approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – Standard setters have approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.

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