



City of St. Albert

**Audit Planning Report
For the year ended December 31, 2017**

September 11, 2017

kpmg.ca/audit



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Table of contents

Executive summary	3
Areas of audit focus	4
Materiality	7
KPMG audit team	8
Audit cycle and timetable	9
Appendices	10

At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

What is an audit?

An audit involves inspecting the City's records and accounts to provide an opinion on whether the financial statements are fairly stated in accordance with Canadian Public Sector Accounting Standards. The overall objective of an audit is to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement. An audit obtains reasonable assurance and not absolute, as an audit does not test everything.

Audit testing responds to audit risk (i.e. the risk that financial statements are materially misstated and the audit does not detect this), and audit procedures are designed to reduce audit risk to an acceptably low level.

Areas of audit focus

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Recognition of revenue amounts subject to external restrictions;
- Existence, accuracy and valuation of contributions of tangible capital assets;
- Accuracy and valuation of investments;
- Property assessments and taxation;
- Operating costs;
- Capital costs;
- Contingencies;
- Completeness and accuracy of liability for contaminated sites and other contingencies;

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- Completeness and accuracy of salaries and benefits note disclosures;
- Risk of management override of controls.

See pages 4 – 6.

Audit Materiality

Materiality has been determined based on budgeted expenses. We have determined materiality to be \$7 million for the year ending December 31, 2017.

See page 7.

KPMG audit team

The KPMG team will be led by John Stelter and Justin Kinal. Subject matter experts will be involved to ensure our approach is appropriate and robust.

See page 8.

Effective communication

We are committed to transparent and thorough reporting of issues to Management and Council.

See page 9 and Appendix 3.

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Council approved protocols.

Areas of audit focus

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the City

Areas of audit focus	Why	Our audit approach
Recognition of revenue amounts subject to external restrictions	There is a risk of inappropriate revenue recognition of amounts received with external restrictions attached (taxes, government transfers, and other amounts)	<ul style="list-style-type: none"> – We will review the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. – We will confirm all significant government transfers or other similar inflows and examine related agreements. – We will review capital grant agreements and related expenditures to ensure the funds are appropriately recognized against specific capital projects.
Existence, accuracy and valuation of contributions of tangible capital assets	There is a risk that tangible capital assets, including contributed tangible capital assets, are not appropriately recorded in the consolidated financial statements	<ul style="list-style-type: none"> – We will remain alert for any changes in process and perform testing over these changes as necessary. – We will review the detailed asset listing to ensure that it reconciles to the financial information that supports the consolidated financial statements. – We will review a sample of capital expenditures to ensure they were appropriately applied against the specific capital projects. – We will review the value ascribed to assets contributed and donated to the City, if any.
Accuracy and valuation of investments	There is a risk that investments are not appropriately valued; specifically that impairment is not assessed and recorded where appropriate	<ul style="list-style-type: none"> – We will verify through confirmation of investment accounts the cost and market value of investments. We will recalculate investment premiums/discounts for investments recorded at amortized cost. – We will review management's assessment of impairment and consider if any potential impairment of the investments exists. – We will review the portfolio of investments to assess compliance with the City's risk management and investment policies.
Property assessments and taxation	There is a risk that the changing environment for assessments of property value for taxation purposes may strain the City's resources and could shift tax burdens	<ul style="list-style-type: none"> – We will evaluate the appropriate application of the assessment through the tax roll and taxation rates as established by Council.
Operating costs	The risk is that proper estimates are not made for operating costs, and variances between actual costs and budgets are not identified on a timely basis	<ul style="list-style-type: none"> – We will evaluate and test controls over budget making and interim reporting on variances as the budget represents the City's delegated spending authority. – We will review actions taken where material spending variances are identified. – At year end we will perform of a search for unrecorded liabilities, and obtain a detailed understanding of significant variances from budget as well as key accruals.

Areas of audit focus (continued)

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the City

Areas of audit focus	Why	Our audit approach
Capital costs	The risk is that requirements for capital replacement are not properly identified and prioritized, and that variances between projected capital financing requirements and spending on approved projects are identified on a timely basis	<ul style="list-style-type: none"> – We will consider how capital budget making and management processes vary from operating processes and evaluate and test controls over budget making. – We will evaluate how frequently open capital projects are reviewed and actions being taken in response to situations where projects are under or over funded. We will perform inquiries and testing will involve interaction with departments with significant capital spending. – Year-end procedures will include review of open capital projects that are significantly underfunded and review of open capital projects that do not have recent activity. – At year end we will perform of a search for unrecorded liabilities, and obtain a detailed understanding of significant variances from budget as well as key accruals.
Contingencies	Contingent liabilities are reasonably estimated	<ul style="list-style-type: none"> – We will communicate with external legal counsel to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded. – We will review significant findings with management and/or legal counsel.
Completeness and accuracy of liability for contaminated sites and other contingencies	There is a risk that environmental obligations and other contingent liabilities are not appropriately identified and reasonably estimated	<ul style="list-style-type: none"> – We will review Management's process and conclusions with respect to Liabilities for Contaminated Sites, including the estimate of environmental liabilities for all City properties. – We will review external environmental assessment reports and assess the properties against the requirements as defined in related environmental acts.
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits for elected municipal officials, the chief administrative officer and the designated officers are not recorded and disclosed appropriately.	<ul style="list-style-type: none"> – We will review a sample of employment contracts to ensure salaries and benefits are appropriately disclosed. – We will review Council minutes to determine if any additional benefits may require disclosure.

Areas of audit focus (continued)

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all entities.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Professional requirements	Why	Our audit approach
Risk from management override of controls	This is a presumed risk. We have not identified any specific additional risks of management override relating to this audit.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.



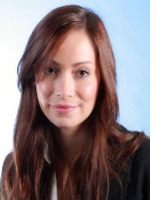

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics include total actual or budgeted revenues or expenditures, program costs and accumulated surplus.	
Benchmark	Based on the fiscal 2017 budgeted operating and capital revenues.	\$237.5 million
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.	\$7 million (2016 - \$6 million)
% of Benchmark		3%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$5.25 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$350,000

KPMG audit team

	Team member	Background / experience	Discussion of role
	<p>John Stelter Engagement Partner Tel: 780.429.6511 jstelter@kpmg.ca</p>	<p>John is a partner in KPMG's audit practice and is the Not for-Profit and Public Sector Practice Leader in Edmonton. He has over 29 years of experience in client service engagements at KPMG and has provided a broad range of professional services to various public sector clients including municipalities, hospitals, universities and indigenous organizations.</p>	<ul style="list-style-type: none"> – John will lead our audit for the City of St. Albert and be responsible for the quality and timeliness of everything we do. – He will always be available and accessible to you
	<p>Justin Kinal Engagement Manager Tel: 780.49.6014 jkinal@kpmg.ca</p>	<p>Justin is a manager with KPMG's audit practice in Edmonton. He has over six years of public practice experience providing accounting, audit, tax, and business advisory services to public sector clients, including provincial government, provincial not-for profit entities, municipalities and indigenous organizations. Justin also has experience in the for-profit sector, providing services to companies in the retail and manufacturing industries.</p>	<ul style="list-style-type: none"> – Justin will work very closely with John on all aspects of our audit for the City of St. Albert. – He will be on site often and directly oversee and manage our audit field team and work closely with your management team.
	<p>Brittany Keelan Senior Accountant Tel: 780.429.6523 bkeelan@kpmg.ca</p>	<p>Brittany is a senior accountant in KPMG's Edmonton Audit practice. She has four years of experience with KPMG's Enterprise audit practice in Edmonton, including audit, tax and business advisory services and municipal experience with the City of Spruce Grove and Strathcona County.</p>	<ul style="list-style-type: none"> – Working closely with Justin, Brittany will hold primary responsibility for the execution of our audit plan and she will be on site regularly during the year end field work.
	<p>Robyn Eason Concurring Partner Tel: 780.429.6074 reeson@kpmg.ca</p>	<p>Robyn has over 16 years of experience with our Public Sector Team in Edmonton. She has provided a broad range of professional services to various health, not-for-profit and public sector clients including municipalities, hospitals, universities, foundations and societies. Robyn also has experience in the for-profit sector, providing services to companies in the construction and professional services industries.</p>	<ul style="list-style-type: none"> – Robyn will provide an objective evaluation of the significant judgments made by the audit engagement partner and the engagement team, and the conclusions reached in formulating the audit report.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Our timeline is in line with prior year to avoid any last minute surprises.

Activity	Timing
Discuss Audit Planning Report and engagement letter with management	August 28, 2017
Present Audit Planning Report and engagement letter to Council	September 11, 2017
Perform interim procedures, including audit work on property tax revenues, government transfers and tangible capital assets	By November 30, 2017
Perform year-end audit procedures on the Library	February 26 – March 2, 2018
Perform year-end audit procedures on the City	March 9 – March 23, 2018
Perform year-end audit procedures on LAPP and FCSS	Concurrent with the year-end audit procedures for the City
Review draft financial statements, draft audit reports and results of the audit with the Director of Financial Services	By March 28, 2018
Present Audit Findings Report to Council	April 16, 2018
Issue audit reports on consolidated financial statements, FIR, Library, LAPP and FCSS	By May 1, 2018

Appendices

Appendix 1: Engagement Letter

Appendix 2: Audit quality and risk management

Appendix 3: KPMG's audit approach and methodology

Appendix 4: Required communications

Appendix 5: Current developments

Appendix 6: Thought Leadership

Appendix 1: Engagement letter

Appendix 2: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm’s standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 3: KPMG's audit approach and methodology

Technology-enabled audit workflow (eAudit)

Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Council communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 4: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter and any subsequent amendment letters as attached within Appendix 1.
- **Audit planning report** – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to Management and Council.
- **Audit findings report** – at the completion of our audit, we will provide a report to Management and Council.

Appendix 5: Current developments

The following is a summary of the current developments that are relevant to the City.



Standard	Summary and implications
PS2200, Related Party Transactions	The new standard requires disclosure of the effect of financially material transactions between related parties. The mandatory effective date of PS2200 is for fiscal periods beginning on or after April 1, 2017.
PS3420, Inter-Entity Transactions	The new standard provides how to account for and report transactions between entities controlled by a government and that comprise the government's reporting entity from both a provider and a recipient perspective. The mandatory effective date of PS3420 is for fiscal periods beginning on or after April 1, 2017.
PS3210, Assets	The new standard provides guidance for applying the definition of assets and establishes general disclosure standards for assets. The mandatory effective date of PS3210 is for fiscal periods beginning on or after April 1, 2017.
PS3320, Contingent Assets	The new standard defines and establishes disclosure standards on contingent assets. The mandatory effective date of PS3320 is for fiscal periods beginning on or after April 1, 2017.
PS3380, Contractual Rights	The new standard defines and establishes disclosure standards on contractual rights. The mandatory effective date of PS3380 is for fiscal periods beginning on or after April 1, 2017.
PS3430, Restructuring Provisions	The new standard establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. The mandatory effective date of PS3430 is for fiscal periods beginning on or after April 1, 2018.
PS1201, Financial Statement Presentation	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the remeasurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. The mandatory effective date of PS1201 is for fiscal periods beginning on or after April 1, 2019.

Appendix 5: Current developments (continued)

Standard	Summary and implications
PS3450, Financial Instruments	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the remeasurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. The mandatory effective date of PS3450 is for fiscal periods beginning on or after April 1, 2019.
PS2601, Foreign Currency Translation	The new standard requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of remeasurement gains and losses. The mandatory effective date of PS2601 is for fiscal periods beginning on or after April 1, 2019.
PS3041, Portfolio Investments	The new standard has removed the distinction between temporary and portfolio investments. This standard now includes pooled investments in its scope and was amended to conform to Financial Instruments, PS3450. Upon adoption of PS3450 and PS3041, PS3030 Temporary Investments will no longer apply. The mandatory effective date of PS3041 is for fiscal periods beginning on or after April 1, 2019.

Appendix 6: Thought leadership

KPMG Canada's Public Sector practice has played a leading role in the development of our thought leadership publications. We produce documents, reports and other publications to share our ideas and information relating to new developments, regulatory changes, and industry and technical issues.

	<p>Future Cities</p> <p>The world is changing faster than ever before. Cities are no different. This series brings together some of KPMG's leading thinking on the challenges and opportunities faced by cities and how we can work together to create better, more sustainable places to live and work. The catalyst for this series was working on a knowledge-transfer program from Bristol, the European Green Capital 2015, aimed at helping cities understand and apply lessons in becoming more sustainable.</p>
	<p>Future State 2030</p> <p>This white paper identifies nine global megatrends that are most salient to the future of governments. While they are highly interrelated, the megatrends can broadly be grouped into trends reflecting changes in the status and expectations of individuals, changes in the global economy and changes in the physical environment.</p>
	<p>Value of Audit - Perspectives for Government</p> <p>The Value of Audit: Perspectives for Government features the views of KPMG government audit leaders in nine countries – Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US as well as senior government audit professionals from Canada, the Netherlands and the US. Their observations demonstrate a number of challenges and concepts that are critical to the value of audit in government today</p>
	<p>Better Outcomes for Public Services: Achieving social impact through outcomes-based funding</p> <p>This new report from KPMG in Canada and The Mowat Centre is a 'must-read' for policy makers and practitioners seeking to achieve greater social impact through outcomes-based funding.</p>

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