



## **City of St. Albert** Report to the City Council on the 2016 audit

April 18, 2017



April 11, 2017

To City Council of the City of St. Albert:

**Report on audited annual financial statements**

We are pleased to submit this report on the status of our audit of the City of St. Albert ("the City") for the 2016 fiscal year. This report summarizes the scope of our audit, our findings and reviews certain other matters that we believe to be of interest to you.

As agreed in our engagement letter dated October 18, 2016, we have performed an audit of the financial statements of the City of St. Albert as of and for the year ended December 31, 2016, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and intend to issue our independent audit report thereon dated April 18, 2017.

Our audit has been conducted in accordance with the audit plan that was presented to the Standing Committee of the Whole (the "Committee") at the meeting on September 19, 2016.

This report is intended solely for the information and use of the City Council, Committee, management and others within the City and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to express our appreciation for the co-operation we received from the officers and employees of the city with whom we worked to discharged our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte LLP".

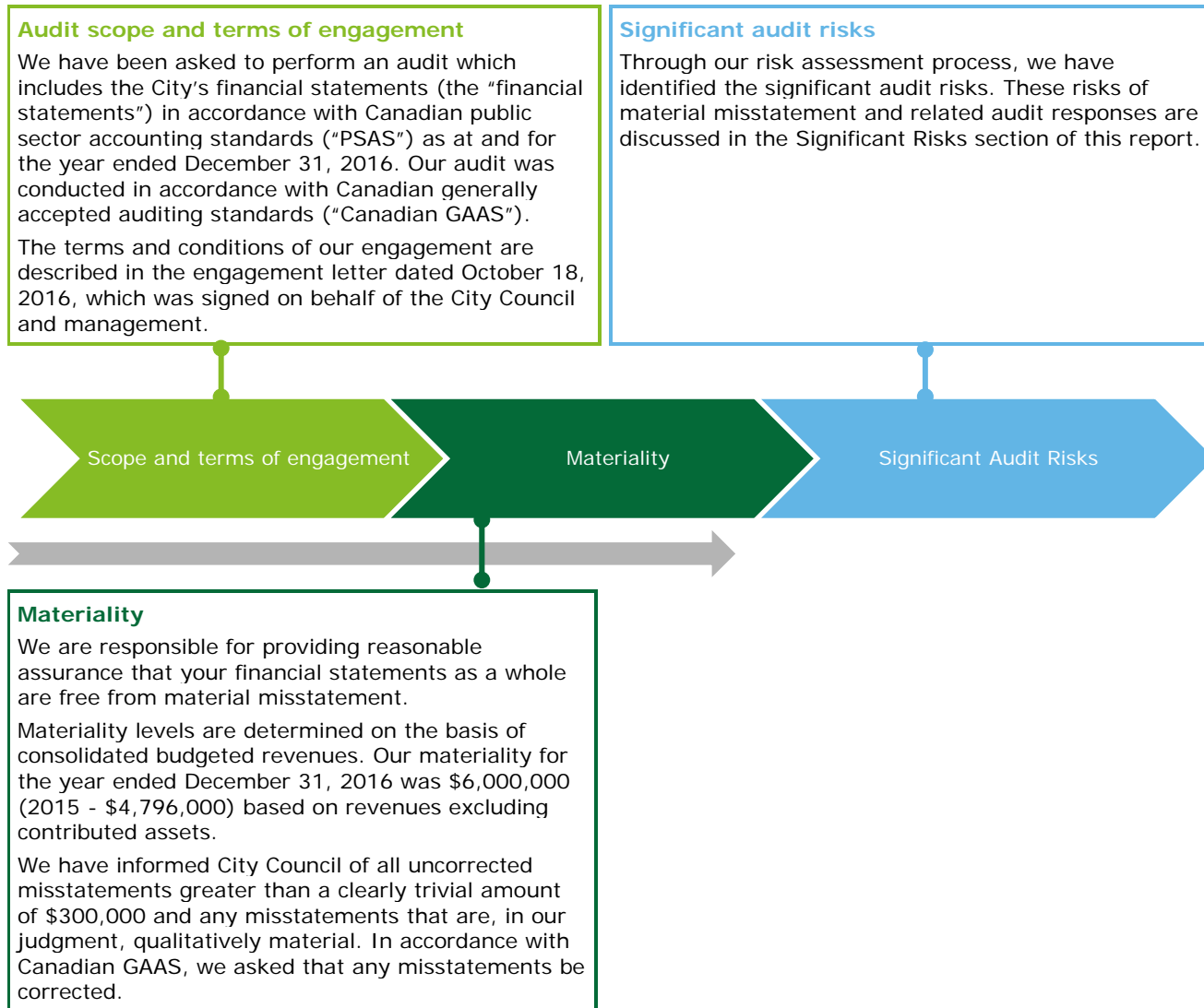
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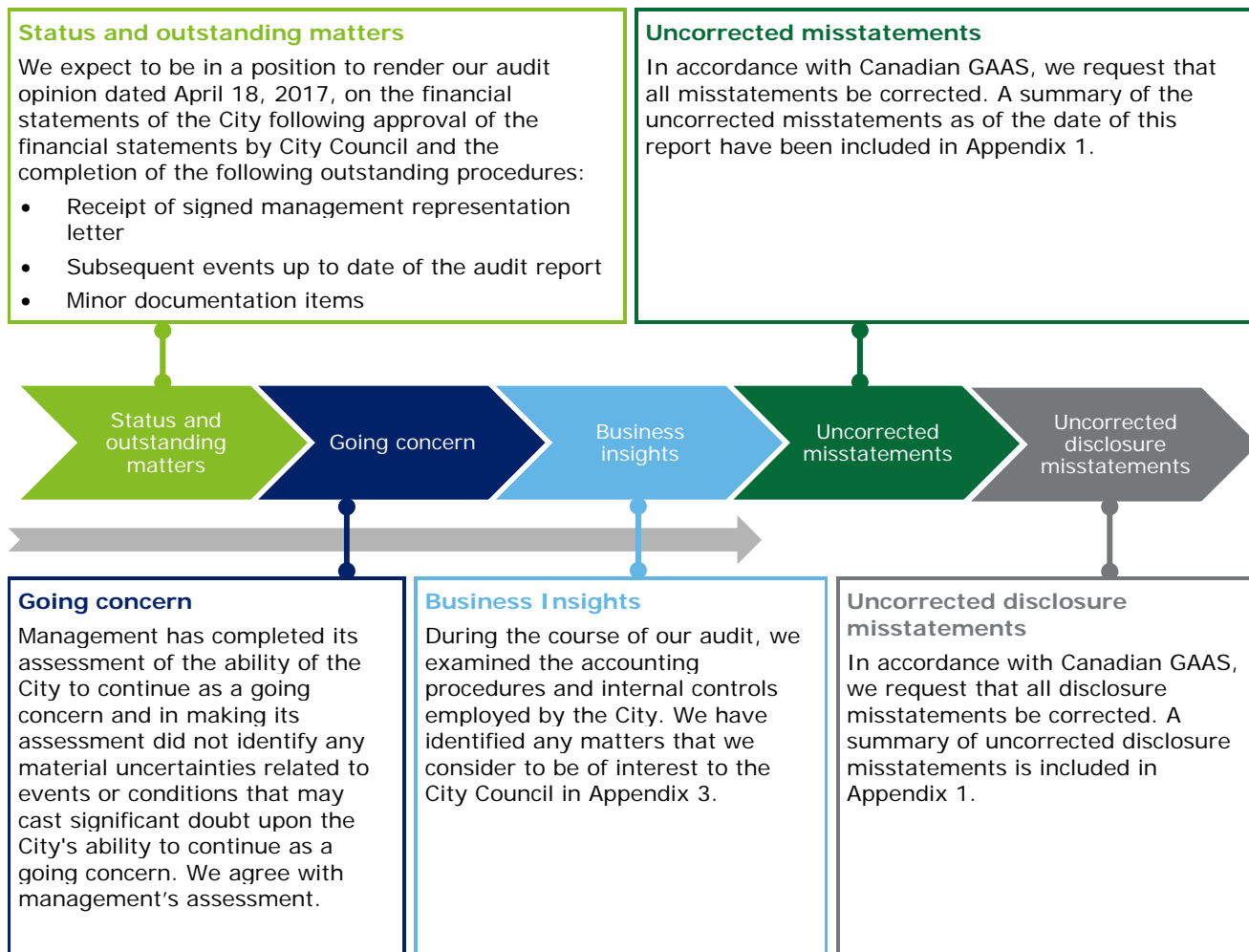
# Table of contents

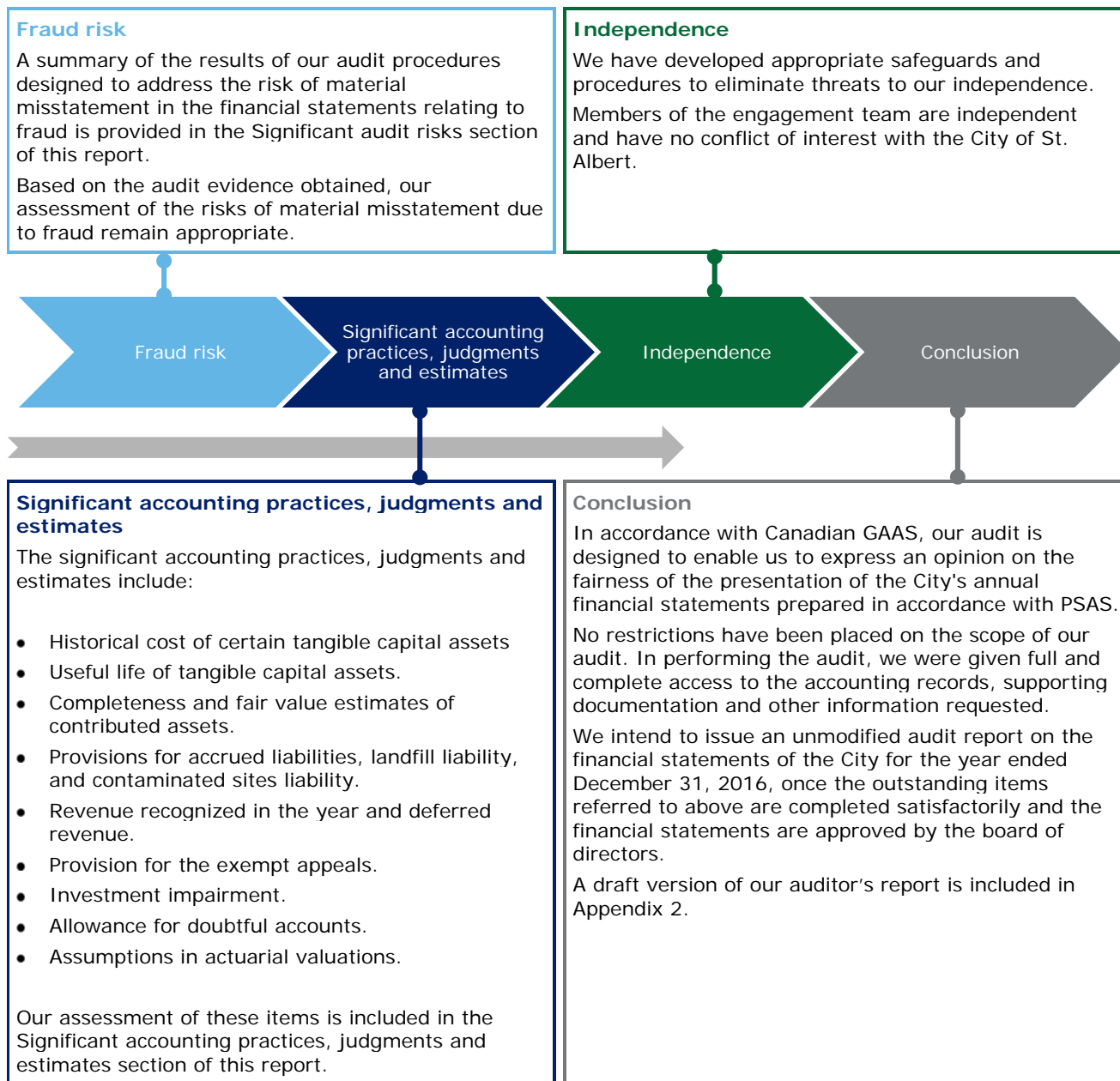
Our audit explained	1
Significant audit risks	4
Other reportable matters	7
Appendix 1 – Summary of uncorrected financial statement misstatements and summary of disclosure items passed	8
Appendix 2 – Draft version of our auditor's report	9
Appendix 3 – Letter of recommendations and business insights	10
Appendix 4 – Draft management representation letter	14

# Our audit explained

This report summarizes the main findings arising from our audit. We have also provided business recommendations on challenging issues that the City faces, based on our understanding of your organization and industry.



























# Significant audit risks

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

## Significant risk dashboard

Audit risk	Fraud risk	Assessment of the design and implementation of internal controls	Results of control testing	Results of the substantive testing	Results of the use of experts	Overall conclusion
Revenue recognition						Satisfactory
Management override of controls						Satisfactory
Deferred revenue and restricted surplus reserves						Satisfactory
Completeness and fair value estimates of contributed assets						Satisfactory



Addressed during the audit



Not applicable

## Revenue recognition

### Audit risk

Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition. We have evaluated the revenue transactions, and we have concluded that the significant risk is:

- Recognition of government transfer revenues based on the underlying funding agreement.
- Recognition of developer levies in the incorrect period.

This represents a fraud risk for the 2016 audit.

### Our audit response

- We evaluated the operating effectiveness and the design and implementation of the internal controls that address this risk.
- We tested government transfer revenues by examining the revenue recognized against the underlying fund agreement.
- Developer levies were tested by determining if the drawdowns made in the year were appropriate as per the relevant contracts.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

## Management override of controls

### Audit risk

Management is in a unique position to override internal controls, which could allow manipulation of the accounting records that could result in consolidated financial statements that are materially misstated.

This represents a fraud risk for the 2016 audit.

### Our audit response

- We discussed fraud with management.
- We asked City Council for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the City and their role in the oversight of management's antifraud programs.
- We tested a sample of journal entries made throughout the period, and adjustments made at the end of the reporting period.
- We evaluated the business rationale for any significant unusual transactions.
- We determined whether the judgements and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.



## Deferred revenue and restricted surplus reserves

### Audit risk

Revenue is recognized from the deferred balance when the funds are used for the purpose specified. There is a risk that revenue is not recognized in accordance with the funding agreements. In addition, there is a risk that funding is unrecorded due to the decentralized nature of grant management and reliance on manual processes.

Restricted surplus reserves are adjusted for approved transfers in or approved use of funds by City Council.

This represents a fraud risk for the 2016 audit.

### Our audit response

- We reviewed deferred revenue for compliance with Canadian PSAS.
- We tested a sample of expenditures and ensured related revenue had been recognized appropriately.
- We specifically reviewed federal and provincial transfer payments received during the year to fund specific projects.
- We reviewed the related funding agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period.
- We reviewed City Council meeting minutes and evidence of approval in changes in restricted surplus reserves.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

## Completeness and fair value estimates of contributed assets

### Audit risk

In preparing the consolidated financial statements, Finance requires information independent of financial reporting systems for a number of City departments related to contributed assets. As a result, there is an increased risk that recorded contributed assets may not be complete and the fair value estimates of contributed tangible capital assets ("TCA") may differ significantly from actual results.

### Our audit response

- We tested the completeness of contributed TCAs recorded.
- We reviewed the City's process to ensure completeness of developer assets recorded.
- We tested a sample of Final Acceptance Certificates issued around year-end to ensure assets are recorded in the appropriate period.
- We reviewed and tested management's process to ensure that information related to land contributions is complete. We tested completeness of assessment information provided to record contributed TCAs.
- We tested a sample of TCA additions in the year and assessed the reasonableness of the useful life determined by management.

### Audit results

We obtained sufficient audit evidence to conclude that there were no material misstatements.

# Other reportable matters

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to City Council as part of the audit plan.

	Comment
<b>Use of the work of specialists and experts</b>	<p>As planned, Deloitte and external specialists and experts assisted in the audit to the extent we considered necessary:</p> <hr/> <p><b>IT specialists:</b> Participated in evaluating internal controls and in using our computerized audit applications.</p> <hr/> <p><b>Actuarial experts:</b> Helped assess the adequacy of the defined benefit obligation.</p> <hr/> <p><b>Fraud experts and Valuation experts:</b> Assisted in assessing and developing the audit plan to ensure that our audit procedures were designed to provide a reasonable assurance of detecting errors and irregularities that are material to the financial statements. In addition, they assisted us in our testing of journal entries.</p>
<b>Significant difficulties encountered in performing the audit</b>	We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.
<b>Related party transactions</b>	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments by management concerning measurement or disclosure.
<b>Disagreements with management</b>	In the course of our audit, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.
<b>Consultation with other accountants</b>	Management has informed us that the City has not consulted with other accountants about auditing or accounting matters.
<b>Legal and regulatory compliance</b>	Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the City.
<b>Post-balance sheet events</b>	At the date of finalizing this report, we are not aware of any significant post balance sheet events.
<b>Reliance on service organizations</b>	As planned, we used the reports issued by the independent auditors of the third party service organizations employed by the City. Our assessment provided us with sufficient appropriate audit evidence to address the risks of material misstatements in the financial statements.

# Appendix 1 – Summary of uncorrected financial statement misstatements and summary of disclosure items passed

## Summary of uncorrected financial statement misstatements Year ended December 31, 2016

### Accrued Liabilities

The City has not accrued for revenue sharing payments to Sturgeon County resulting from the Order of Council dated February 14, 2007. Under the Order, the City is obligated to pay \$80,000 per year from 2009 to 2018. As a result of this misstatement, 2015 accrued liabilities are understated by \$240,000 and opening accumulated surplus is overstated by \$240,000; 2016 accrued liabilities are understated by \$160,000 and current year expenses are overstated by \$80,000.

### Contributed Assets

- a) City received several contributed assets in form of Land parcels in 2015, and have been accounted for in the current year instead of the prior year. As a result, contributed assets revenue has been overstated by \$2,472,000 and the Accumulated Surplus has been understated by the same amount.
- b) In 2012, when the City received a contributed asset (150 Carton Drive) it was incorrectly recognized as Contributed Assets as well as Land Held for Resale. Management corrected in 2016 resulting in contributed assets revenue understated by \$641,000 and the Accumulated Surplus has been overstated by the same amount.

## Summary of disclosure items passed Year ended December 31, 2016

<i>Footnote number</i>	<i>Footnote title</i>	<i>Description of omitted or unclear disclosure</i>	<i>Authoritative literature reference</i>	<i>Dollar amount of omitted or unclear disclosure (if applicable)</i>
Not applicable	Separate disclosure	The City has incorrectly disclosed certain revenue sharing payments to Sturgeon County in Note 11 as commitments and contingencies rather than accrued liabilities.	PS1000.59	\$160,000

# Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of the City of St. Albert, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and accumulated surplus, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of St. Albert as at December 31, 2016, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

April 18, 2017

# Appendix 3 – Letter of recommendations and business insights

Dear Diane McMordie:

We have recently completed our audit of the financial statements of the City for the year ended December 31, 2016.

Our audit was designed to provide a cost-effective basis for formulating an opinion on your financial statements. As part of our examination, we reviewed and evaluated relevant aspects of the systems of internal control and the accounting systems to the extent we considered necessary to make an evaluation of such systems and procedures in accordance with Canadian GAAS.

Our audit included consideration of internal control relevant to the preparation of the Financial Statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters below are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported.

If more extensive procedures had been performed on internal control, we may have identified additional deficiencies to be reported, or concluded that some of the reported deficiencies need not, in fact, have been reported.

Although we have included management's written response to our comments, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

The following matters are presented for your consideration in the attachment. This communication has been prepared solely for the information of management and Council of the City of St. Albert, and is not intended to be, nor should be, used for any other purpose.

## Current Year Recommendations

### 1) Insufficient backup monitoring process

#### Observation and implication

We observed for backups performed using CommVault tools, 10 of the sampled failed backups were not resolved in a timely manner.

The availability of financial data could be compromised if backup failures are not remediated in a timely manner.

#### Recommendation

Management should document and implement a well-defined backup monitoring procedure or guideline to review successful execution, and ensure that failures are escalated and corrected. This will ensure data is usable and available for retrieval and restoration if needed.

#### Management Response

During the migration from the old BackupExec system to CommVault, a number of configuration changes were needed to resolve issues and optimize performance. The CommVault system is functioning extremely well and failures are rare and promptly addressed. IT Services will ensure that the backup system standard operating procedures and automated notifications are amended to reflect this requirement.

## Prior Year Recommendations

The following are recommendations made in the prior year that are still applicable in the current year. The recommendations are grouped in the following categories:

- In progress
- Fully implemented

### In Progress

#### 1) Timely notification to Information Technology (“IT”) department for terminated employees – 2015 and 2016

##### Observation and implication

During the course of the audit, an instance was noted where the IT department was notified by Human Resource department on termination of a casual staff three weeks after the termination date. IT department processed the ticket within timely manner. Failure to notify IT department and removal of a user in a timely manner could result in terminated users’ accounts being inappropriately accessed; therefore, allowing unauthorized access to users (terminated and current).

##### 2016 Observation

Based on our review of the terminations process for the full population of terminations for the period of testing:

- 12 terminated users were noted on active AD user listing.
- 1 terminated users were noted on active Tempest user listing.
- 11 terminated users were noted on active Agresso user listing.
- 1 terminated user was noted on active Hansen/IPS user listing

For 5 out of the 11 Agresso users, access was disabled at the Active Directory level therefore preventing access to applications.

Additionally, for a sampled termination ticket, we observed that the termination ticket date was noted as August 5, 2016 but the account was disabled on August 19, 2016. Therefore, access was not disabled in a timely manner (i.e., within 48 hours). However, we noted that the user account has been removed from active user account access listing.

#### **2016 Management Response**

When notified of an immediate (involuntary) termination by managers or Human Resources, the IT Service Desk promptly sets user account status to disabled.

When an employee has given notice, but requires continued access until the end of their last working day, upon notification by HR, IT Services sets an expiry date on the user's Active Directory account, which automatically revokes access on the specified date. The auditor's observation of the 5-19 August account was this type of termination.

Disabled accounts remain in an inactive state until the archiving process is complete and are then deleted. If a disabled account were to be deleted prior to archiving, then all the data associated with that account would be lost. Once an Active Directory user account has been disabled, a terminated user cannot logon to a City computer or network, and therefore cannot access any corporate software applications such as Agresso, Tempest, or Hansen/IPS.

Even though the above procedures work very well, IT Services and HR have further improved notification processes and have established a bi-weekly 100% audit to ensure that no terminated user accounts have failed to be disabled.

## **2) Change Management Policy not implemented – 2011, 2014 and 2015**

#### **Observation and implication**

In 2011 we raised the recommendation that a formal, written change management process should be developed to ensure that changes to system software and the network are processed in a well-controlled manner and relevant documentation such as requests, approvals, impact analysis and test results (where relevant) should be maintained. A change log should be maintained to record the total changes made to the systems.

In 2014 we noted that although the change management policy had been established and approved by management and fully implemented in 2013, during our review we identified that the change management process was not followed consistently. Evidence of the testing performed (two items) by the business users and their approvals were not kept; we did not observe the final approval from the Change Advisory Board. We recommend that the City ensures that the now defined change management process is followed consistently for all the changes submitted for systems and infrastructure.

#### **2016 Management Response**

IT Services has a formal change management process and associated directive. The change management process is continuously improved and the process was adjusted to require updates of each RFC after implementation to reflect the success or failure of the change. For hardware changes, no test environment is possible, so emphasis is placed upon recovery and change back-out vs. testing of changes in advance. For software changes, the testing is done within the test (parallel non-production) environment, which is not under change management.

### **3) Expenses not recorded in correct period - 2015**

#### **Observation and implication**

During the course of the audit, we noted seven invoices, in a sample of twenty-five invoices, related to prior years which were recorded in the current year expenses. The impact to the financial statements was immaterial. Management has processes in place to capture and accrue for large transactions, however this process is not applied to all types of expenses. As a result goods and services could be received in one year and the invoice not recorded until the next year, which would result in an understatement of accrued liabilities and expenses for the year.

#### **2016 Management Response**

Finance implemented several steps in 2016 to address this issue. All vendors were contacted to ensure that all Accounts Payable invoices were coming to City Hall directly and not to departments, as well as ensuring that we were receiving monthly statements. Communication with memorandums and training sessions to departments to understand the importance of quick turnaround times for invoice processing. As well, Finance has initiated a purchasing project and will be using the recommendations from this project to assist with implementing Account Payable workflow in Agresso by 2018.

### **Fully Implemented**

The following recommendations were fully implemented by City of St. Albert management during the year. Please see prior year letters for details of our observations and recommendations.

- 1) Accounts payable entry not approved before posting - 2015
- 2) Reconciliation of restricted surplus reserves - 2015



# Appendix 4 – Draft management representation letter

## City of St. Albert

April 18, 2017

Deloitte LLP  
2000 Manulife Place  
10180 – 101 Street  
Edmonton AB T5J 4E4  
Attention: Rachel Gosse, CPA

**Subject: Consolidated financial statements of City of St. Albert for the year ended December 31, 2016**

This representation letter is provided in connection with the audit by Deloitte LLP (“Deloitte” or “you”) of the consolidated financial statements of City of St. Albert (the “Organization” or “we” or “us”) for the year ended December 31, 2016 and a summary of significant accounting policies and other explanatory information (the “Financial Statements”) for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Organization in accordance with Public Sector Accounting Standards (“PSAS”).

We 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:

### Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Organization and Deloitte dated October 18, 2016 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Organization as at December 31, 2016, and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Organization has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2016 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. We have determined that the Financial Statements are complete as of April 18, 2017 as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected; all final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2016 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.

We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current period presented, are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

As a result of our evaluation process, we identified certain disclosures that, although required by PSAS, have been omitted from our Financial Statements. Those omitted disclosures that are more than inconsequential are attached as Appendix B. We believe the effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in the aggregate, to the Financial Statements as a whole.

6. The Organization has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

#### **Information provided**

7. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Organization and do not reflect any activities or expenses of any other person or entity;
  - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
8. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.

10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the Financial Statements.
11. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Organization that have been communicated by employees, former employees, or others, whether written or oral.
12. We have disclosed to you all communications from regulatory agencies and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.
16. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
17. We have disclosed to you, and the Organization has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
18. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

### **Independence matters**

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

Prior to the Organization having any substantive employment conversations with a former or current Deloitte engagement team member, the Organization has held discussions with Deloitte and obtained approval from the management.

## **Other matters**

### **Work of management's experts**

19. We agree with the work of management's experts in evaluating the employee future benefits, value of contributed assets, and completeness and accuracy of contaminated sites and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

### **Adoption of new accounting standard**

20. The City has adopted PSAS Section 3260, *Liability for Contaminated Sites*, effective January 1, 2015, as discussed in Note 1(n) of the Financial Statements. The adoption of Section has been applied on a prospective basis and prior periods have not been restated.

### **Liabilities for contaminated sites**

21. We have complied, evaluated and assessed list of all sites with potential contamination over environmental standards. We have recorded a liability for contaminated sites which represents our best estimate of the cost required to bring the contamination level below the environmental standards and has disclosed in Note 4 of the Financial statements.

### **Fair value**

22. With regard to the fair value measurements and disclosures of certain assets and liabilities, such as land held for resale, we believe that:
- a) The completeness and adequacy of the disclosures related to fair values are in accordance with PSAS.
  - b) No events have occurred subsequent to December 31, 2016, that require adjustment to the fair value measurements and disclosures included in the Financial Statements.
  - c) They appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the City when relevant to the use of fair value measurements or disclosures.

### **Plans or intentions affecting carrying value/classification of assets and liabilities**

23. We have disclosed to you all plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the Financial Statements.

### **Management's responsibilities**

24. All transactions and events have been carried out in accordance with law, regulation or other authority.

### **Investments**

25. All investments have been appropriately classified as either temporary investments or portfolio investments.
26. With regard to the City's investment in temporary and portfolio investments, we have disclosed to you any events that have occurred and facts that have been discovered with respect to such investment that would indicate impairment of the investment's value.
27. The City has used the appropriate valuation allowances to reflect the temporary investments at their net recoverable amount or other appropriate value.
28. The City does not hold any investments in Master Asset Vehicle notes (which replaced third party non-bank asset-backed commercial paper).

### **Liabilities and contingencies**

29. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

### **Loans and receivables**

30. The City is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.
31. We have identified to you all forgivable loans and loans with concessionary terms and have appropriately reflected these instruments in the financial statements.

### **Inventories held for resale**

32. Provision has been made to reduce inventories held for resale to the net recoverable amount. All inventories are the property of the City and do not include any items consigned to it, any items billed to customers, or any items for which the liability has not been recorded.

### **Solid waste landfill post-closure liability**

33. We have disclosed to you all solid waste landfill sites that we own and operate. We have recorded a liability which represents our best estimate of the future costs required for closure and post-closure care related to these sites.

### **Employee future benefits**

34. Employee future benefit costs, assets and obligations, as applicable, have been properly recorded and adequately disclosed in the Financial Statements including those arising under termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, liabilities and costs for financial statement purposes are appropriate in the circumstances.
35. We are unable to determine the possibility of a withdrawal liability in a multi-employer benefit plan.

### **Revenues**

36. We have fully disclosed to you all sales terms, including all rights of return or price adjustments and all warranty provisions.
37. All documentation related to sales transactions is contained in files which are used for accounting purposes. We also confirm that:
- a) We are not aware of any "side agreements" with any companies that are inconsistent with the applicable sales agreement, the customer's purchase order, sales invoice or any other documentation contained in the files which are used for accounting purposes. For the purposes of this letter, a "side agreement" is any agreement, understanding, promise or commitment whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral by or on behalf of the City (or any subsidiary, director, employee or agent of the City) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of the City delivered to or generated by the City's Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of the City that relates to return rights, acceptance rights, future pricing and payment terms, free consulting, free maintenance or exchange rights would be a side agreement.
  - b) We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the files which are used for accounting purposes.
  - c) All endowment contributions have been treated as direct increases in net assets.
  - d) Contributions that are restricted have been deferred and will be recognized in revenue in the same periods as the associated expenses.

### **Tax revenues**

38. We have appropriately recorded tax assets and revenues when they meet the definition of an asset in accordance with Section PS 1000, *Financial Statement Concepts*, when they are authorized and when the taxable event occurs. These amounts have been appropriately measured in accordance with PS 3510, *Tax Revenue*, and have not been grossed up for any amount of tax concessions.

### **Government transfers**

39. We have disclosed to you all correspondence relating to government transfers that the City has had with the funding body.
40. We have assessed the eligibility criteria and determined that the City is an eligible recipient for the government transfers received.
41. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.
42. All government transfers that have been recorded as deferred revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

### **Various matters**

43. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a) economic dependence on another party;
  - b) losses arising from sale and purchase commitments;
  - c) agreements to buy back assets previously sold;
  - d) provisions for future removal and site restoration costs;
  - e) financial instruments with significant individual or group concentration of credit risk and related maximum credit risk exposure;
  - f) sales with recourse provisions;
  - g) sales incentives, including cash consideration provided to customers and vendor rebates;
  - h) arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements;
  - i) all impaired loans receivable;
  - j) loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.

### **Segment disclosure**

44. Management believes that we have appropriately identified and disclosed all operating segments in accordance with the requirements of CPA Canada Public Sector Accounting Handbook Section PS 2700, *Segment Disclosures*.

### **Tangible capital assets**

45. Tangible capital assets have been recorded properly and consistently according PS 3150, *Tangible Capital Assets*. TCA recorded in the financial statements are accurate and complete. The measurement methods, including the related assumptions and models, used by management to determine the cost to capitalize are in accordance with PSAS, are applied consistently and take into account the best information available to management.
46. Contributed tangible capital assets have been appropriately recorded at fair value at the date of receipt. All contributed tangible capital assets have been appropriately disclosed.

47. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to the City's ability to provide goods and services and therefore do not require a write down.

**Reserves**

48. All contributions to, and withdrawals from, reserves have been approved by the City Council. The reserves recorded in the financial statements are accurate and complete.

Yours truly,

**THE CITY OF ST. ALBERT**

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Kevin Scoble

City Manager

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Diane McMordie

Director of Finance

**Appendix A**  
**City of St. Albert**  
**Summary of uncorrected financial statement misstatements**  
**Year ended December 31, 2016**

**Accrued Liabilities**

The City has not accrued for revenue sharing payments to Sturgeon County resulting from the Order of Council dated February 14, 2007. Under the Order, the City is obligated to pay \$80,000 per year from 2009 to 2018. As a result of this misstatement, 2015 accrued liabilities are understated by \$240,000 and opening accumulated surplus is overstated by \$240,000; 2016 accrued liabilities are understated by \$160,000 and current year expenses are overstated by \$80,000.

**Contributed Assets**

- a) City received several contributed assets in form of Land parcels in 2015, and have been accounted for in the current year instead of the prior year. As a result, the revenue income has been overstated by \$2,472,000 and the Accumulated Surplus has been understated by the same amount.
- b) In 2012, when the City received a contributed asset (150 Carton Drive) it was recognized as Contributed Assets as well as Land Held for Resale. As a result, the revenue income has been understated by \$641,000 and the Accumulated Surplus has been overstated by the same amount.



**Appendix B**  
**City of St. Albert**  
**Summary of disclosure items passed**  
**Year ended December 31, 2016**

Footnote number	Footnote title	Description of omitted or unclear disclosure	Authoritative literature reference	Dollar amount of omitted or unclear disclosure (if applicable)
Not applicable	Separate disclosure	The City has incorrectly disclosed certain revenue sharing payments to Sturgeon County in Note 11 as commitments and contingencies rather than accrued liabilities.	PS1000.59	\$160,000



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