

City of St. Albert

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

Prepared for the Council meeting on April 23, 2019

kpmg.ca/audit



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Executive summary



Purpose of this report*

The purpose of this Audit Findings Report is to assist the Mayor and Council (“Council”) in the review of the results of our audit of the consolidated financial statements of the City of St. Albert (the “City”) as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to Council on September 24, 2018.



Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.



Finalizing the audit

As of April 23, 2019, 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 our subsequent events review to the date of Council's approval of the consolidated financial statements;
- Obtaining a signed management representation letter; and
- Reviewing the 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 23, 2019).

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Mayor and Council. 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



Areas of audit focus

We discussed with you at the start of the audit a number of areas of audit focus including:

- Recognition of revenue amounts subject to external restrictions;
- Completeness, existence and accuracy of property assessments and taxation;
- Accuracy and valuation of investments;
- Accuracy and valuation of contributed tangible capital assets;
- Existence and accuracy of capital expenditures related to approved capital projects;
- Completeness and accuracy of environmental obligations and other contingencies;
- Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities;
- Completeness and accuracy of salaries and benefits note disclosures; and
- Risk from management override of controls.

These matters have been addressed in our audit.



Additional reporting responsibilities

We have been engaged to report on the following for the year ended December 31, 2018:

- 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, 2018. The Library's operations are included within the consolidated financial statements of the City.



Independence

We are independent with respect to the City, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Executive summary



Significant accounting policies and practices

As reported in our audit plan, there were new accounting standards applicable to the City for the year ended December 31, 2018:

- Note 1(k) to the consolidated financial statements describes the adoption of the new accounting standards for the year ended December 31, 2018.
- Note 1(l) to the consolidated financial statements describes future accounting standards which may impact the City's reporting at December 31, 2019 and in future years.

There were not any other changes to significant accounting policies and practices to bring to your attention.



Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.



Adjustments and differences

Materiality for fiscal 2018 was set at \$5,700,000. We did not identify any adjustments that were communicated to management and subsequently corrected in the consolidated financial statements. We identified one difference which remains uncorrected which is not considered to be significant and does not impact our audit report on the consolidated financial statements of the City.

We proposed certain adjustments with regards to the City's consolidated financial statement disclosures that 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 observations impact our audit report on the consolidated financial statements of the City.



Areas of audit focus and results

Area of focus	Our response and significant findings
Recognition of revenue amounts subject to external restrictions	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• 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 obtained an understanding of the developer levy model and the process the City has in place to recognize revenue related to developer levies. The developer levy model utilizes forecasted development costs, staging and financing requirements to calculate the levy. Changes to these estimated inputs directly impacts deferred development levies and levy revenue. <p>Results:</p> <ul style="list-style-type: none">• No misstatements or other findings were identified as a result of performing the above procedures.
Completeness, existence and accuracy of property assessments and taxation	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• We evaluated the application of assessments through the tax roll and taxation rates established by the City. <p>Results:</p> <ul style="list-style-type: none">• No misstatements or other findings were identified as a result of performing the above procedures.
Accuracy and valuation of investments	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• 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 and considered if any potential impairment of the investments exists. <p>Results:</p> <ul style="list-style-type: none">• 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	Our response and significant findings
Accuracy and valuation of contributed tangible capital assets	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• We obtained an 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. <p>Results:</p> <ul style="list-style-type: none">• We noted that the City is not provided with current cost information for tangible capital assets contributed by developers. Refer to the <i>'Control and other observations'</i> section of this report.• We noted that the City recorded a contributed tangible capital asset in 2018 which was contributed from a developer in 2017. Refer to the <i>'Adjustments and differences'</i> and <i>'Control and other observations'</i> sections of this report.
Existence and accuracy of capital expenditures related to planned capital projects	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• We reviewed a sample of capital expenditures and ensured they were applied against the appropriate capital projects. <p>Results:</p> <ul style="list-style-type: none">• No misstatements or other findings were identified as a result of performing the above procedure; however, we did note that improvements could be considered to the capital budgeting process of the City. Refer to the <i>'Control and other observations'</i> section of this report.
Completeness and accuracy of environmental obligations and other contingencies	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• 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. <p>Results:</p> <ul style="list-style-type: none">• 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	Our response and significant findings
Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• 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, 2018.• 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. <p>Results:</p> <ul style="list-style-type: none">• No misstatements or other findings were identified as a result of performing the above procedures.
Completeness and accuracy of the salaries and benefits note disclosures	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• We reviewed a sample of employment contracts to ensure salaries and benefits are appropriately disclosed. <p>Results:</p> <ul style="list-style-type: none">• No misstatements or other findings were identified as a result of performing the above procedures.
Risk of management override of controls	<p>Summary of audit approach:</p> <ul style="list-style-type: none">• We evaluated the design and implementation of controls surrounding journal entries, and tested entries made at the end of the reporting period. <p>Results:</p> <ul style="list-style-type: none">• We have not identified any specific additional risks of management override relating to this audit.• No misstatements or other findings were identified as a result of performing the above procedures.


```
mirror_ob = mirror_ob
object = mirror_ob

ERROR_X":
= True
= False
= False
ERROR_Y":
= False
= True
= False
ERROR_Z":
= False
= False
= True

end() - add back the deleted objects

objects.active = modifier_ob
(modifier_ob)) # modifier_ob
= 0
selected_objects[0]
name] == "1"

ect exactly two objects; th

SES
55
e selected object""
error_x"
```

We have summarized our assessment of the subjective areas.

We are satisfied management's process for identifying critical accounting estimates is adequate.



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 in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements

The consolidated financial statements have been prepared in accordance with the Canadian Public Sector Accounting Standards.

As disclosed in Note 1(k) of the City's consolidated financial statements, certain Canadian public sector accounting standards came into effect for the City's year ending December 31, 2018, specifically, PS2200, Related Party Disclosures and PS3420, Inter-Entity Transactions.

We assessed the City's current disclosures for related party transactions and inter-entity transactions and have determined these disclosures meet the new accounting standards. The other accounting standards applicable for the December 31, 2018 year end did not have measurement or disclosure impacts related to the City's financial reporting.

In addition, we provided management with recommendations on consolidated financial statement presentation and disclosure that have been incorporated into the consolidated financial statements.

Application of accounting pronouncements issued but not yet effective

As described in Note 1(l) of the City's consolidated financial statements, a number of new Canadian public sector accounting standards will be in effect beginning with the City's December 31, 2019 year end and beyond. These new standards include: PS3430 – Restructuring Transactions; PS1201 – Financial Statement Presentation; PS2601 – Foreign Currency Transactions; PS3041 – Portfolio Investments; PS3280 – Asset Retirement Obligations; PS3450 – Financial Instruments; and PS3400 – Revenue.

Although it is not anticipated these new accounting standards will result in significant measurement differences in the City's consolidated financial statements in future years, additional disclosures will likely need to be provided.

Adjustments and differences



Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

We proposed certain adjustments with regards to the City's consolidated financial statement disclosures that were accepted by management and included in the consolidated financial statements.

Uncorrected differences

The effect of uncorrected differences are summarized below:

As at December 31, 2018	Annual Surplus (Decrease) Increase	Financial Position (Decrease) Increase		
Materiality - \$5,700,000		Assets	Liabilities	Opening Accumulated Surplus
To record the uncorrected misstatement in 2017 for the contributed tangible capital asset transferred to the City on December 4, 2017 but not recorded until fiscal 2018.	\$ (1,800,000)	-	-	\$ 1,800,000

Control and other observations



We have highlighted the matters below that we would like to bring to your attention:

Item	Observations and Recommendations (2017)	2018 Update
Capital budgeting, including budgeting for contributed tangible capital assets	<p>Observation: We noted that the budgeted amount for the acquisition of tangible capital assets does not reflect actual acquisitions for the year. This is because the capital budget is based on projects approved which may span multiple years instead of planned cash flow for the year including carry forward amounts from prior years.</p> <p>We acknowledged that the City has controls in place to monitor the progress of capital projects in progress and that these results are reported to Council on a regular basis. However, this underlying understanding of the timing of capital projects does not translate to the capital budget approved by Council and the amounts that are ultimately reported within the consolidated financial statements of the City. Capital budget processes that are not fully integrated with internal and external financial reporting expose the City to potential operational, taxation, investing and financing implications.</p> <p>We further noted that the City does not include contributions of tangible capital assets (from developers) or amortization expense in its annual budgets. We would expect that management should have a good understanding of the current and future development within the City and it should also have a good understanding of which tangible capital assets will be contributed in any given year. In addition, we noted that management should have a good understanding of expected amortization expense.</p> <p>Recommendation: We recommended that the City review the components of its capital plan. These components include its processes for capital budget amendments, its historic capital priorities including approved but delayed capital projects, and the carryforward amounts that are brought forward into the upcoming fiscal year to ensure the City has the capacity and funds necessary to execute and complete the capital projects.</p> <p>We also recommended that the City review its current budget process to ensure contributed tangible capital assets are budgeted for and that this information is provided to and approved by Council during its regular budget deliberations. Further, given the predictability of amortization expense, we recommend the City incorporate this into the budget process to provide more meaningful comparisons within the consolidated financial statements of the City.</p>	<p>Due to the timing of the budget process at the City, the 2018 budget had already been created and approved by Council prior to the receipt of this recommendation. As a result, the recommendations raised remain valid.</p> <p>Per discussion with management, the capital budgeting process has been updated for these recommendations as part of the 2019 budget.</p> <p>We will continue to follow-up on this matter as part of the 2019 audit process.</p>

Control and other observations (continued)

Item	Observations and Recommendations (2017)	2018 Update
Environmental liabilities	<p>Observation: We noted that environmental liabilities recorded by the City in its consolidated financial statements did not take into consideration all of the information provided by external consultants and the City's environment department.</p> <p>Recommendation: We recommended that the City review its processes and procedures related to gathering information and assessing environmental liabilities to ensure it is kept up to date and that the results are regularly communicated to the City's finance department to ensure all liabilities are captured in the City's financial records.</p>	<p>In the current year, we noted that the environmental liabilities incorporate all information provided by the external consultant, and are appropriately captured in the City's consolidated financial statements.</p> <p>This matter is considered resolved and will be removed from future reports.</p>
Value of contributions of tangible capital assets	<p>Observation: 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 could be potentially using outdated or inaccurate costing information to value contributions of tangible capital assets.</p> <p>Recommendation: We recommended the City require all developers provide costing information related to all tangible capital assets contributed to the City on the construction completion certificate.</p>	<p>In the current year, we noted that costing information is not provided to the City by developers. Through our discussions with management, we noted that the engineering department has implemented a policy that will require developers to provide costing information related to all contributed tangible capital assets.</p> <p>We will continue to follow-up on this matter as part of the 2019 audit process.</p>
Alignment of internal and external financial reporting	<p>Observation: During our work over the City's budget process, we noted inconsistencies between the City's internal budgeting and reporting and the external reporting ultimately included within the City's consolidated financial statements.</p> <p>Recommendation: We recommended the City review its internal budgeting and reporting, and its external reporting to ensure that information is presented on a consistent basis.</p>	<p>In the current year, we noted improvements in the overall alignment of the City's internal budgeting and reporting and its external reporting.</p> <p>We will continue to follow-up on this matter as part of the 2019 audit process.</p>
Alignment of budgeted information and actual results	<p>Observation: During our work over budgeted information and the comparison between budgeted information and actual results, we identified inconsistencies between where certain costs were budgeted and where the actual expenditures were ultimately recorded within the City's consolidated financial statements.</p> <p>Recommendation: We recommended that when actual results are allocated to various segments within the City's consolidated financial statements, the budgeted information should also be allocated to ensure that the information presented provides a meaningful comparison.</p>	<p>In the current year, we noted that budgeted information is allocated in a manner that is consistent with the actual costs incurred.</p> <p>This matter is considered resolved and will be removed from future reporting.</p>

Control and other observations (continued)

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

Matter	Observations and Recommendations (2018)
Contributed tangible capital assets – cut-off	<p>Observation: During our work performed over contributed tangible capital assets, we identified a cut-off error for an asset that was transferred to the City on December 4, 2017 but was not recorded in the financial statements until fiscal 2018. Per our discussions with the Engineering Department, we noted that the cut-off date currently used to report for all assets contributed to the City in a fiscal year is December 1. This leads to a risk that any assets transferred to the City between December 2 and December 31 will not be recorded until the following year. Through our procedures and detailed discussions, we are satisfied that no additional tangible capital assets were transferred to the City during the period of December 2, 2018 to December 31, 2018.</p> <p>Recommendation: We recommend that as part of the City's year end process, the cut-off date for reporting contributed tangible capital assets be extended to December 31 to align with its fiscal year-end. We also recommend that Finance and Engineering hold detailed discussions regarding the status of all ongoing projects with developers to ensure all contributed tangible capital assets are appropriately recorded in the correct period.</p>

Appendices



Appendix 1: Required communications



Appendix 2: Audit Quality and Risk Management

Appendix 1: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:



Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.



Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to Council.



CPAB Audit Quality Insights Report (October 2018) (formerly the “Big Four Firm Public Report”)



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 summarizes the six key elements of our quality control system.

Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality Report](#).

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- 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
- 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.



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