



AUDIT

City of Fort Saskatchewan

Audit Planning Report
For the year ending December 31, 2014

KPMG LLP

Prepared January 23, 2015 for the Mayor and Council
meeting on February 10, 2015

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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

Audit and business risk

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

- Recognition of revenue amounts subject to external restrictions
- Completeness of accounts payable and accrued liabilities
- Accuracy and valuation of contributions of tangible capital assets
- Accuracy, existence and completeness of tangible capital assets
- Completeness and accuracy of environmental obligations and other contingencies
- Risk of management override of controls

KPMG team

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

Audit Materiality

Materiality has been determined based on prior year expenses. We have determined materiality to be \$1.7 million for the year ending December 31, 2014 (2013 – \$1.5 million), which represents approximately 3% of prior year expenses.

Effective communication

We are committed to transparent and thorough reporting of issues to Senior Management, and the Mayor and Council.

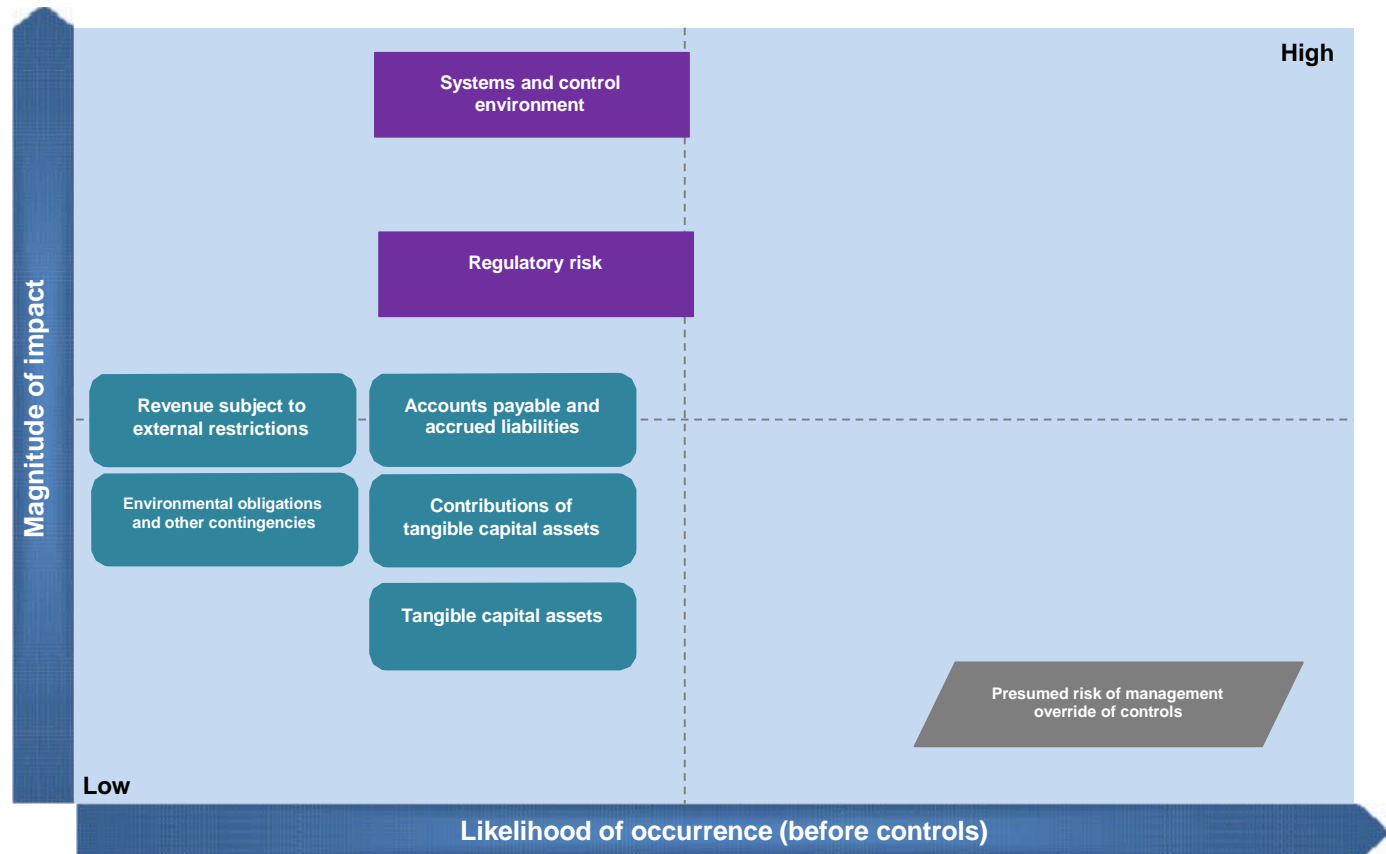
Independence




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

Risk Assessment

Our planning begins with an assessment of inherent risk of material misstatement in your financial statements. Our assessment is based on a variety of factors that include our knowledge of your business, the market and the susceptibility of the account balance to the risk of material misstatement.

This diagram represents our top-down view of the key financial reporting risks and their potential misstatement impact, mapped against the likelihood of a misstatement occurring (before controls).



-  Significant risks, including estimates and judgement
-  Control and operational risks
-  Other areas of focus

Audit approach

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 entity.

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 to them (taxes, government transfers, developer levies and other amounts).

- We will review the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We will confirm all significant government transfers, examine related agreements, and review the developer levy model, including the list of active development arrangements and the corresponding levies.

Completeness of accounts payable and accrued liabilities

There is a risk that appropriate cut-off of accrued liabilities is not achieved.

- We will use our understanding of the City's operations, our discussions with management and our review of Council minutes to determine if completeness of accruals has been achieved as at December 31, 2014.
- Our year-end procedure will include a search for unrecorded liabilities (primarily through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals.

Accuracy and valuation of contributions of tangible capital assets

There is a risk that contributions of tangible capital assets are not appropriately captured in the consolidated financial statements.

- We will evaluate controls over how departments capture tangible capital assets which are contributed from developers and other parties.
- We will review a sample of developments which have been completed by the City during the year to ensure contributed tangible capital assets have been appropriately recorded.
- We will review the value ascribed to assets contributed and donated to the City.

Audit approach (continued)

Accuracy, existence and completeness of tangible capital assets	There is a risk that tangible capital assets are not appropriately captured in the consolidated financial statements.	<ul style="list-style-type: none"> • We will evaluate controls over how departments capture completed and or purchased tangible capital assets and communicate with finance. • We will review a sample of tangible capital asset additions, as well as tangible capital assets sitting in the City's work in progress accounts to ensure the assets have been appropriately recorded (time and cost) in the City's financial records. • We will review the asset accounts for completeness, based on our knowledge of City infrastructure projects.
Completeness and accuracy of environmental obligations and other contingencies	There is a risk that environmental obligations and other contingent liabilities are not appropriately identified and reasonably estimated.	<ul style="list-style-type: none"> • We will conduct direct communication with the relevant City departments that all significant contingent liabilities including environmental obligations are appropriately disclosed and/or recorded. • We will review significant findings with management and internal legal counsel.

Audit approach (continued)

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

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because 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.

CAS requirements

Why

Our audit approach

Fraud risk from management override of controls

This is a presumed fraud 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.

Audit approach (continued)

Professional standards require that we obtain an understanding of the City's organizational structure, including its components and their environments that is sufficient to identify those subsidiaries that are financially significant or that contain specific risks that must be addressed during our audit.

As the City's auditors, we are required to be involved in significant component auditors' risk assessments in order to identify significant risks to the consolidated financial statements.

There are no significant components.

The components over which we plan to perform audit procedures are as follows:

Components	Why	Our audit approach
City of Fort Saskatchewan		Audit of consolidated financial statements <ul style="list-style-type: none"> We will review the City's accounting policies related to its components and the recording thereof, as well as the component accounting policies related to their year-end financial reporting. We will review the City's consolidation procedures.
Fort Saskatchewan Public Library	Non-significant component	Audit of component financial information <ul style="list-style-type: none"> KPMG has been appointed as external auditor for the Fort Saskatchewan Public Library and, as such; no additional procedures will be required.

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 as follows.




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

2014 materiality determination

Comments

Benchmark	Based on the total expenditures for the prior year. This benchmark is consistent with the prior year	\$57 million
% of Benchmark	Consistent with industry standards and the prior year.	3%
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. The corresponding amount for the 2013 audit was \$1.5 million.	\$1.7 million
Performance materiality	Approximately 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the 2013 audit was \$1.1 million	\$1.27 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the 2013 audit was \$75 thousand.	\$85 thousand

Your team

Team	Background / experience	Discussion of
 <p>Taylor Rolheiser Audit Senior Manager, Engagement Lead Tel: 780.429.7368 trolheiser@kpmg.ca</p>	<ul style="list-style-type: none"> With over nine years of experience, Taylor is a senior manager in the Edmonton audit practice and a leader in Edmonton's Public Sector team. Taylor's experience includes providing accounting, audit, tax and business advisory services to a variety of enterprise clients, not-for-profit organizations and governments. Taylor fully understands the mandates and related accounting for public sector clients 	<ul style="list-style-type: none"> Taylor will lead our audit for the City and be responsible for the quality and timeliness of everything we do. She will often be onsite with the team and will always be available and accessible to you.
 <p>John Stelter Concurring Partner Tel: 780.429.6511 jstelter@kpmg.ca</p>	<ul style="list-style-type: none"> 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 25 years of experience in client service engagements at KPMG serving municipalities, health care, universities and not-for-profit organizations. 	<ul style="list-style-type: none"> John will provide an objective evaluation of the significant judgments made by the audit senior manager and the engagement team, and the conclusions reached in formulating the audit report.
 <p>Justin Kinal Audit Senior, Engagement In-Charge Tel: 780.429.6014 jkinal@kpmg.ca</p>	<ul style="list-style-type: none"> Justin has acted as the lead senior on a number of public sector engagements, including the City of Fort Saskatchewan. He has solid knowledge of the reporting requirements for the main financial statements, as well as the various special reporting requirements. 	<ul style="list-style-type: none"> Justin will execute the detailed audit program during the field work phase of the audit, and initiate all information requests from the City. He will be on-site regularly during the audit period and will be your main contact during the year. He will work closely with both your on-site audit team, and you're your management and staff.

Value for fees

The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of an audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the City of Fort Saskatchewan and the access to information and people in conjunction with our audit procedures, places us in a position to provide other forms of value. We know that you expect this of us.

We want to ensure we understand your expectations. To facilitate a discussion, we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive industry experience on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in audits of companies in your industry. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Current development update sessions – If requested, we would be pleased to organize and deliver a tailored information session on current developments on financial reporting and other matters that are likely to be significant to the City, the Council and your team.

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management.

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.

Planning Meetings:

Management - October 2014;

Mayor and Council on February 10, 2015

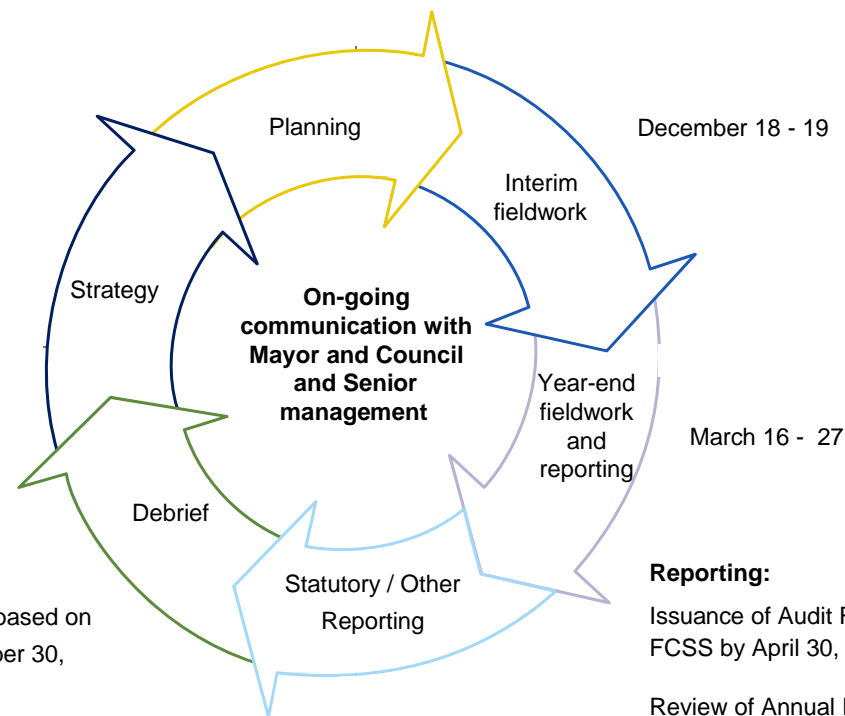
Exit Meetings:

Management, and Mayor and Council by April 30, 2015.

Debrief and Strategy:

Audit strategy discussions based on debrief of audit by September 30, 2015.

Other strategy discussions - ongoing



Reporting:

Issuance of Audit Reports, including FIR and FCSS by April 30, 2015;

Review of Annual Report by June 30, 2015; and
Issuance of LAPP Report by June 30, 2015

Appendices

Appendix 1: Audit Quality and Risk Management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Current developments

Appendix 1: 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 <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- 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; 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 2: KPMG's audit approach and methodology

Technology-enabled audit work flow (eAudit)

Engagement Setup

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

Completion

- Tailor the eAudit work flow 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 Mayor and Members of Council communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including external experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

Testing

- Tailor the eAudit work flow to your circumstances
- Test operating effectiveness of internal controls (as considered necessary)
- Perform substantive tests

Appendix 3: 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.
- **Audit planning report** – as attached.
- **Fraud related inquiries** – professional standards required that during the planning of our audit we obtain your views on risk of fraud. 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 at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Mayor and Council.
- **Audit findings report** – we will provide this report at the completion of our audit to the Mayor and Council.
- **Annual independence letter** – we will provide this letter at the completion of our audit to the Mayor and Council.
- **CPAB multi-firm report** – please refer to http://www.cpab-ccrc.ca/Documents/Topics/Public%20Reports/2013_Public_Report_EN.pdf for the CPAB 2013 Public Report.

Appendix 4: Current developments

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

Standard	Summary and implications
<i>Liability for Contaminated Sites</i> , Section PS 3260	This section provides guidance on applying the existing definition of a liability in the CPA Public Sector Accounting Handbook to the specific context of contaminated sites. Fiscal years beginning on or after April 1, 2014. Earlier adoption is encouraged.
<i>Financial Statement Presentation</i> , Section PS 1201	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements. Effective when Sections PS 2601 and PS 3450 are adopted.
<i>Foreign Currency Translation</i> , Section PS 2601	This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements. Fiscal years beginning on or after April 1, 2016 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450.
<i>Portfolio Investments</i> , Section PS 3041	This Section establishes standards on how to account for and report portfolio investments in government financial statements. Effective when Sections PS 1201, PS 2601 and PS 3450 are adopted.
<i>Financial Instruments</i> , Section PS 3450	The transitional provisions in Section PS 3450 do not allow retroactive application of financial instrument recognition, derecognition and measurement policies when entities adopt the standard. Fiscal years beginning on or after April 1, 2016 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.

Appendix 4: Current developments (continued)

Documents	Subject
<i>Handbook sections</i>	<ul style="list-style-type: none"> Introduction (September 2014) Related party transactions (March 2015) Inter-entity transactions (March 2015) Assets, contingent, contractual (June 2015)
<i>Exposure Drafts</i>	<ul style="list-style-type: none"> Asset retirement obligations (June 2015) Revenue (September 2015) Joint not-for-profit (2015?)
<i>Statement of Principles</i>	<ul style="list-style-type: none"> Impairment of non-financial assets (September 2015) Conceptual framework (December 2015)
<i>Projects</i>	<ul style="list-style-type: none"> Pensions (December 2014)

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