



cutting through complexity

AUDIT

City of Fort Saskatchewan

Audit Planning Report
For the year ending December 31, 2015

KPMG LLP

Prepared January 22, 2016 for the Council Meeting
on February 9, 2016.

kpmg.ca



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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

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

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

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

- 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.

Refer to the "Engagement team" section of this report

Audit Materiality

Materiality has been determined based on budgeted expenses. We have determined materiality to be \$1,950,000 (2014 - \$1,700,000) for the year ending December 31, 2015, which represents approximately 3% of budgeted expenses.

Effective communication

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

Refer to Appendix 4

Independence

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

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).	<ul style="list-style-type: none"> We will review the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We will confirm all significant government transfers or other similar inflows, 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.	<ul style="list-style-type: none"> 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, 2015. 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.	<ul style="list-style-type: none"> 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 and agree the value recorded to the external engineering reports.
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"> The City has been working on developing a reasonable estimate of environmental obligations, other contingencies, and specifically, environmental liabilities that would be included under the new Public Sector Accounting Standards, Section 3260 - Liability for Contaminated Sites. KPMG will review and test the estimate as applicable for the year-end audit, and will assess the City's adoption of the new standard. We will review significant findings with management.

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.

Professional 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.

Engagement team

Team member	Background / experience	Discussion of role
 <p>John Stelter, CPA, CA Partner Tel: 780.429.6511 jstelster@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 and has provided a broad range of professional services to various health sector, not-for-profit organizations and public sector clients including municipalities, hospitals and universities. 	<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>Taylor Rolheiser, CPA, CA Audit Senior Manager Tel: 780.429.7368 trolheiser@kpmg.ca</p>	<ul style="list-style-type: none"> Taylor has been with KPMG for 10 years and is a well-rounded practitioner, with experience in performing a wide-range of audits for small and mid-sized private, educational institutions, health care, non-profit organizations and municipalities. 	<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>Justin Kinal, CPA, CA Audit Manager Tel: 780.429.6014 jkinal@kpmg.ca</p>	<ul style="list-style-type: none"> Justin has acted as the manager and in charge accountant on a number of public sector engagements. He has solid knowledge of the reporting requirements for the main financial statements as well as the various special reporting requirements. As a manager Justin brings his working knowledge of a public sector audit to the engagement. 	<ul style="list-style-type: none"> Justin will execute and oversee the detailed audit program during the field work phase of the audit, and initiate information requests from City of Fort Saskatchewan. He will be on-site regularly during the audit period and will be your main contact during the year, and work closely both with KPMG's on-site audit team and with 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 City of Fort Saskatchewan and the access to information and people in conjunction with our audit procedures, place 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 (either in the upcoming meeting or in separate discussions), 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 municipalities and other public sector clients. This experience

ensures that we are well positioned to identify and discuss observations and insights that are important to you;

- Current development update sessions – we will 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. These sessions will assist the City and the Council in proactively responding to financial reporting and regulatory changes; and
- Involvement of KPMG specialists – Our audit team is supported by KPMG specialists in income and other, information risk management, valuations, derivatives, corporate finance and business advisory services (including discussions with our infrastructure advisory team). We expect each of the specialists to provide insights and observations resulting from their audit support processes.

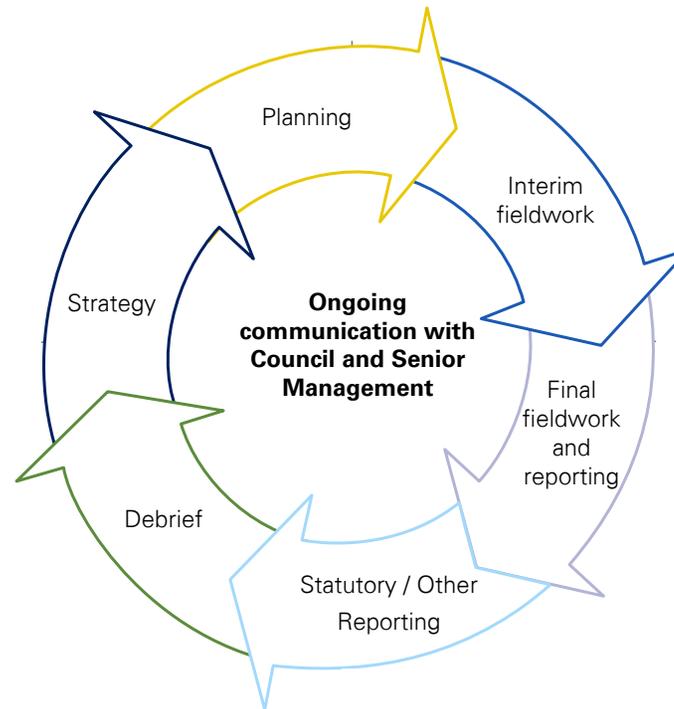
In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management.

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.

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



Planning Meetings

Management: December 2015

Council: February 9, 2015

Commence year end interim fieldwork:
December 7, 2015

Final fieldwork: March 14, 2016 – April 1, 2016

Exit Meetings

Management: April 2016 (tentative)

Council: April 2016 (tentative)

Reporting:

Audit report on financial statements by April 2016

FIR & FCSS by April 2016

LAPP by June 30, 2016

Audit strategy discussions based on debrief of audit by June 30, 2016

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

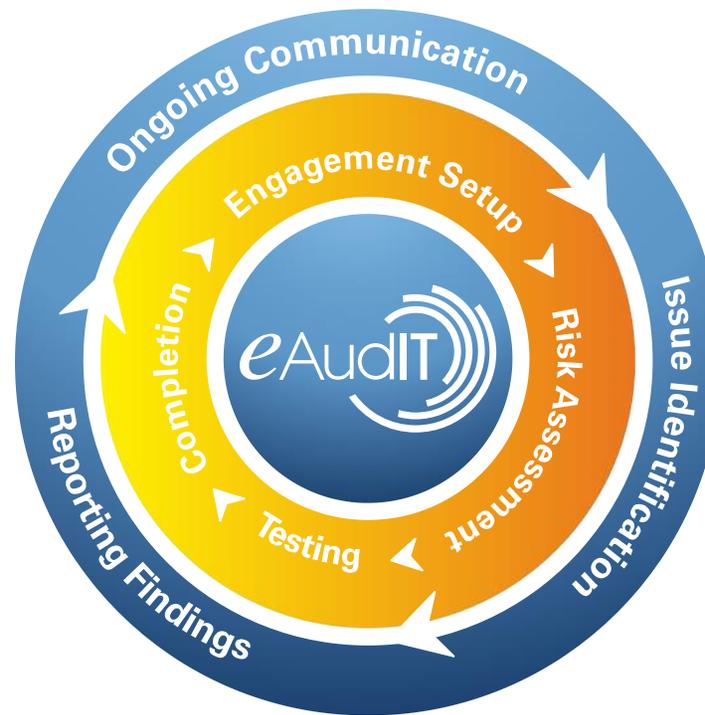
Technology-enabled audit work flow (eAudit)

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 Council.
- **Audit findings report** – we will provide this report at the completion of our audit to Council.
- **Annual independence** – at the completion of our audit, we will provide a statement of our independence to Council.

Appendix 4: Current developments

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

Standard	Summary and implications
<i>Foreign Currency Translation</i> , Section PS 2601	<p>This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements.</p> <p>Fiscal years beginning on or after April 1, 2019 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.</p>
<i>Portfolio Investments</i> , Section PS 3041	<p>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.</p>
<i>Financial Instruments</i> , Section PS 3450	<p>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.</p> <p>Fiscal years beginning on or after April 1, 2019 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.</p>
<i>Introduction to Public Sector Accounting Standards</i>	<p>Amended to introduce the term public sector entity, define a government component, amend the definition of a government organization, include specific definitions of all types of government organizations and partnerships, and provide guidance as to the basis of accounting to be used by government components, organizations and partnerships, where the partnerships have two or more public sector entity partners. Editorial changes have been made in other standards as a consequence of the amendments to the Introduction.</p> <p>Fiscal years beginning on or after January 1, 2017.</p>
<i>Related Party Disclosures</i> , Section PS 2200	<p>New section defines a related party and establishes disclosures required for related party transactions.</p> <p>Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.</p>

Appendix 4: Current developments (continued)

Standard	Summary and implications
<i>Assets</i> , Section PS 3210	<p>Amended to provide additional guidance on various components of the assets definition and establish general disclosure standards for assets.</p> <p>Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.</p>
<i>Contingent Assets</i> , Section PS 3320	<p>Amended to provide a definition of contingent assets and supporting guidance and establish general disclosure standards for contingent assets.</p> <p>Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.</p>
<i>Contractual Rights</i> , Section PS 3380	<p>Amended to provide a definition of contractual rights and supporting guidance and establish general disclosure standards for contractual rights.</p> <p>Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.</p>
<i>Inter-entity Transactions</i> , Section PS 3420	<p>New section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.</p> <p>Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.</p>
<i>Restructuring Transactions</i> , Section PS 3430	<p>Amended section defines a restructuring transaction; distinguishes restricting transactions from similar transactions; distinguishes restructuring-related transactions from restructuring transactions; establishes how assets and liabilities transferred in a restructuring transaction should be recognized and measured; and sets out presentation and disclosure requirements.</p> <p>Fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.</p>
<i>Financial Statement Presentation</i> , Section PS 2601	<p>This section requires a new statement of remeasurement gains and losses separate from the statement of operations. Included in this new statement are the unrealized gains and losses arising from the remeasurement of financial instruments and items denominated in foreign currencies, as well as the government's proportionate share of other comprehensive income that arises when a government includes the results of government business enterprises and partnerships.</p> <p>Fiscal years beginning on or after April 1, 2019</p>

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