Appendix B

KPMG
cutting through complexity

AUDIT

City of Fort Saskatchewan

Audit Findings Report
For the year ended December 31, 2015

KPMG LLP

Prepared for the Council Meeting on April 26, 2016

kpmg.ca

The contacts at KPMG in connection with this report are:

Senior Manager

Taylor Rolheiser, CPA, CA

Tel: 780.429.7368
trolheiser@kpmg.ca

Partner

John Stelter, CPA, CA

Tel: 780.429.6511
jstelter@kpmg.ca

Manager

Justin Kinal, CPA, CA

Tel: 780.429.6014
jkinal@kpmg.ca

Table of contents

Executive summary	**3**
Areas of audit focus	**6**
Critical accounting estimates	**7**
Audit adjustments and differences	**8**
Control and other matters	**10**
Appendices	**14**

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

Purpose of this report*

The purpose of this Audit Findings Report is to assist Council in the review of the results of our audit of the consolidated financial statements of the City of Fort Saskatchewan (the "City") as at and for the year ended December 31, 2015.

This Audit Findings Report builds on the Audit Plan we presented to Council on February 9, 2016.

Changes from the Audit Plan

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

Areas of audit focus

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

These included a number of matters and the potential impact on both the financial position of the City, as well as the results of operations for the year ended December 31, 2015. These areas included:

- 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;
- Potential for management override of controls.

We are satisfied that our audit work has appropriately dealt with the areas of audit focus.

Audit adjustments and differences

During our audit, we identified audit adjustments and differences which are summarized in the *'Audit adjustments and differences'* section of this report and in management's representation letter included in the Appendices.

All audit adjustments and differences identified have been appropriately addressed by management.

Refer to pages 8 & 9 and Appendix 2.

Additionally, we identified other presentation matters which are not considered to be substantive and are discussed later in the report.

Refer to page 8.

* This Audit Findings Report should not be used for any other purpose or by anyone other than 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 (continued)

Control and other observations

We have identified certain matters in the '*Control and other matters*' section of this report during the course of our audit which we bring to your attention. We are satisfied that none of these matters impact our auditors' report.

Refer to page 10.

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.

We worked with management to enhance certain financial statement presentation and disclosures. All significant recommendations we provided were incorporated by management in the final consolidated financial statements.

We also identified certain presentation and disclosure matters which we believe would enhance the City's consolidated financial statements in future years. These matters have been provided to management for their consideration.

Significant account policies and practices

Significant accounting policies and practices are disclosed in Note 1 to the consolidated financial statements.

The following new significant accounting policies and practices were selected and applied during the period – Section 3260 - Liability for Contaminated Sites.

In addition, Note 1(j) to the consolidated financial statements describes future accounting standards which may impact the City's reporting in future years.

Critical accounting estimates

Overall we are satisfied with the reasonability of critical accounting estimates in the City's consolidated financial statements.

Critical accounting estimates that are subject to uncertainty have been described in the notes to the consolidated financial statements. We identified during the course of our audit, no indications of management bias in the critical accounting estimates.

Refer to page 7.

Executive summary (continued)

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements of the City, with the exception of:

- completing our discussions with Council;
- obtaining evidence of Council's approval of the consolidated financial statements; and
- obtaining a signed management representation letter.

Our independent auditors' report will be dated upon the completion of these remaining procedures (expected April 26, 2016).

We will also report separately on the following:

- Municipal Financial Information Return for the City (December 31, 2015);
- FCSS special reporting (December 31, 2015);
- LAPP reporting (December 31, 2015).

In addition, we have also been engaged by and have provided a separate independent auditors' report for the City of Fort Saskatchewan Public Library for the year ended December 31, 2015 (dated April 4, 2016).

Independence

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

Areas of audit focus

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

We highlight our significant findings in respect of areas of audit focus as identified in our discussion with you in the Audit Plan.

Area of audit focus	Significant findings from the audit
Recognition of revenue amounts subject to external restrictions	• We reviewed the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. • We confirmed all significant government transfers, examined related agreements, and reviewed the list of active development arrangements and corresponding levies. • We did not note any matters to report.
Completeness of accounts payable and accrued liabilities	• We completed a search for unrecorded liabilities (through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals was performed. • We did not identify any inconsistencies in the way that accounts payable and accrued liabilities were recorded and are satisfied that the City is recording liabilities in the appropriate period.
Accuracy and valuation of contributions of tangible capital assets	• We reviewed a number of developments that were completed by the City in the current year and noted certain inconsistencies where contributed assets were recorded in the incorrect period. Refer to 'Control and other matters' section of this report. • We performed a further review of the contributed assets and did not identify audit inconsistencies with the value ascribed to the contributed assets by the developers, and the value recorded by the City.
Completeness and accuracy of environmental obligations and other contingencies	• 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 Standard Section 3260 – Liability for Contaminated Sites which is applicable in the current year. • We are satisfied that the City has reviewed and developed procedures and systems to ensure consistent and accurate identification of liabilities, including those associated with contaminated sites which are required to be recorded upon implementation of the aforementioned accounting standard. • As a result of its review, the City did not identify any additional sites requiring disclosure during the period.
Potential for management override of controls	• During the course of the audit, we performed testing over journal entries and other adjustments, performed a retrospective review of estimates and assessed the existence of any significant unusual transactions. • We did not note any issues or findings in our testing.

Critical accounting estimates

Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Critical accounting estimates

Asset / liability	Balance ($'000s)	KPMG comment
Liability for contaminated sites	$1,312	The City performs ongoing assessments and monitoring to support the amount of any obligations that are identified.
Useful life of tangible capital assets		The City estimates the useful life of tangible capital assets and reviews the amortization policy on a regular basis. There have been no changes to the manner in which this estimate is determined. In the current year, the tangible capital assets records were reviewed for accuracy, and no adjustments to useful lives were recorded.
Accrued liabilities	$5,945	The City estimates accrued liabilities based on expenses and payables incurred throughout the year. There is no change in the way the City estimates accrued liabilities from the prior year.
Allowance for doubtful accounts receivable	$nil	The City estimates allowance for doubtful accounts based on historical collections and examination of aged balances due over 90 days. There have been no changes in the manner in which this estimate is determined.
Fair value of contributed assets	$39,498	The City typically relies on the value of the contributed asset as outlined on the Construction Completion Certificate which is provided and signed by the developer. Donated land is determined by the assessed value as derived from the tax roll number. The value of donated land under roads is calculated through digital mapping where the land area is traced by the City and the area is calculated. All other components of contributed assets are assessed fair values using the best available information.

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

Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as corrected audit adjustments; or uncorrected audit differences. These include disclosure adjustments and differences.

Corrected audit adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

As at and year ended December 31, 2015 (000's) Increase (decrease)	Operations effect	Financial position effect		
Description of misstatements	**Annual surplus**	**Financial assets**	**Liabilities**	**Non-financial assets**
Cash balances used for operational purposes were originally included in investment balances by Management instead of as part of cash which more appropriately reflect their nature. Accounts affected are; cash, investments, and other trade receivables.	-	8,132	-	-
	-	(8,000)	-	-
	-	(132)	-	-
Total corrected audit adjustments	-	-	-	-

In addition, we identified certain other matters related to financial statement presentation and disclosure which were incorporated by management in the final consolidated financial statements.

Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as corrected audit adjustments; or uncorrected audit differences. These include disclosure adjustments and differences.

Uncorrected audit differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

As at and year ended December 31, 2015 (000's) Increase (decrease)	Operations effect	Financial position effect		
Description of misstatements	**Annual surplus**	**Accumulated surplus, opening**	**Net financial assets**	**Non-financial assets**
In 2015, Management identified certain contributed tangible capital assets were not recorded in the City's financial statements when the related Final Acceptance Certificate was signed (2011). As a result, the City posted an adjustment to record these tangible assets in the current fiscal year as opposed to recording in prior years as the amount was not considered to be material. At December 31, 2015, the statement of financial position of the City is correct and no uncorrected audit differences remain that will impact future years.	445	(445)	-	-
Total uncorrected audit differences	**445**	**(445)**	-	**-**

Control and other matters

In accordance with professional standards, we are required to disclose any control deficiencies that we determined to be significant ("significant deficiencies").

Significant deficiencies and other matters

We have highlighted below the following significant deficiencies and other matters that we would like to bring to your attention:

Matter	KPMG comment
Information to be provided by Management to Council	Clearly defining the expectations Council has with respect to information to be provided by Management and with what frequency is very important, as this information is used by Council for oversight and to ensure accountability for results. Currently, information is provided to Council in a number of forms, including through the budget process and quarterly reporting updates and variance analyses, through the annual external financial statement process and through 'ad-hoc' responses to questions raised by Council and responded to by Management. Currently, there does not appear to be a shared understanding between Council and Management over what information is important and will aid the Council in completing its oversight responsibilities. In an environment where resources may already be spread thin, it may be worthwhile for Council and Management to work together to discuss and determine what information to report to Council, at what frequency and in what format. **Recommendation**: We recommend that Management and Council reach a shared understanding of the information to be provided by Management to Council on a regular basis. This information should focus on communicating financial and operational results in a meaningful and understandable manor which could include dashboard reporting to for key performance indicators and other information as determined to be relevant by Council and Management.

Matter	KPMG comment
Financial and management reporting processes and systems	As the City continues to grow, the highly manual processes and lack of system integration continue to cause challenges when it comes to accurate and timely financial reporting. As an example, we reported in 2009 that the City adopted a new financial statement accounting framework, Canadian public sector accounting standards, for its external financial reporting. This adoption resulted in significant changes to the way certain matters were accounted for, including a requirement to capitalize and amortize Tangible Capital Assets (TCA) and changes to the way reserves and other surplus funds are reflected in the City's consolidated financial statements. At the time of the initial adoption of the new accounting framework, the City did not restructure its underlying accounting records to directly integrate with the new financial reporting. As it specifically related to TCA, the City implemented a new TCA model to track its TCA, and developed a manual reconciliation process between its existing accounting records and the external financial statements. Since 2009, we have continued to note instances where the lack of integration between day-to-day accounting systems and external financial reporting has resulted in reconciliation errors and required re-work by City staff to ensure its financial reporting is accurate and complete. The most significant matters relate to the underlying accounting transactions for TCA and reserves, and these matters have recurred on a regular basis for the past number of years. As the City continues to grow, the highly manual process and lack of integration continue to cause challenges when it comes to accurate and timely financial reporting. The manual nature of the City's processes requires significant ongoing analysis and monitoring to ensure the financial records are accurate and reliable. In the current year, the City has been approved to hire a dedicated accountant for the Infrastructure and Community Services Division and Council approved a new software program to help resolve these matters. **Recommendation:** We recommend that the City continue to review and restructure its internal accounting records and financial reporting processes and systems to ensure it is able to provide accurate, timely and relevant financial information on an ongoing basis including both historic reporting (monthly/quarterly and annual) as well as forward looking information (such as operating and capital budgeted and related analysis). We are pleased to note the progress the City is making to enhance its systems and processes and support Management's continued efforts in this regard.

Matter	KPMG comment
Budget processes and reporting in the City's financial statements	As we have previously reported, financial statement reporting standards require the City to present a comparison of its actual results, for the same scope of activities and on a consistent basis, for the period with those "originally planned" on its statement of operations. We can confirm that the City has established a rigorous budget process that is executed on an annual basis. However, during our audit, we noted certain inconsistencies in the way that the City's operating and capital budgets have been prepared and presented in the City's consolidated financial statements: - Budgeted tax requisitions related to the Alberta School Foundation Fund, Elk Island Catholic Separate Regional District, and Heartland Housing Foundation were not updated from the 2014 budgeted amounts presented and subsequently approved by Council. - The City does not budget for certain financial statement captions, including amortization of tangible capital assets, proceeds on disposal of tangible capital assets, and contributions of tangible capital assets, which does not allow for a meaningful comparison of budgeted and actual results within the City's consolidated financial statements. - When contributions of tangible capital assets are not budgeted for, significant differences between budgeted and actual revenue occur on the Statement of Operations. During our audit, we noted that the progress on community developments and commercial projects completed by developers are tracked. This information should allow the City to complete a reliable estimate of the tangible capital asset contributions that are expected in a given year. - The budgeted amount for acquisition of tangible capital assets is significantly higher than the actual acquisitions for the year. Upon inquiry, it was determined that this was due to projects falling behind the planned schedule, resulting in significant budget to actual variances. When the annual capital plan is developed, the City should consider the new capital acquisitions, budgeted current-year expenditures for capital projects that span multiple fiscal years, as well as unspent capital carry-forward amounts for capital acquisitions that have fallen behind. In addition, at the time or our audit, we noted that there are two different versions of the 2015 budget that were posted on the City's website. It is our understanding that this has been subsequently rectified by Management. **Recommendation:** We continue to recommend that the City enhance its budget process to ensure that both operating and capital budgets are prepared on a basis consistent with its external financial reporting and ensure that this information is provided to and approved by Council as part of its regular budget deliberations. In addition, the City should ensure that its capital budgets reflect the City's best estimate of planned annual expenditures and that an appropriate budget for expected contributions of tangible capital assets and annual amortization expense are developed. We encourage the City to review the components of its capital plan, including revisiting historic capital priorities, approved but delayed capital plans and the carry-forward amounts that are brought into the upcoming fiscal year to ensure the City has the capacity to execute and complete the capital projects.

Matter	KPMG comment
Implementation of recurring processes relating to contaminated sites and other environmental liabilities	In order to comply with the new accounting standard, *PS3260, Liability for Contaminated Sites* which is applicable for the City's financial reporting in the current fiscal year, the City performed additional reviews and assessments to support its compliance with the new accounting standard and to ensure the adjustment, if any, was accurately reflected in its year-end consolidated financial statements. **Recommendation:** We recommend that the City ensure that the processes that were initiated to support the adoption of the new accounting standard and other standards regarding environmental matters form part of the City's ongoing operational practices. This could include the development of formal policies, administrative directives, identification of roles and responsibilities, and reporting timelines.
Contributed tangible capital asset recognition	As we have previously reported, the City had established an informal operating practice whereby it did not recognize any contributed tangible capital assets that had a Final Acceptance Certificate (FAC) signed after June 30 of a given year. This informal operating practice was originally established due to management concerns about the lack of reliable and readily available information from developers. As the City was not recognizing contributed tangible capital assets for the full year (if contributed after July 1), this resulted in a potential understatement in the City's tangible capital assets balance in its statement of financial position. We further noted that the required information to record the tangible capital assets was received upon the Construction Completion Certificate ("CCC") issued by the developer and engineers. This document is issued two years before being recorded (as an FAC) by the City, and as such, this information was able to be used to record all contributed tangible capital assets in the year. As of July 1, 2015, the City changed its informal operating practice and is now recognizing all contributed tangible capital assets in the year a Construction Completion Certificate is issued. During our audit, we noted a significant improvement in the City's processes and are satisfied that the City has appropriately recorded all contributed tangible capital assets as at December 31, 2015. **Recommendation**: We recommend that management ensure that its newly adopted informal operating practice continue to be applied on a consistent basis in future years. We consider the above matter to have been appropriately addressed by Management and will remove this point from future reports.

Appendices

Appendix 1: Draft independent auditors' report

Appendix 2: Management representation letter

Appendix 3: Background and professional standards

Appendix 1: Draft independent auditors' report

KPMG LLP
Chartered Accountants
10125 – 102 Street
Edmonton AB T5J 3V8
Canada

Telephone (780) 429-7300
Fax (780) 429-7379
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Council of the City of Fort Saskatchewan

We have audited the accompanying consolidated financial statements of the City of Fort Saskatchewan ("the City"), which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of operations and accumulated surplus, consolidated changes in net debt and consolidated cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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 consolidated financial position of the City as at December 31, 2015, and its consolidated results of operations, its consolidated changes in net debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants

April 26, 2016
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG Confidential

Appendix 2: Management representation letter

CITY OF
FORT SASKATCHEWAN
FORTSASK.CA

KPMG LLP
Commerce Place
10125-102 Street
Edmonton, Alberta T5J 3V8
Canada

April 26, 2016

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of City of Fort Saskatchewan ("the Entity") as at and for the period ended December 31, 2015.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

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:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 22, 2016, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

For clarity, in the current year, we did not identify and disclose to you any material instances of fraud or non-compliance with laws and regulations.

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

7) The Entity is a municipality and not affected by public company rules and regulations.

We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

8) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

9) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Yours very truly,

CITY OF FORT SASKATCHEWAN

_____

By: Mr. Kelly Kloss, City Manager

_____

By: Mr. Jeremy Emann, Chief Financial Officer

_____

By: Ms. Susan Morrissey, Director, Finance

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian accounting standards for the public sector (PSAS) *related party* is defined as:

- when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Canadian accounting standards for the public sector (PSAS) a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transactions are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II

Description	Statement of Financial Position effect, if corrected[1] (000's)			Annual surplus[1]
	Accumulated surplus, opening	Net financial assets	Non-financial assets	
Cash balances used for operational purposes were originally included in investment balances by Management instead of as part of cash which more appropriately reflect their nature. Accounts affected are; cash, investments, and other trade receivables.	-	8,132 (8,000) (132)	-	-
TOTAL CORRECTED AUDIT DIFFERENCES	**$ -**	**$ -**	**$ -**	**$ -**

[1] Increase (Decrease)

Description	Statement of Financial Position effect, if corrected[1] (000s')			Annual surplus[1]
	Accumulated surplus, opening	Net financial assets	Non-financial assets	
In 2015, Management identified certain contributed tangible capital assets were not recorded in the City's financial statements when the related Final Acceptance Certificate was signed (2011). As a result, the City posted an adjustment to record these tangible assets in the current fiscal year as opposed to recording in prior years as the amount was not considered to be material. At December 31, 2015, the statement of financial position of the City is correct and no uncorrected audit differences remain that will impact future years.	(445)		-	445
TOTAL UNCORRECTED AUDIT DIFFERENCES	**$ (445)**	**$ -**	**$ -**	**$ 445**

[1] Increase (Decrease)

Appendix 3: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

kpmg.ca

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative ("KPMG International"). KPMG member firms around the world have 155,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

© 2015 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.