

City of Fort Saskatchewan

*Final Audit Findings for the year
ending December 31, 2016*

Prepared as of April 19, 2017



April 19, 2017

Members of City Council
City of Fort Saskatchewan

Dear Members of the City Council:

We have substantially completed our audit of the consolidated financial statements of the City of Fort Saskatchewan (the City) prepared in accordance with Canadian public sector accounting standards ("PSAS") for the year ended December 31, 2016. We propose to issue our auditor's report on those financial statements, pending resolution of outstanding items outlined on page 1.

We prepared the accompanying report to assist you in your review of the consolidated financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to our meeting on April 25, 2017. If you have any questions or concerns prior to the City Council meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Carlie Persson, CPA, CA
Partner
Assurance

c.c.: Jeremy Emann, CPA, CA, Chief Financial Officer
Clayton Northey CPA, CMA, Manager, Accounting and Reporting

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Communications to City Council

<i>Key matters for discussion</i>	<i>Comments</i>
Client service team	<p>Carlie Persson is your engagement leader and Amna Rana is your engagement manager. Their contact information is below:</p> <p>Carlie Persson PwC Partner T: +1 780 441 6880 Email: carlie.persson@ca.pwc.com</p> <p>Amna B. Rana PwC Manager T: +1 780 441 6854 Email: amna.b.rana@ca.pwc.com</p>
Status of the audit	<p>PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the consolidated financial statements (the financial statements). Outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none">• Receipt of signed management representation letter dated April 25, 2017• Receipt of legal confirmation• Final review of consolidated financial statements• Approval of the financial statements by City Council on April 25, 2017• Subsequent events procedures <p>We anticipate completing all items by April 25, 2017.</p>

Significant accounting, auditing and reporting matters	<i>Comments</i>
<p>Matter 1 - Contributed Tangible Capital Assets</p> <p>The City had significant additions to the contributed capital asset balance. The City identified contributed tangible capital assets from previous years that were unrecorded and also changed their accounting policy with the adoption of PSAS 3210.</p>	<p>In 2015, the City changed its informal operating practices to recognize contributed tangible capital assets in the year a Construction Completion Certificate (CCC) was issued. However, in 2016, as a result of continued improvements to the tangible capital asset accounting and management systems, certain asset balances were identified where CCC had been obtained in 2015 and hence should have been recorded in 2015. These asset balances primarily consisted of engineering structures and land improvements which had been contributed to the City from certain developers. The adjustment to the 2015 tangible capital assets net of amortization for this item was \$39,207,154 in 2015.</p> <p>In addition, the City also early adopted PSAS section 3210 “Assets” effective January 1, 2016 which was adopted retroactively with restatement. Under the new PSAS section 3210, exposure to risks of ownership has been added as a key characteristic required for an organization to recognize an asset. Management completed an analysis under PSAS 3210 and has determined that recognizing contributed tangible capital assets at the Final Acceptance Certificate (FAC) better matches the requirements of PSAS section 3210. The adoption of this standard resulted in an offsetting decrease in the contributed tangible capital asset balance net of amortization in 2015 of \$39,033,476.</p> <p>The City has determined that the adoption of PSAS section 3210 and resulting change in accounting policy enhances the reliability and relevance of the financial statements for users as it better matches the timing of recognition of contributed assets to the City’s risks of ownership of those assets.</p> <p>The net impact of the 2015 adjustment and adoption of PSAS section 3210 was a \$173,678 increase to the 2015 tangible capital asset balance and annual surplus (comprised of a \$219,867 decrease in amortization of tangible capital assets offset by a \$46,189 decrease in income from contributed tangible capital assets).</p>

**Significant
accounting, auditing
and reporting
matters**

Comments

**Matter 1 - Contributed
Tangible Capital Assets -
*Continued***

PwC's views:

We concur with management's assessment and resulting accounting treatment under PSAS 3210. We examined supporting documentation for the 2015 restatement and 2016 early adoption of PSAS 3210 with retroactive restatement.

We performed detailed testing of asset additions, reviewed valuation methods and tested amortization expense.

We confirmed accuracy and completeness of the contributed tangible capital asset additions listing with the City's operational function responsible for issuing completion certificates.

We did not identify any additional audit inconsistencies other than as described on the previous page. Refer to "Internal Control Recommendations" on page 5 for process and control recommendations.

Significant accounting, auditing and reporting matters	Comments
<p>Matter 2 - Risk of management override of controls</p> <p>Auditing regulatory authorities require that the risk of management override of controls be considered a key risk of every audit engagement.</p>	<ul style="list-style-type: none"> • We tested significant estimates made by management, reviewed for bias and whether the estimates were reasonable and supported. We did not note any exceptions. • We assessed significant and unusual transactions for reasonableness. • We reviewed manual journal entries that were significant or appeared unusual in nature. <p>Our procedures in this area were performed without exception.</p>
<p>Matter 3 - Risk of Fraud in Revenue Recognition and illegal acts</p> <p>Auditing standards require auditors to address the risk of fraud related to revenue recognition on all audits.</p>	<ul style="list-style-type: none"> • We assessed the appropriateness of revenue recognition policies and compliance with those policies. We understood and evaluated controls in place relating to the recording of revenue. • We tested amounts recognized into revenue and amounts that remained in deferred revenue. • We have reviewed any unusual journal entries recorded as revenue. <p>We noted no exceptions with respect to the risk of fraud in revenue recognition as a result of procedures performed. In addition, we noted no fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the consolidated financial statements and no illegal acts came to our attention as a result of our audit procedures. We have also confirmed the same with senior management.</p>

Significant audit risks and audit approach:

Summary of adjusted and unadjusted items

As a result of our audit, we identified adjusted items with a net effect of a \$ 173,678 on annual surplus for the year ending December 31, 2015, as described on page 2.

Please see Appendix B for details of the adjusted misstatements.

No unadjusted items related to the 2015 or 2016 financial statements were identified during the audit.

Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the 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 internal control.

We have identified the following significant internal control recommendation as a result of our audit:

Process and controls related to the tracking of contributed tangible capital assets

In the second half of 2016, the City implemented Projecto which automated certain manual processes related to acquired tangible capital assets. However, the process related to contributed tangible capital assets are still highly manual and the City is lacking an integrated system to efficiently track these assets. As a result of improvements to the process in 2016, management identified a significant amount of unrecorded contributed tangible capital assets which resulted in the restatement as described under “*Matter 1- Contributed tangible capital assets*” above. The manual nature of the City’s processes require significant ongoing analysis and monitoring to ensure the financial records are accurate and reliable.

Recommendation: We recommend that the City continue to review and restructure its internal accounting systems and processes as it relates specifically to contributed tangible capital assets to provide, accurate, timely and complete information for financial reporting purposes.

Other less significant control recommendations have been discussed with management throughout the course of our audit.

Required Communications

Independence	<p>We confirm our independence with respect to the City and are not aware of any additional relationships that would impair our independence.</p>
Other information in documents containing audited financial information	<p>We understand that audited financial statements will not be included in other documents.</p> <p>We will also report separately on the following:</p> <ul style="list-style-type: none"> • Municipal Financial Information Return for the City (December 31, 2016); • FCSS special reporting (December 31, 2016), and • LAPP reporting (December 31, 2016). <p>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, 2016.</p>
Subsequent events	<p>No subsequent events which would impact the financial statements have come to our attention.</p> <p>We have confirmed with senior management that they are not aware of any other subsequent events that might affect the consolidated financial statements.</p>
Significant difficulties or disagreements that occurred during the audit	<p>No difficulties or disagreements occurred while performing our audit.</p>

Appendix A: Draft auditor's report



April 25, 2017

Independent Auditor's Report

To the City Council of the City of Fort Saskatchewan,

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

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

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Opinion

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

Other matters

Without modifying our opinion, we draw attention to note 23 to the financial statements, which explains that certain comparative information for the year ended December 31, 2015 has been restated. The financial statements of the City of Fort Saskatchewan for the year ended December 31, 2015 (prior to the restatement of the comparatives information) were audited by another auditor who expressed an unmodified opinion on those financial statements on April 26, 2016.

As part of our audit of the financial statements of the City of Fort Saskatchewan for the year ended December 31, 2016, we also audited the adjustments described in note 23 that were applied to restate the financial statements for the year ended December 31, 2015. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of the City of Fort Saskatchewan for the year ended December 31, 2015 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 2015 taken as a whole.

Chartered Professional Accountants

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Appendix B: Summary of adjusted items

Adjusted items

The effect on the adjustments on the City's annual surplus are as follows:

	December 31, 2015	December 31, 2016
Annual surplus per financial statements	\$ 44,129,009	\$ 0
Change in contributed tangible capital assets*	\$ (46,189)	\$ 0
Change in amortization of tangible capital assets**	\$ 219,867	\$ 0
Annual surplus after recording all items	\$ 44,302,687	\$ 0

*Relates to the 2015 net impact of the \$39,207,154 adjustment and the \$39,033,476 adoption of PSAS section 3210 adjustment as described on page 2.

** Relates to the 2015 net impact of the \$362,605 amortization adjustment and the \$582,472 adoption of PSAS section 3210 amortization adjustment.

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use. It was not prepared or intended for any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

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