Enclosure 2

KPMG

Strathcona County (the "County")

Audit Planning Report

For the year ending December 31, 2017

KPMG LLP

Prepared for the Priorities Committee meeting on January 30, 2018

kpmg.ca/audit

Document: 11147007

The contacts at KPMG in connection with this report are:

John Stelter, CPA, CA
Engagement Partner
Tel: 780.429.6511
jstelter@kpmg.ca

Brittany Keelan, CPA, CA
Engagement Manager
Tel: 780.429.6523
bkeelan@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

What is an audit?

An audit involves inspecting the County's records and accounts to provide an opinion on whether the financial statements are fairly stated in accordance with Canadian 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 the 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.

Audit materiality

Materiality has been determined based on budgeted expenses. We have determined materiality to be $10 million for the year ending December 31, 2017.

Areas of audit focus

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These 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;
- Completeness and accuracy of commitments;
- Existence and accuracy of capital expenditures against planned capital projects;
- Accuracy and valuation of investments; and
- Risk of management override of controls.

We will also follow up on historical other matters brought to the attention of the Mayor and Council and the status of implementation of these matters.

See pages 5-7.

Effective communication

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

Audit materiality

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

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total actual or budgeted revenues or expenses and accumulated surplus.	
Benchmark	Based on budgeted expenses for the year. This benchmark is consistent with the prior year.	$350 million
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 prior year's audit was $10 million.	$10 million
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was $7.5 million.	$7.5 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $500,000.	$500,000

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.

Areas of audit focus

Inherent risk is the susceptibility of an assertion related to a significant account or disclosure to a 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 County.

Areas of 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 (special taxes and levies, government transfers 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 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 accounts payable and accrued liabilities is not achieved.	We will use our understanding of the County'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, 2017. 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 County 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 County.
Accuracy and valuation of investments	There is a risk that investments are not appropriately valued; specifically, impairment of investments is not appropriately assessed and valuation adjustments are not recorded where appropriate.	We will verify through confirmation of investment accounts the cost and market value of investments. We will recalculate investment premiums/discounts for investments recorded at amortized cost. We will review management's assessment of impairment and consider if any potential impairment of the investments exists. We will review the portfolio of investments to ensure in compliance with the County's risk management and investment policies.

Areas of audit focus (continued)

Areas of focus	Why	Our audit approach
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.	The County has developed an estimate of environmental obligations, other contingencies, and specifically, environmental liabilities. We will review and test the estimate as applicable for the year-end audit. We will conduct direct communication with the relevant County 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.
Completeness and accuracy of commitments	There is a risk that contractual commitments are not appropriately identified and appropriately recorded and disclosed.	We will review a sample of contracts entered during the year and management's related assessment to ensure they are accounted for appropriately.
Existence and accuracy of capital expenditures against planned capital projects	There is a risk that capital expenditures are not appropriately recorded in the financial statements and are not appropriately recorded against the planned capital projects.	We will review a sample of capital expenditures and ensured they were applied against the appropriate capital projects.

Areas of audit focus (continued)

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

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

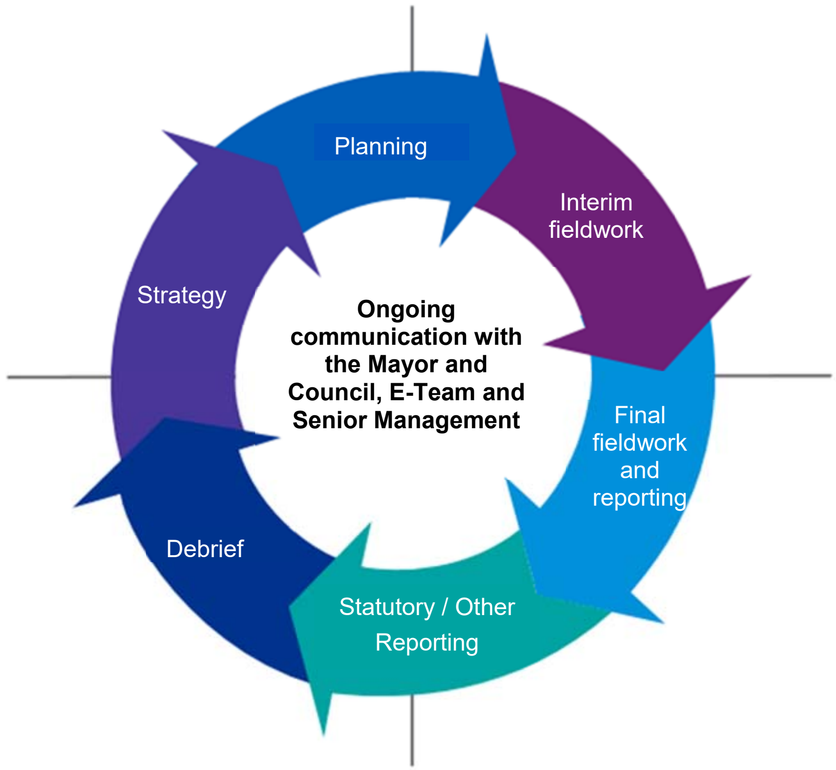
Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk. We have rebutted this risk for the County given revenue does not involve elements of significant judgment. As a result, we have not identified a risk of material misstatement of revenue due to fraudulent financial reporting by management.	As this risk has been rebutted, our audit methodology in relation to revenue is limited to analytical procedures, review of the recognition of amounts subject to external restrictions and external confirmations of significant revenue inflows.
Risk from management override of controls	This is a presumed 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 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 the prior year.



Planning Meetings

Management: October 16, 2017

Executive Team: January 15, 2018

Priorities Committee: January 30, 2018

Interim fieldwork: October 30 – November 3, 2017

Final fieldwork: February 20 – March 9, 2018

Closing meetings:

Management: March 2018

Executive Team: April 2018

Mayor and Council: April 2018

Reporting

Audit report on financial statements by May 1, 2018

FIR & FCSS by May 1, 2018

LAPP & APEX by June 30, 2018

Audit strategy and discussions based on debrief of audit by June 30, 2018

Appendices

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 our Audit Quality Resources page for more information including access to our audit quality report, Audit quality: Our hands-on process.

- Other controls include:
  - Before the firm issues its audit report, 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.

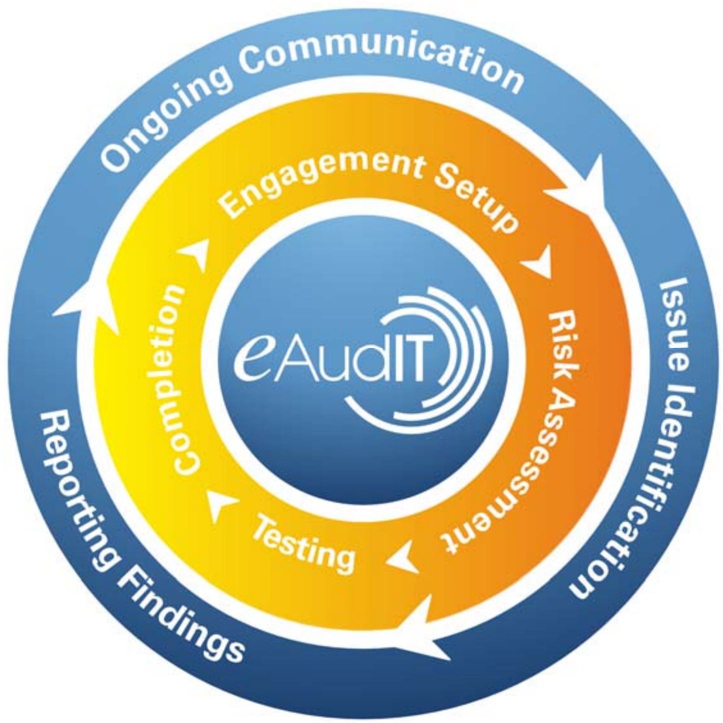
Appendix 2: KPMG's audit approach and methodology

Technology-enabled audit workflow (eAudIT)

Engagement Setup

- Tailor the eAudIT workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

  completion
- Tailor the eAudIT workflow 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 Council communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudIT workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or 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 as attached.
- **Audit planning report** – as attached.
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. 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 certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Executive Team and the Mayor and Council.
- **Audit findings report** – at the completion of our audit, we will provide a report to Senior Management, the Executive Team and the Mayor and Council.

Appendix 3A: Engagement letter

KPMG

KPMG LLP
2200, 10175 101 Street
Edmonton AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

Mr. Gregory J. Yeomans, CPA, CGA, MBA
Chief Financial Officer
Strathcona County
2001 Sherwood Drive
Sherwood Park, AB T8A 3W7

September 27, 2017

Dear Sir:

Except as specified herein, all provisions of the most recent Engagement Letter between KPMG and Strathcona County ("the Entity") dated September 29, 2015 and as amended on September 28, 2016 and March 21, 2017 continue in effect for the year ended December 31, 2017.

This letter amends the following terms of our engagement:

Fees

We update our previous engagement letter dated September 29, 2015 and as amended on September 28, 2016 and March 21, 2017 with a revised Appendix – Fees for Professional Services for the year ended December 31, 2017.

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We are available to discuss these amendments to the terms of our engagement with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign the copy in the space provided and return it to us.

Yours very truly,

KPMG LLP

John Stelter, CPA, CA
Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body
(780) 429-6511

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KPMG

The terms of the engagement for Strathcona County set out are as agreed:

Gregory J. Yeomans CPA, CGA, MBA
Chief Financial Officer

19/10/17

Date (dd/mm/yy)

KPMG

Appendix – Fees for Professional Services for the year ended December 31, 2017

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fees for the year ended December 31, 2017 are as follows:

	Fee
Audit of the Consolidated Financial Statements	$88,174
Audit of the Municipal Information Return	$780
Audit of the Local Authorities Pension Plan	$2,861
Audit of the Family and Community Support Services	$2,861
Audit of the APEX Supplementary Pension Plan	$2,861
Total for Strathcona County	**$97,537**
Audit of the Strathcona County Library Financial Statements	$15,606

The routine technology and support charge as described in the terms and conditions ("Fee Arrangements") shall be 5%.

Interest on overdue invoices as described in the terms and conditions ("Fee Arrangements") shall be 1% per month, calculated and compounded monthly (effective annual rate of 12.683).

Appendix 4: Current developments

The following is a summary of the current developments that are relevant to the County:

Standard	Summary and implications
PS2200, Related Party Transactions	The new standard requires disclosure of the effect of financially material transactions between related parties. The mandatory effective date of PS2200 is for fiscal periods beginning on or after April 1, 2017.
PS3420, Inter-Entity Transactions	The new standard provides how to account for and report transactions between entities controlled by a government and that comprise the government's reporting entity from both a provider and a recipient perspective. The mandatory effective date of PS3420 is for fiscal periods beginning on or after April 1, 2017.
PS3210, Assets	The new standard provides guidance for applying the definition of assets and establishes general disclosure standards for assets. The mandatory effective date of PS3210 is for fiscal periods beginning on or after April 1, 2017.
PS3320, Contingent Assets	The new standard defines and establishes disclosure standards on contingent assets. The mandatory effective date of PS3320 is for fiscal periods beginning on or after April 1, 2017.
PS3380, Contractual Rights	The new standard defines and establishes disclosure standards on contractual rights. The mandatory effective date of PS3380 is for fiscal periods beginning on or after April 1, 2017.
PS3430, Restructuring Provisions	The new standard establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. The mandatory effective date of PS3430 is for fiscal periods beginning on or after April 1, 2018.
PS1201, Financial Statement Presentation	The new standard 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. The mandatory effective date of PS1201 is for fiscal periods beginning on or after April 1, 2019.

Appendix 4: Current developments (continued)

Standard	Summary and implications
PS3450, Financial Instruments	The new standard 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. The mandatory effective date of PS3450 is for fiscal periods beginning on or after April 1, 2019.
PS2601,Foreign Currency Translation	The new standard requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of remeasurement gains and losses. The mandatory effective date of PS2601 is for fiscal periods beginning on or after April 1, 2019.
PS3041, Portfolio Investments	The new standard has removed the distinction between temporary and portfolio investments. This standard now includes pooled investments in its scope and was amended to conform to Financial Instruments, PS3450. Upon adoption of PS3450 and PS3041, PS3030 Temporary Investments will no longer apply. The mandatory effective date of PS3041 is for fiscal periods beginning on or after April 1, 2019.

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