



Strathcona County Council Presentation

October 30, 2018

KPMG Representatives:

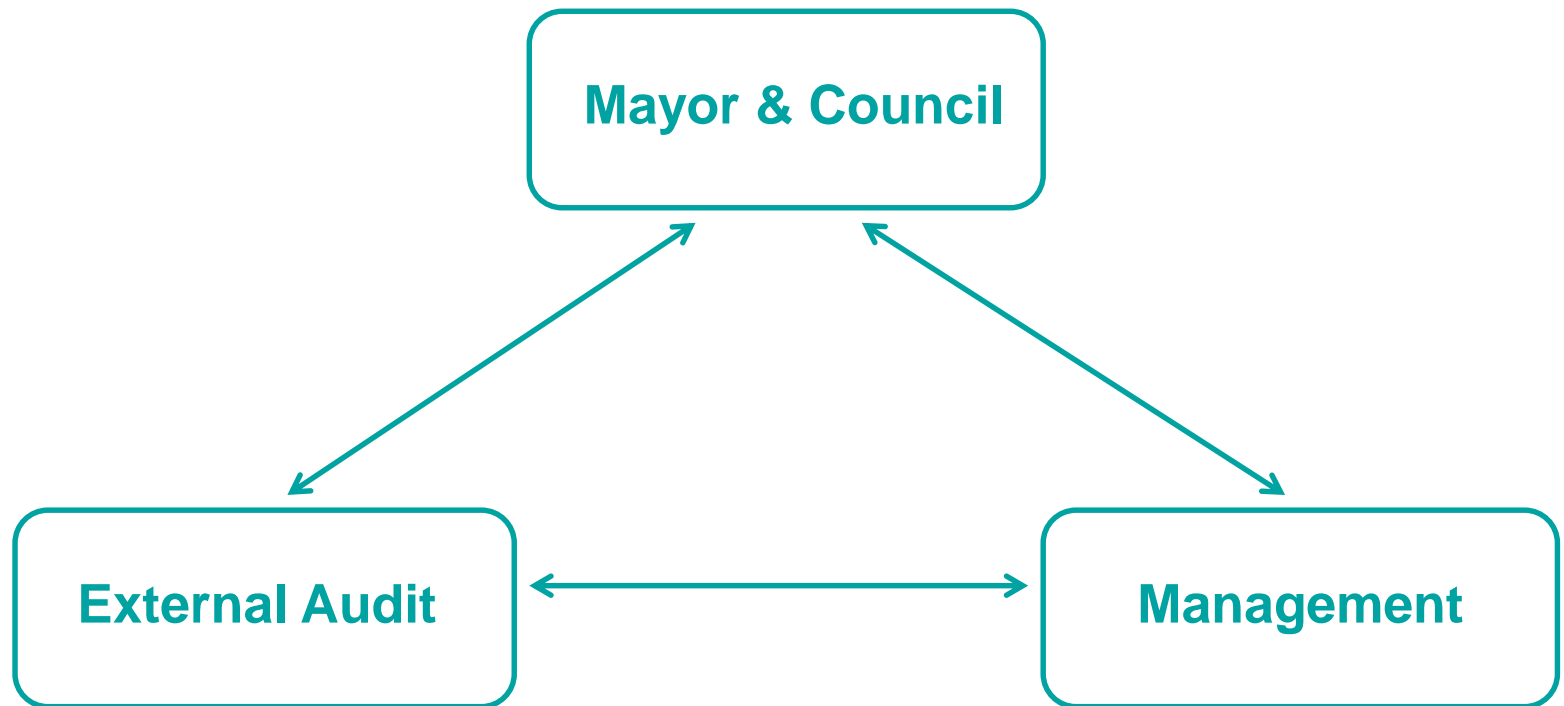
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Agenda

1. Governance roles and responsibilities in the public sector
2. What is an audit?
3. Understanding financial statements
4. Questions and discussion

Governance Roles and Responsibilities in the Public Sector: Overview



Governance Roles and Responsibilities in the Public Sector: Mayor & Council

1. Establishes the “Tone at the Top” supported by management and committees that help work toward the accomplishment of strategic goals and objectives – “Forward Looking”
2. Reviews and approves operating and capital budgets including any revisions thereof
3. Oversees financial reporting and disclosures including approval of the annual audited financial statements
5. Oversees financial risks, cash management and internal control processes including risk management, management’s internal controls, organizational values and ethics.
6. Oversees the external audit processes including consideration of audit matters brought forward by external audit and management

Governance Roles and Responsibilities in the Public Sector: Management

1. Prepares financial or other internal and external reporting in accordance with professional standards
 - Develops and recommends tax levies and other rates
 - Develops and recommends operating and capital budgets
 - Prepares accurate financial reporting supporting day-to-day operations
 - Prepares annual external financial reporting
2. Develops and implements efficient and effective internal control structures and processes including financial and other organizational policies to respond to organizational risks
3. Develops an effective cash management policy and develops internal control structure to limit risks surrounding cash
4. Addresses and responds to the findings and recommendations of External Audit and implements recommendations as appropriate

Governance Roles and Responsibilities in the Public Sector: External Audit

1. Conducts an independent audit of an organization's financial or other external reporting in accordance with Canadian auditing standards
2. Expresses an opinion based on the results of the audit
3. Gains an understanding of an organization's internal controls, including cash management, *however it is not the primary responsibility of external audit to report on the design or effectiveness of those internal controls*

Management has the *primary* responsibility to address and respond to the findings and recommendations of External Audit with appropriate oversight by Mayor and Council.

What is an audit? Overview

- The purpose of an audit is to add credibility to information being presented by an organization. Some examples of information that may be audited are:
 - Financial statements
 - Other financial and non-financial information
- Credibility is needed because users of information such as financial statements often do not have the ability to determine whether the information reasonably reflects an organization's operations and activities in accordance with existing requirements, standards or legislation
- Audits are performed by:
 - External and internal auditors
 - Regulators (eg. Canada Revenue Agency)
 - Others

What is an audit? External Audit

- The External Auditor provides an independent audit of the financial statements in accordance with Canadian Audit Standards
- The External Auditor is appointed by and responsible to the Mayor and members of Council, who represent the citizens and key stakeholders



What is an audit? Auditing Standards

An audit includes assessing the risk that the financial statements may contain material misstatements and includes:

- Examining on a test basis, evidence supporting the amounts and disclosures in the financial statements
- Assessing the accounting principles used and their application
- Assessing the significant estimates made by management

What is an audit? Performance of an External Audit

The external auditor, in examining and testing accounting and reporting systems, may detect weaknesses in controls or processes. However, given:

- The specific scope of an external audit looks at financial statements as a whole and not individual line items; and
- An audit involves sample testing and does not test 100% of all transactions

An external audit may not reveal all internal control weaknesses within an organization, including those that may result from fraud or misappropriation since establishing an effective internal control environment is a management responsibility.

What is an audit? Management Support for External Audit

External Auditors rely on management to carry out certain responsibilities and to provide auditors with certain information. Some of these key responsibilities include:

- Design, implementation, and maintenance of effective internal controls over financial reporting processes
- Adopting and applying sound accounting principles and apply sound judgment in preparing accounting estimates
- Disclosing any fraud or illegal/possible illegal acts
- Responding to enquiries of the external auditor
- Gathering and preparing all required audit support and documentation throughout the year

What is an audit? Auditors' Reports and Results

As part of an external audit, the following reports are provided to Mayor & Council and management:

- **Audit Planning Report** – summarizes external auditor understanding of risk and proposed audit approach
- **Audit Findings Report** – summarizes procedures and results performed by the external auditor, including a summary of corrected and uncorrected audit misstatements and deficiencies in internal controls
- **Auditors' Report** – includes the audit opinion on the financial statements. An unqualified opinion would report that the financial statements present fairly, in all material respects

Understanding Financial Statements:

Statement of Financial Position

- The primary purpose is to highlight the net financial assets/net debt position:
 - Reflects total financial assets less all liabilities
- Non-financial assets are reflected at the bottom section, just above accumulated surplus:
 - Including tangible capital assets, consumable inventories and prepaid expenses
- Both purchased and contributed tangible capital assets are recorded at their net book values (net of amortization)
- Accumulated surplus is reported as one balance:
 - Not presented using separate funds (operating fund, a capital fund, and a reserve fund however disclosure provided in notes)
- Supplementary information is provided in the notes to the financial statements

Understanding Financial Statements: Statement of Operations and Accumulated Surplus

Revenues and Expenses are recognized in the Statement of Operations and Accumulated Surplus

- Revenues including property taxes, government transfers, user fees, contributed tangible capital assets and developer contributions are reported on this statement;
- Gain/loss on the sale of tangible capital assets are reflected here;
- Amortization expense is recorded here;
- Capital expenditures are not reflected on the statement of operations. They are reported on the statement of financial position and cash flow statement.

Understanding Financial Statements: Statement of Change in Net Financial Assets (Net Debt)

- Reconciles the annual surplus or deficit and the change in the net financial assets (net debt)
- A net financial assets position reflects that financial resources are available to pay for all past transactions and events
- A net debt position represents a commitment of future revenues to pay for past transactions and events.

Understanding Financial Statements: Statement of Cash Flows

- Reflects all sources and uses of cash of the government on an annual basis
- Reflects certain activities previously presented on the Statement of Operations:
 - Capital expenditures and proceeds on sale thereof;
 - Proceeds from and repayment of long-term debt



Questions & Discussion



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