



Strathcona County

**Audit Planning Report
For the year ending December 31, 2018**

KPMG LLP

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

John Stelter, FCPA, FCA

Engagement Partner

Tel: 780.429.6511

jstelter@kpmg.ca

Taylor Rolheiser, CPA, CA

Senior Manager

Tel: 780.429.7368

trolheiser@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

An external audit involves inspecting the records and accounts of Strathcona County (the "County") to provide an opinion on whether its consolidated financial statements are fairly stated in accordance with Canadian Public Sector Accounting Standards. The overall objective of an external audit is to obtain reasonable assurance whether the consolidated financial statements as a whole are free from material misstatement. An external audit provides reasonable assurance, and not absolute assurance, as the external audit does not test everything.

Audit testing conducted during an external audit responds to audit risk (i.e. the risk that financial statements are materially misstated and the external 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 expenditures for the year. We have determined materiality to be \$10 million for the year ending December 31, 2018 (2017 - \$10 million).

Areas of audit focus

The external audit is risk-focused. In planning the external audit, we have taken into account a number of **areas of audit focus** including:

- Recognition of revenue amounts subject to external restrictions;
- Completeness, existence and accuracy of property assessments and taxation;
- Accuracy and valuation of investments;
- Accuracy and valuation of contributed tangible capital assets;
- Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities;
- Existence and accuracy of capital expenditures related to approved capital projects;
- Completeness and accuracy of environmental obligations and other contingencies;
- Completeness and accuracy of salaries and benefits note disclosures; and
- Risk of management override of controls

We will also follow up on control and other observations previously brought to the attention of the Mayor and Council and the status of implementation of any recommendations that were provided.

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services we provide to the County and follow established reporting protocols.

Current developments

There are a number of new accounting standards that are relevant to the County and will be applicable for the County's year ending December 31, 2018 (see Appendix 4). Relevant accounting standards include PS2200 – Related Party Disclosures; PS3420 – Inter-Entity Transactions; PS3210 – Assets; PS3320 – Contingent Assets; and PS3380 – Contractual Rights.

As part of our external audit, we will review to ensure that these new accounting standards have been appropriately adopted.

This Audit Planning Report should not be used for any other purpose or by anyone other than County Management and the Mayor and 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 Planning 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.

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 consolidated financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total actual or budgeted revenues or expenditures and accumulated surplus.	
Benchmark	Based on budgeted expenditures for the year. This benchmark is consistent with the prior year. The corresponding amount for the prior year was \$350 million.	\$360 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 was \$10 million.	\$10 million
% of Benchmark	The corresponding percentage for the prior year 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 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 prior year was \$500,000.	\$500,000

Professional standards require us to re-assess materiality at the completion of our external 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 external audit will include the consideration of both quantitative and qualitative factors.

Areas of audit focus

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, existence and accuracy of property assessments and taxation	There is a risk that property assessments and taxation are not complete and consistent with approved taxation rates.	We will evaluate the application of assessment through the tax roll and taxation rates established by 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.	<p>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.</p> <p>We will review management's assessment of impairment and consider if any potential impairment of the investments exists.</p> <p>We will review the portfolio of investments to ensure in compliance with the County's risk management and investment policies.</p>
Accuracy and valuation of contributed tangible capital assets	There is a risk that contributions of tangible capital assets are not appropriately captured in the consolidated financial statements.	<p>We will evaluate controls over how departments capture tangible capital assets which are contributed from developers and other parties.</p> <p>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.</p> <p>We will review the value ascribed to assets contributed and donated to the County.</p>
Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities	There is a risk that appropriate cut-off of accounts payable and accrued liabilities is not achieved.	<p>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, 2018.</p> <p>Our year-end procedures 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.</p>

Areas of audit focus (continued)

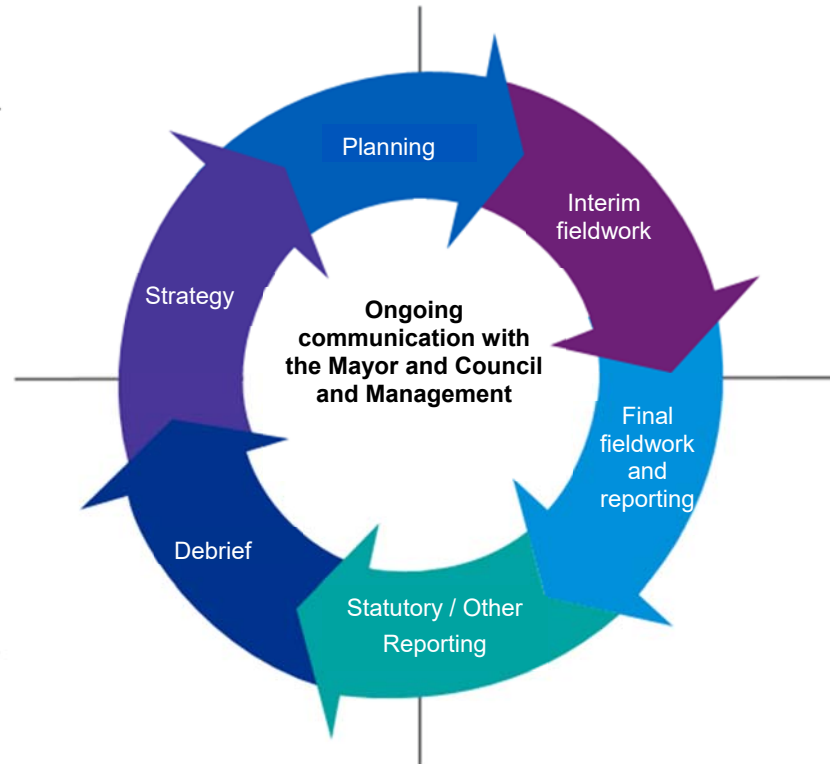
Areas of focus	Why	Our audit approach
Existence and accuracy of capital expenditures related to approved capital projects	There is a risk that capital expenditures are not appropriately recorded in the financial statements and are not appropriately recorded related to approved capital projects.	We will review a sample of capital expenditures and ensured they were applied against the appropriate capital projects.
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.	<p>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.</p> <p>We will conduct direct communication with the relevant County departments that all significant contingent liabilities including environmental obligations are appropriately disclosed and/or recorded.</p> <p>We will review significant findings with management and internal legal counsel.</p>
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits note disclosures are not complete and accurately reported.	We will review a sample of employment and other contractual arrangements to ensure salaries and benefits disclosures are appropriate.
Risk from management override of controls	<p>This is a presumed risk.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	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 prior year.



Planning meetings:

Management: August 31, 2018

Mayor and Council: October 30, 2018

Interim fieldwork: October 29 – November 2, 2018

Final fieldwork: February 25 – March 10, 2019

Closing meetings:

Management: mid - March 2019

Executive Team: early April 2019, if required

Mayor and Council: April 23, 2019

Reporting:

Audit report on financial statements by May 1, 2019

FIR & FCSS by May 1, 2019

LAPP & APEX by June 30, 2019

Audit strategy and discussions based on debrief of audit by June 30, 2019

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.

Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

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.

- 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**
- **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.



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 10, 2018

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, March 21, 2017 and September 27, 2017 continue in effect for the year ended December 31, 2018. We update our previous engagement letter with a revised Appendix I – Fees for Professional Services for the year ended December 31, 2018 and Appendix II – Expected Form of Report for the year ended December 31, 2018.

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,

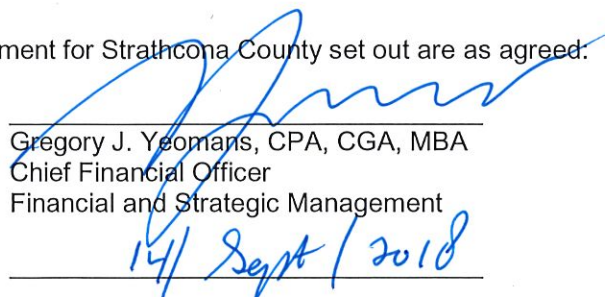
KPMG LLP

John Stelter, FCPA, FCA

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

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

Name and Title



Gregory J. Yeomans, CPA, CGA, MBA
Chief Financial Officer
Financial and Strategic Management

Date (dd/mm/yy)



14/ Sept / 2018

Appendix I – Fees for Professional Services for the year ended December 31, 2018

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, 2018 are as follows:

	Fee
Audit of the Consolidated Financial Statements	\$ 89,937
Audit of the Municipal Information Return	796
Audit of the Local Authorities Pension Plan	2,918
Audit of the Family and Community Support Services	2,918
Audit of the APEX Supplementary Pension Plan	2,918
Total for Strathcona County	\$ 99,487
Audit of the Strathcona County Library Financial Statements	\$ 15,918

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 II – Expected Form of Report for the year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of Strathcona County

Opinion

We have audited the consolidated financial statements of Strathcona County (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations, change in its net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in

the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Edmonton, Canada

Date

Appendix 4: Current developments

Standard	Summary and implications
PS2200, Related Party Disclosures	Requires disclosure of the effect of financially material transactions between related parties. Effective for fiscal periods beginning on or after April 1, 2017.
PS3420, Inter-Entity Transactions	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. Effective for fiscal periods beginning on or after April 1, 2017.
PS3210, Assets	Provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Effective for fiscal periods beginning on or after April 1, 2017.
PS3320, Contingent Assets	Defines and establishes disclosure standards on contingent assets. Effective for fiscal periods beginning on or after April 1, 2017.
PS3380, Contractual Rights	Defines and establishes disclosure standards on contractual rights. Effective for fiscal periods beginning on or after April 1, 2017.
PS3430, Restructuring Provisions	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. Effective 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. Effective for fiscal periods beginning on or after April 1, 2021.
PS3450, Financial Instruments	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations. Effective for fiscal periods beginning on or after April 1, 2021.
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. Effective for fiscal periods beginning on or after April 1, 2021.
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. Effective for fiscal periods beginning on or after April 1, 2021.
PS3280, Asset Retirement Obligations	The new standard defines and establishes measurement and disclosure standards for asset retirement obligations. Effective for periods beginning on or After April 1, 2021.

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