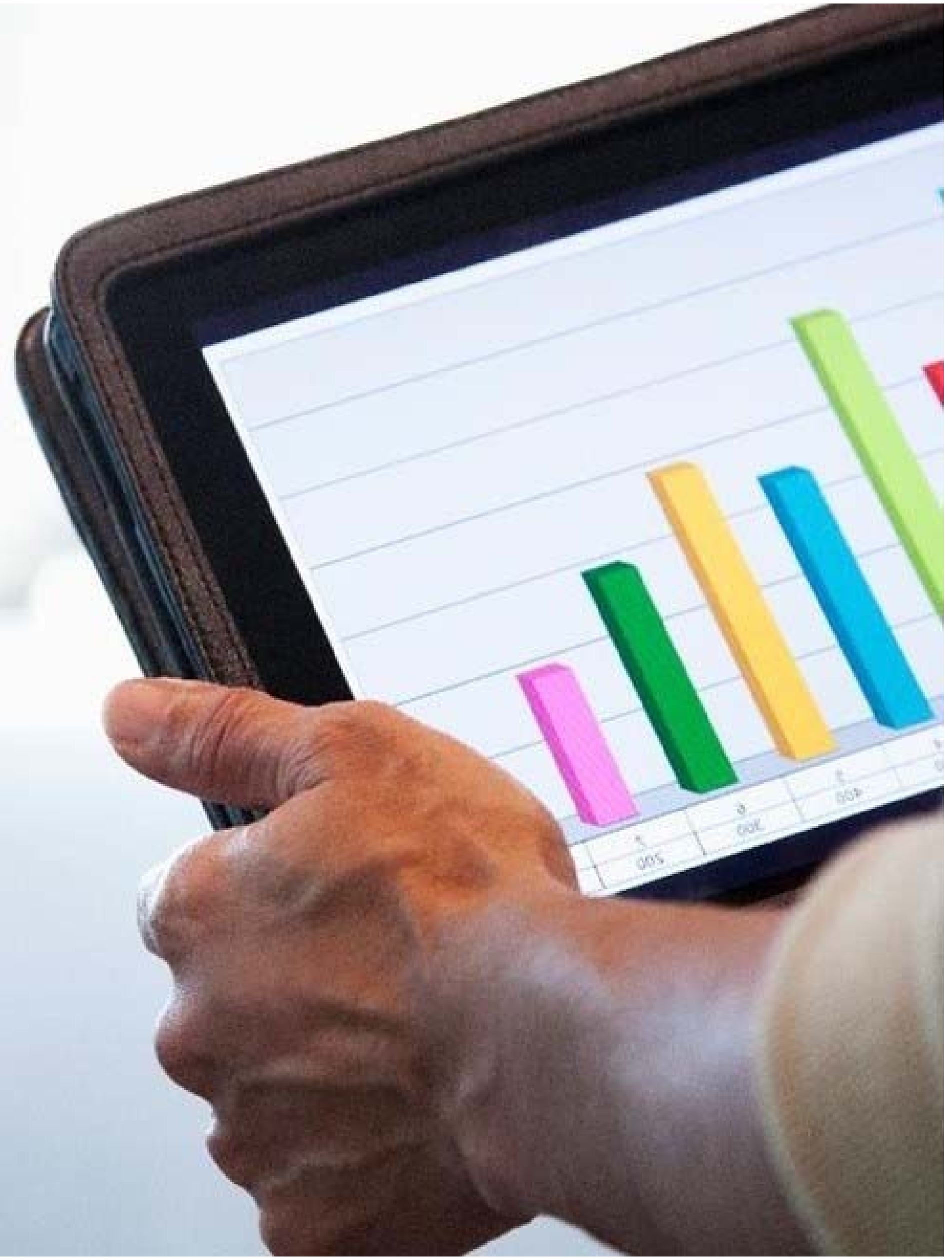
KPMG

Strathcona County

Audit Findings Report
For the year ended December 31, 2017



KPMG LLP

Prepared for the Council meeting on April 24, 2018

kpmg.ca/audit

The contacts at KPMG in connection with this report are:

Partner
John Stelter, FCPA, FCA
Tel: 780.429.6511
jstelter@kpmg.ca

Senior Manager
Taylor Rolheiser, CPA, CA
Tel. 780.429.7368
trolheiser@kpmg.ca

Manager
Brittany Keelan, CPA, CA
Tel: 780.429.6523
bkeelan@kpmg.ca

Table of Contents

Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist the Mayor and Council ("Council"), in the review of the results of our audit of the consolidated financial statements of Strathcona County as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to Council on January 30, 2018.

Changes to the audit plan

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

We are satisfied that audit materiality of $10 million as presented in the Audit Planning Report remains appropriate.

Areas of audit focus

We discussed with you at the start of the audit 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 against planned 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 are satisfied that our audit work has appropriately considered and addressed the areas of audit focus.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Note 1(q) to the consolidated financial statements describes future accounting standards which may impact the County's reporting at December 31, 2018 and in future years.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements. We identified certain differences that remain uncorrected.

We did propose certain adjustments to the County's consolidated financial statement presentation and disclosure that were accepted by management and included in the consolidated financial statements.

*This Audit Findings Report should not be used for any other purpose or by anyone other than 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 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 identified one matter that we determined to be a significant observation with respect to internal controls over financial reporting (“ICFR”).

In addition, we identified certain other observations we believe may be of interest to Council.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with Council;
- obtaining evidence of Council’s acceptance and approval of the financial statements;
- obtaining a signed management representation letter;
- obtaining information on any subsequent events to the date of the auditors’ report; and
- reviewing the annual report and any other publications containing the consolidated financial statements.

We will update Council, on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures.

Additional reporting responsibilities

We will also report separately on the following:

- Municipal Financial Information Return for the County;
- FCSS special reporting;
- LAPP special reporting;
- APEX special reporting;
- Schedule B Strathcona County Family and Community Services Home Visitation and Early Childhood Development Program (March 31, 2018); and
- Schedule B Strathcona County Family and Community Services Parent Link Centre Program (March 31, 2018).

In addition, we were separately engaged and have reported on the financial statements of the Strathcona County Public Library as at and for the year ended December 31, 2017.

Further, we have been engaged to assist with the preparation of certain corporate tax returns on behalf of the Council.

Independence

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

Areas of audit focus

Inherent risk of material misstatement 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 focus as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified as follows:

Areas of audit focus	Our response and significant findings
Recognition of revenue amounts subject to external restrictions	• We reviewed the recognition of amounts subject to external restrictions, including government transfers and development levies, to ensure they are recognized appropriately. • We confirmed all significant government transfers, and examined related agreements. • We obtained an understanding of the developer levy model and the process the County has in place to recognize revenue related to developer levies. The developer levy model utilizes forecasted development costs, staging and financing requirements to calculate the levy. Changes to these estimated inputs directly impacts deferred development levies and levy revenue. In 2017, the County identified land containing municipal components that the County was directly responsible for infrastructure costs that were inadvertently included in the development levy model (total $1,461). This difference was corrected by management in the current year. Refer to *Adjustments and Differences* section of this report.
Completeness, existence and accuracy of property assessments and taxation	• We evaluated the application of assessment through the tax roll and taxation rates as established by the County. • We did not identify any issues regarding property assessments or taxation.
Accuracy and valuation of investments	• We verified the cost and market value of investments through external confirmation, and reviewed management's assessment of market value for potential impairment. • We did not identify any issues regarding the accuracy and valuation of investments. The County appropriately recorded all investments and there were no indications that the investments were impaired at year end.
Accuracy and valuation of contributed tangible capital assets	• We reviewed a number of developments that were completed in the County in 2017 and noted that contributed tangible capital assets were recorded appropriately in the correct period. • We performed a further review of the contributed tangible capital assets and did not identify audit inconsistencies with the value ascribed to the contributed tangible capital assets by the developers, and the value recorded by the County.

Areas of audit focus (continued)

Areas of audit focus	Our response and significant findings
Existence and accuracy of capital expenditures against planned capital projects	• We reviewed a sample of capital expenditures and ensured they were applied against the appropriate capital projects. • We noted that certain costs incurred with respect to the Enterprise Resource Planning project consist of both capital and operating costs. In 2017, the County expensed $750 of costs that were previously recorded as capital project costs. This difference was corrected by management in the current year. Refer to *Adjustments and Differences* section of this report. • We did not note any other errors or issues in our testing; however, we did note that improvements are required to the capital budgeting process of the County. Refer to *Control and Other Observations* section of this report.
Completeness and accuracy of environmental obligations and other contingencies	• The County has performed an updated review of land and other assets for the potential risk of contamination and determination of a resulting obligation, if any. • We are satisfied that the County has appropriate procedures and systems in place to ensure consistent and accurate identification of liabilities, including those associated with environmental obligations and other contingencies and no matters were identified.
Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities	• We used our understanding of the County's operations, discussions with management and our review of Council minutes to ensure completeness of accruals has been achieved as at December 31, 2017. • We performed work over the County's budgeting process and interim reporting on variances from the approved budget. • We obtained a detailed understanding of significant variances from budget as well as key accruals. • We completed a search for unrecorded liabilities (through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis was done of key accruals. • We did not identify any inconsistencies in the way that accounts payable and accrued liabilities were recorded and are satisfied that the County is accruing costs in the appropriate period.
Completeness and accuracy of salaries and benefits note disclosures	• We reviewed a sample of employment contracts to ensure salaries and benefits are appropriately disclosed. • We did not note any errors or issues in our testing and have no audit findings to report.
Risk of 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 errors or issues in our testing and have no audit findings to report.

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:

Asset / liability	KPMG comment
Environmental obligations and other contingencies	The County obtained information from external and internal resources who specialize in assessing potential environmental obligations and other contingencies. There have been no significant changes in how the obligations are estimated year over year.
Useful lives of tangible capital assets	The County 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 the estimate is determined.
Accrued Liabilities	The County estimates accrued liabilities based on expenses and payables incurred throughout the year. There is no change in the way the County estimates accrued liabilities from the prior year.
Allowance for doubtful accounts receivable	The County 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 tangible capital assets	The County typically relies on the value of the contributed tangible capital asset as outlined on the Construction Completion Certificate which is provided and signed by the developer. Donated land is determined by an ascribed value as indicated on a signed land title certificate. The value of donated land under roads is calculated through digital mapping where the land area is traced by the County and the area is calculated. The dollar value per acre is based on third party land appraisals. All other components of contributed tangible capital assets are assessed at fair value using the best available information.
Deferred revenue and revenue recognized related to development charges and levies	The County utilizes forecasted development costs, staging and financing requirements to determine levy rates for development and related amounts to be recognized as revenue. There have been no changes in the manner in which the rates are calculated by the County’s development model.

We are satisfied management’s process for identifying critical accounting estimates is considered adequate.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and Council that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

Corrected adjustments include all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements. We did not identify any adjustments relating to the current year that were corrected in the current year.

Uncorrected differences

Uncorrected differences relate to a matters identified relating to the prior year that were corrected by management in the current year and include the following:

As at and year ended December 31, 2017	Annual surplus effect ($000's)	Financial position ($000's)		
Description of differences greater than $500,000 individually	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening Accumulated Surplus (Decrease) Increase**
Certain costs incurred related to the County's Business Transformation project that were capitalized and should have been classified as operating expenditures in prior years. The difference was corrected by management in the current year vs. the prior year.	750	-	-	(750)
The County made certain infrastructure investments that were initially funded through developer levies that should have been funded by County general revenues in prior years. The difference was corrected by management in the current year vs. the prior year.	1,461	-	-	(1,461)
Total differences	2,211	-	-	(2,211)

The uncorrected differences are described in more detail in the management representation letter in Appendix 3 and are not material to the financial statements. There are no remaining uncorrected differences that impact the statement of financial position of the County at December 31, 2017. We concur with management's representation that the uncorrected differences relating to the prior year are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Control and other observations

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit and have determined to be significant with respect to ICFR.

Significant observation

Item	Observation
Capital budget, including budgeting for contributed tangible capital assets	**Observation (repeated – beginning in 2013):** We note that the budgeted amount for the acquisition of tangible capital assets is significantly different than the actual acquisitions for the year. This variance is, in large part, a result of unspent carry forward amounts for capital expenditures that were budgeted for in prior years that have fallen behind plan, or have not occurred as scheduled. We further note that the County does not include contributions of tangible capital assets (from developers) in its annual budgets. We would expect that management should have a good understanding of the current and future developments within the County and it should also have a good understanding of which tangible capital assets will be contributed in any given year. We acknowledge that the County has controls in place to monitor the progress of capital projects in progress and that these results are reported to Council on a regular basis. However, this underlying understanding of the timing of capital projects does not translate to the capital budget approved by Council and the amounts that are ultimately reported within the consolidated financial statements of the County. Capital budget processes that are not fully integrated with internal and external financial reporting expose the County to potential operational, taxation, investing and financing implications. More specifically, these potential implications could include: *Operational* – control and regular monitoring of the County's capital projects is challenging if budgets are not relevant. Additionally, this could have an impact on the timing of related planned operational expenditures associated with each capital project; *Taxation* – annual taxation strategies are reliant on an effective budgeting process. If actual results differ significantly from what was planned, the amount and timing of any related taxation may not be appropriate; *Investing* – effective investment management is linked to effective budgeting. Significant differences between budgeted and actual results could result in sub-optimal decisions about investing County assets; and *Financing* – capital funding (including reserves and debt) may not be made available at the appropriate times for capital projects that have already been approved. **Recommendation:** We recommend that the County review the components of its capital plan. These components include its processes for capital budget amendments, its historic capital priorities including approved but delayed capital projects, and the carry-forward amounts that are brought forward into the upcoming fiscal year to ensure the County has the capacity and funds necessary to execute and complete the capital projects. We also recommend that the County review its current budget process to ensure contributed tangible capital assets are budgeted for and that this information is provided to and approved by Council during its regular budget deliberations.

Control and other observations (continued)

Other observations

Item	Observation
Procurement process improvements	**Observation:** During our audit of the procurement process at the County, we identified certain matters that we believe the County should consider for improvement: - Access to the purchase order generation module is not being monitored and it is unclear who has the authority and/or the ability to create a purchase order. - Paper purchase orders are used to track information due to space limitations in the RIS system. Space limitations could result in key information about the purchase order being missed when invoices are being processed. - Purchase orders that do not reach their maximum approved amount are not automatically closed once the end date of the contract has been reached. As a result, invoices may be received and paid against an invalid purchase order. **Recommendation:** We recommend that management ensure it maintains a list of those employees (or positions) within the County who should have access to the purchase order generation module and those who have access to but do not require it should have their access removed. We recommend that all necessary purchasing information be included within the RIS system. We recommend that management implement a process to close a purchase order once a project is completed.
Impact of Future Accounting Standards	**Observation:** As described in Note 1(q) of the County's consolidated financial statements, a number of new public sector accounting standards will be in effect beginning with the County's December 31, 2018 year end. These new standards include: PS2200 – Related Party Disclosures PS3210 – Assets PS3320 – Contingent Assets PS3380 – Contractual Rights PS3420 – Inter-Entity Transactions Although it is not anticipated that these new accounting standards will result in significant measurement differences in the County's consolidated financial statements in future years, additional disclosures will likely need to be provided. It is anticipated that the most significant of these new disclosures will likely arise with respect to transactions with related parties including the County's key management personnel (including the Mayor and Members of Council). **Recommendation:** We recommend that management perform an assessment of the potential impact of the implementation of all new accounting standards on the County's consolidated financial statements. We further recommend that management ensure that the County has an appropriate process in place to identify individual who are members of key management personnel, and whether any transactions exist between the County and those individuals which may require disclosure.

Appendices

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report as attached.
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to Council. The management representation letter is attached.

Appendix 2: Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of Strathcona County

We have audited the accompanying consolidated financial statements of Strathcona County, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations and accumulated surplus, changes in net financial assets and 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 in our audit 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 Strathcona County as at December 31, 2017, and its consolidated results of operations, its consolidated changes in net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT
April 24, 2018
Edmonton, Canada

Appendix 3: Management representation letter

STRATHCONA
COUNTY

KPMG LLP
Enbridge Centre
2200, 10175-101 Street
Edmonton, AB T5J 0H3

April 24, 2018

We are writing at your request to confirm our understanding that your audits were for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Strathcona County ("the Entity") as at and for the period ended December 31, 2017.

General:

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 also 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:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 27, 2017 including 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 information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties, and (ii) the 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 providing you with access to such relevant information. All significant board and committee actions are included in the summaries.

   c) providing you with additional information that you may request from us for the purpose of the engagement.

   d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

   e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

P1 of 3

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

g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.

h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

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 we are 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 financial statements and involves: management, employees who have significant roles in internal control over financial reporting, 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 financial statements, communicated by employees, former employees, analysts, 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.

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.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

9) We have disclosed to you the nature of all the environmental liabilities of which we are aware.

Going concern:

10) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

Misstatements:

11) 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.

Securities legislation:

12) We have no knowledge of any reason, circumstance, or matters that would not permit us (or the certifying officers) to certify the Entity's annual filings in accordance with securities regulations or legislation.

Yours very truly,

____

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

____

Laura Probst, CPA, CGA, CLGM, Director, Corporate 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 public sector a *related party* is defined as:

- Related parties exist 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 member.

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

- A related party transaction is 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 transaction have been given accounting recognition. The parties to the transaction 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 – Summary of Audit Misstatements Schedule(s)

Uncorrected Misstatements

As at and year ended December 31, 2017	Annual surplus effect ($000's)	Financial position ($000's)		
Description of differences greater than $500,000 individually	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening Accumulated Surplus (Decrease) Increase**
Certain costs incurred related to the County's Business Transformation project that were capitalized and should have been classified as operating expenditures in prior years. The difference was corrected by management in the current year vs. the prior year.	750	-	-	(750)
The County made certain infrastructure investments that were initially funded through developer levies that should have been funded by County general revenues in prior years. The difference was corrected by management in the current year vs. the prior year.	1,461	-	-	(1,461)
Total differences	2,211	-	-	(2,211)

Appendix 4: 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, the 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 5: 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/audit