Strathcona County

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

Prepared for the Council meeting on
April 30th, 2019

kpmg.ca/audit

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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 (the "County") as at and for the year ended December 31, 2018.

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

Changes from 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.

Finalizing the audit

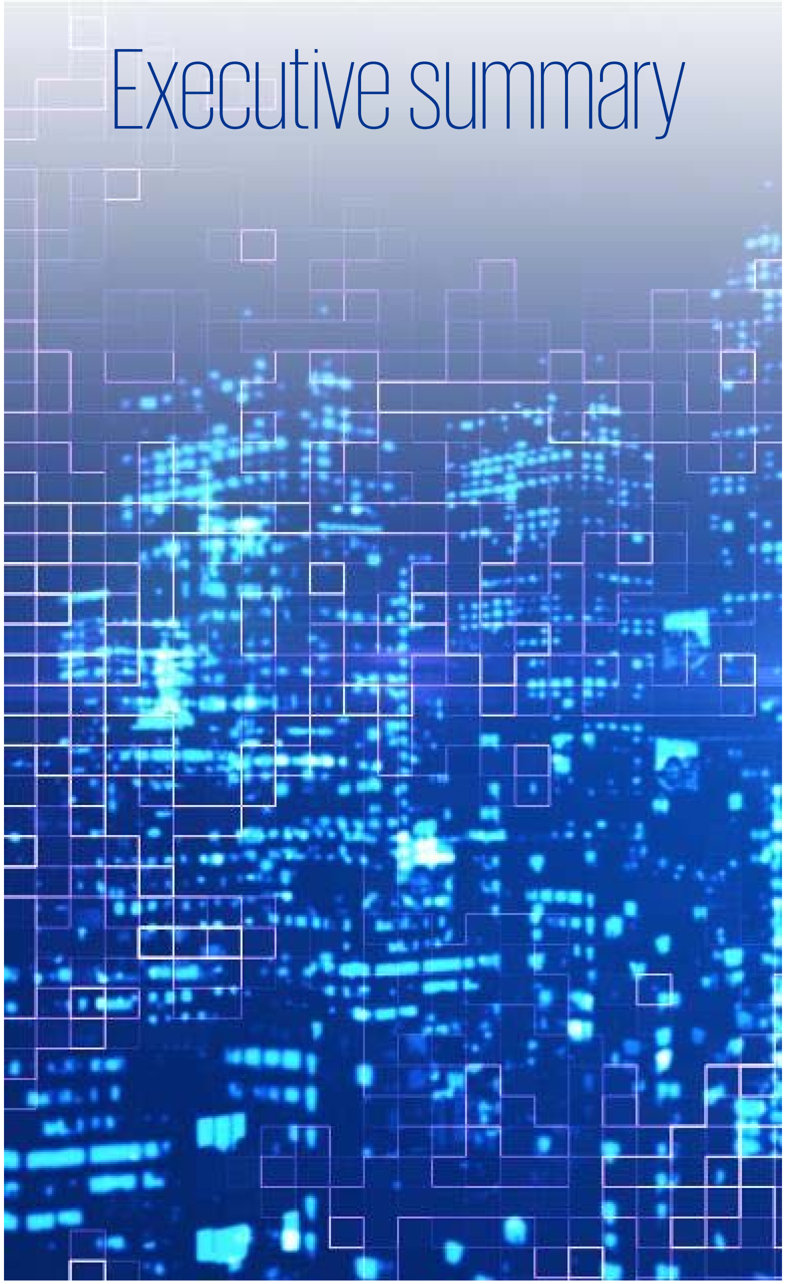
As of the date of this report, we have completed our audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with Council;
- Obtaining evidence of Council's approval of the consolidated financial statements;
- Obtaining a signed management representation letter;
- Obtaining information on any subsequent events to the date of Council's approval of the consolidated financial statements; 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 (expected April 30, 2019).

*This Audit Findings Report should not be used for any other purpose or by anyone other than 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



Areas of audit focus

We discussed with you at the start of the audit a number of significant areas of audit focus:

- 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; and
- Completeness and accuracy of salaries and benefits note disclosures.

We also discussed with you other audit considerations per professional requirements, which included:

- Risk of management override of controls.

We are satisfied that our audit work has appropriately considered and addressed the areas of audit focus.

Critical accounting estimates

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

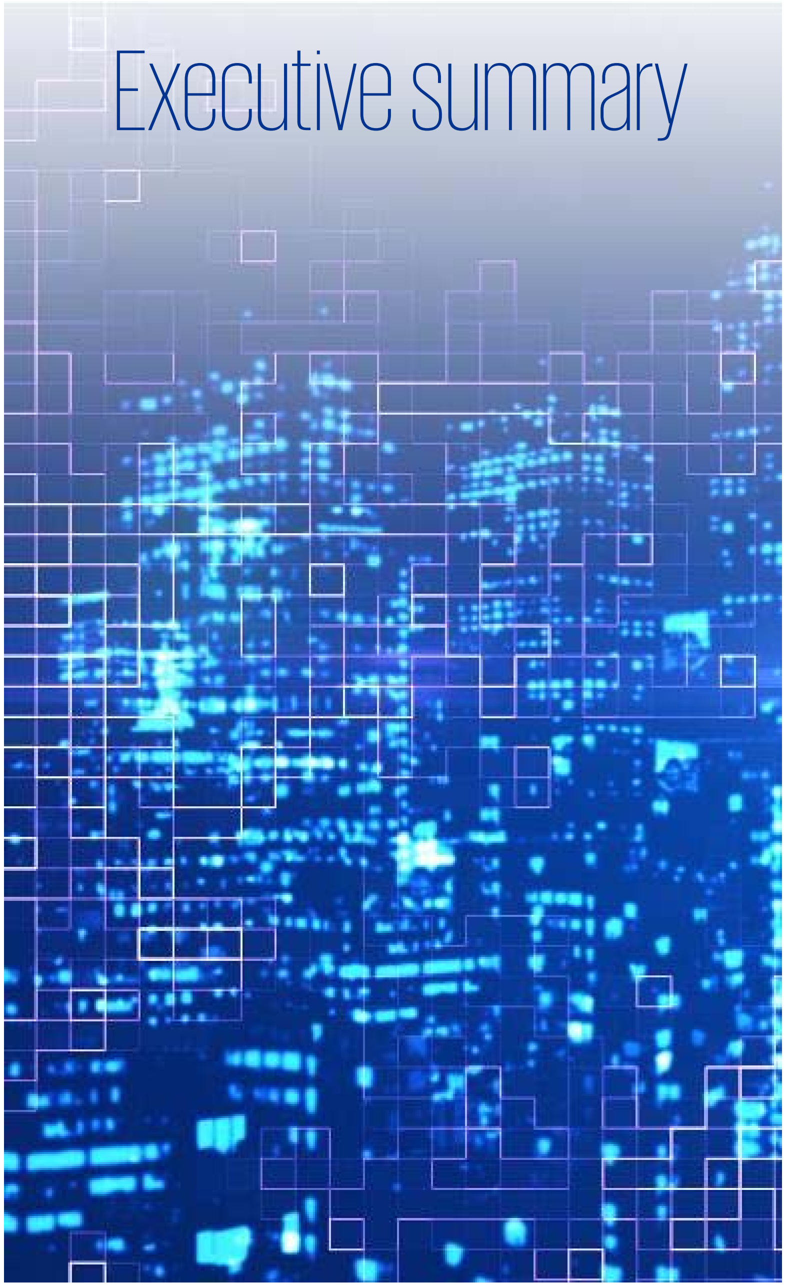
Significant accounting policies and practices

As reported in our audit plan, there are new accounting standards applicable to the County for the year ended December 31, 2018.

- Note 1(q) to the consolidated financial statements describes the adoption of the new accounting standards for the year ended December 31, 2018.
- Note 1(r) to the consolidated financial statements describes future accounting standards which may impact the County's reporting at December 31, 2019 and in future years.

There were not any other changes to significant accounting policies and practices to bring to your attention.

Executive summary



Adjustments and differences

We did not identify differences that were corrected by management or differences that remain uncorrected.

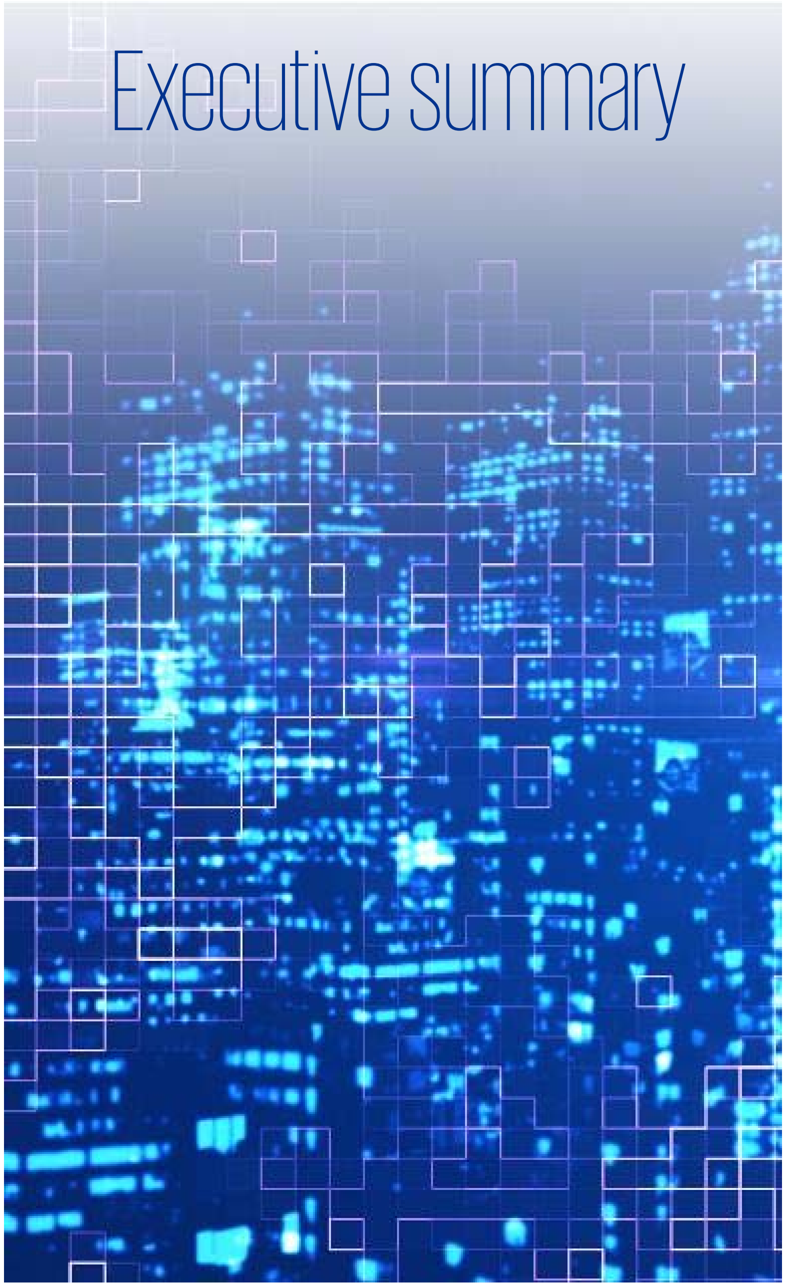
We did propose certain adjustments and made recommendations with regards to the County’s consolidated financial statement presentation and disclosure that were accepted by management and included in the consolidated financial statements.

Control and other observations

We identified certain control and other observations we believe may be of interest to Council.

None of these observations impact our audit report on the consolidated financial statements.

Executive summary



Additional reporting responsibilities

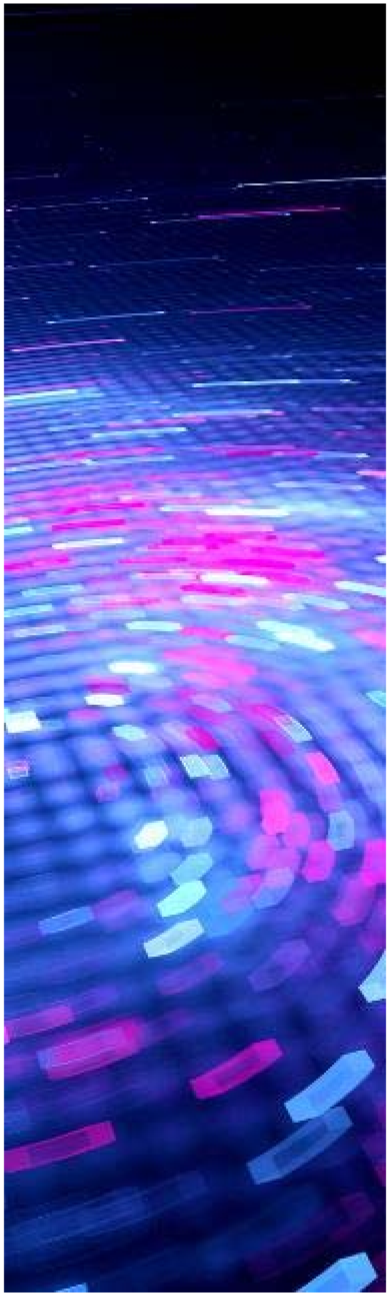
We have been engaged to report and have reported or will report on the following for the year ended December 31, 2018:

- Strathcona County Municipal Financial Information Return (FIR) which is prepared to comply with Section 277 of the Municipal Government Act R.S.A 2000, C.M-26 as amended;
- Family and Community Support Services (FCSS) special reporting;
- Local Authorities Pension Plan (LAPP) special reporting;
- APEX special reporting;
- Schedule B Strathcona County Family and Community Services Home Visitation and Early Childhood Development Program (March 31, 2019); and
- Schedule B Strathcona County Family and Community Services Parent Link Centre Program (March 31, 2019).

In addition, we were separately engaged and have reported on the financial statements of the Strathcona County Library as at and for the year ended December 31, 2018. The Library's operations are included within the consolidated financial statements of the County.

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 and results

We highlight our significant findings in respect of significant audit areas of focus as identified in our discussion with you in the Audit Plan.

Significant financial reporting areas of focus	Why is it significant?
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).
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.
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.

Results

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.

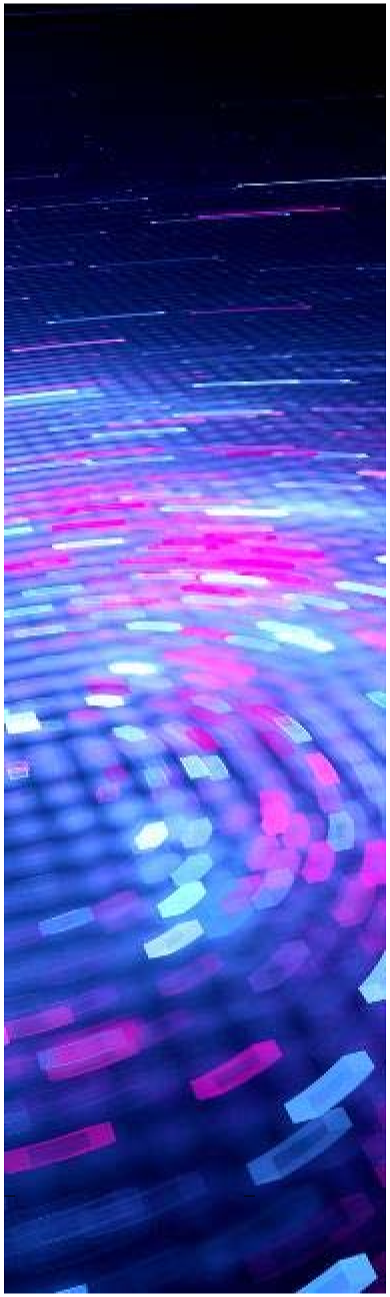
During the audit, management identified certain adjustments to government transfers funding ascribed to capital projects. Management recorded all identified adjustments in the consolidated financial statements.

We evaluated the application of assessment through the tax roll and taxation rates as established by the County.

We verified the cost and market value of investments through external confirmation, and reviewed management's assessment of market value for potential impairment. We performed some recalculations on investment premiums and discounts for investments recorded at amortized cost.

During our audit of the investment continuity, we noted certain errors related to fair value disclosures that resulted from formula errors in management's investment workbook. The investment workbook has since been updated and the fair values presented in the consolidated financial statements are accurate.

No additional misstatements or other findings were identified as a result of performing the above procedures.



Areas of audit focus and results (cont'd)

Significant financial reporting areas of focus	Why is it significant?
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.
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.
Existence and accuracy of capital expenditures related to approved capital projects	There is a risk that capital expenditures are not appropriately recorded in the consolidated financial statements and are not appropriately recorded related to approved capital projects.

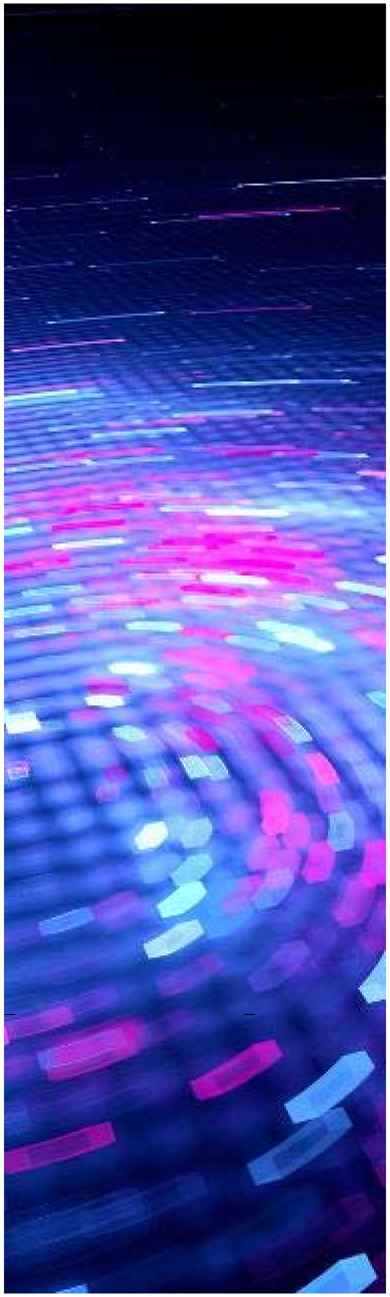
Results

We obtained an understanding of the process by which departments capture tangible capital assets which are contributed from developers and other parties and assessed the consistency of the process applied across all departments. We reviewed a number of developments that were completed in the County in 2018 and noted that contributed tangible capital assets were recorded appropriately in the current 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.

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, 2018. We performed work of 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 and a detailed analysis was done of key accruals.

We reviewed a sample of capital expenditures and ensured they were applied against the appropriate capital projects. We did not identify any issues regarding the existence and accuracy of capital expenditures incurred during the year and the related approved capital projects.

No additional misstatements or other findings were identified as a result of performing the above procedures.



Areas of audit focus and results (cont'd)

Significant financial reporting areas of focus	Why is it significant?
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
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits note disclosure are not complete and accurately reported.
Risk of management override of controls	This is a presumed risk. We have not identified any specific additional risks of management override relating to this audit.

Results

The County has performed an updated review of land and other assets for the potential risk of contamination and determination of 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.

We reviewed a sample of employment contracts to ensure salaries and benefits are appropriately disclosed.

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 identify a finding related to the initiation and posting of journal entries.

No additional misstatements or other findings were identified as a result of performing the above procedures.

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 year, 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

1. Environmental obligations and other contingencies
2. Useful lives of tangible capital assets
3. Accrued liabilities
4. Allowance for doubtful accounts reserve (taxes and other)

KPMG comment

1. 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.
2. 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.
3. The County estimates accrued liabilities based on expenses and payables incurred throughout the year. There is no change in the way the County estimated accrued liabilities from the prior year.
4. The County estimates allowance for doubtful accounts (taxes and other) 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.

Critical accounting estimates (cont'd)

Asset / liability

5. Fair value of contributed tangible capital assets

6. Deferred revenue and revenue recognized related to development charges and levies.

KPMG comment

5. 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. Contributed 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.
6. 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 believe management's process with respect to critical accounting estimates is adequate.

Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the County's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	The consolidated financial statements have been prepared in accordance with the Canadian Public Sector Accounting Standards. As disclosed in Note 1(q) of the County's consolidated financial statements, certain Canadian public sector accounting standards came into effect for the County's year ending December 31, 2018, specifically, PS2200 - Related Party Disclosures, PS3320 - Contingent Assets, PS3380 - Contractual Rights, and PS3420 - Inter-Entity Transactions. We assessed the County's current disclosures for related party transactions and inter-entity transactions and have determined these disclosures meet the new accounting standards. The other accounting standards applicable for the December 31, 2018 year end did not have measurement or disclosure impacts related to the County's financial reporting. In addition, we provided management with recommendations on consolidated financial statement presentation and disclosure that have been incorporated into the consolidated financial statements.
Application of accounting pronouncements issued but not yet effective	As described in Note 1(r) of the County's consolidated financial statements, a number of new Canadian public sector accounting standards will be in effect beginning with the County's December 31, 2019 year end and beyond. These new standards include: PS3430 – Restructuring Transactions; PS1201 – Financial Statement Presentation; PS2601 – Foreign Currency Transactions; PS3041 – Portfolio Investments; PS3280 – Asset Retirement Obligations; PS3450 – Financial Instruments; and PS3400 – Revenue. Although it is not anticipated 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.

Control and other observations

We have highlighted matters below that we would like to bring to your attention:

Matter	KPMG Comment
Journal entry controls	**Observation (current year):** During our audit of the County’s journal entry process, we noted that there is not a preventative control to ensure that all journal entries posted into RIS have been approved by someone else, or that the initiation and posting of journal entries has a segregation of duties requirement built into the County’s financial information systems. The County has an alternative process whereby paper ‘journal vouchers’ are reviewed prior to the entries being posted. This review/approval control is done outside the system, and once that is complete, the person who initiated the entry can post it into RIS. We identified a small number of entries where the mitigating control was not sufficient to prevent inaccurate journal entries being posted to the system. **Recommendation:** We understand that the County is currently in in the midst of a business transformation project. This transformation includes new policies and procedures, as well as the use of new systems and software. We encourage the County to ensure that the policies, procedures and systems include preventative controls related to journal entries.

Control and other observations (cont'd)

Matter	KPMG Comment
Procurement process improvements	**Observation (originally raised in 2017):** During our audit, we identified certain matters that we believe the County should consider for improvement within its procurement processes: ▪ 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 the difficulty with the PO form within the RIS system. The RIS POs are completed in a standard method, but the functionality to capture an additional description(s) or further information is not utilized; which is often key information related to the contract. The absence of this information could result in key information about the purchase order being missed when invoices are being processed. ▪ Purchase orders for completed contracts that have not reached their maximum approved authority or have surpassed the end date of the contract are not monitored through the RIS system or closed using a standard process. 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 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 complete.

Control and other observations (cont'd)

Matter	KPMG Comment
Capital budget, including budgeting for contributed tangible capital assets	**Observation (originally raised in 2013):** During our review of the County's consolidated financial statements and annual budgets in the prior year, we note that the budgeted amount for the acquisition of tangible capital assets was different than the actual acquisitions for the year. This variance was, 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 noted that the County does not include contributions of tangible capital assets (from developers) in its annual budgets. **Recommendation:** We recommended 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 recommended 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. **2018 Update:** During our audit, we noted the County has improved the capital budget accuracy as new processes and policies have been implemented and followed. Additionally, changes in the MGA will now require the County to budget on a 4-year cycle, which is expected to increase the budgeting precision as the County is required to look at projects and capacity more holistically rather than in isolation on a year by year basis. We also noted that the County still does not include contributions of tangible capital assets (from developers) in its annual budgets; however, management is continuing to gather relevant information that will allow the County to consider this enhancement in future years. We are satisfied that the County has made sufficient progress in the adoption of this recommendation and the matter will be removed from future reports.

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 the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any audit adjustments that were subsequently corrected in the consolidated financial statements.

There were certain adjustments that were identified by management and corrected in the consolidated financial statements. The adjustments were not significant and therefore are not reflected in this audit findings report. We reviewed all client adjustments and updates to the consolidated financial statement presentation and disclosure and are satisfied that they have been appropriately reflected in the final consolidated financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Appendices

Appendix 1: Required communications

Appendix 2: Draft Auditors’ Report

Appendix 3: Management representation letter

Appendix 4: Audit Quality and Risk Management

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.

CPAB Audit Quality Insights Report (October 2018) (formerly the "Big Four Firm Public Report")

Appendix 2: Draft Auditors' Report

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Canada
Telephone (780) 429-7300
Fax (780) 429-7379

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of the 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 changes 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, 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.

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 Consolidated 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 consolidated financial statements in Canada and we have fulfilled our other ethical 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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the consolidated financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the consolidated financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 City'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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent 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 City to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants

April 30, 2019
Edmonton, Canada

Appendix 3: Management representation letter

STRATHCONA COUNTY

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

April 30, 2019

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was 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, 2018.

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 10, 2018, 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. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

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Sherwood Park, Alberta T8A 3W7

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www.strathcona.ca

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

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

g) 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.

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

i) 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 that involves:

      — management;

      — employees who have significant roles in internal control over financial reporting; or

      — others

      where such fraud or suspected 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.

Going concern:

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

Securities Legislation:

10) 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

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 accounting standards for public sector a *related party* is defined as:

- Related parties exists 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 members.

In accordance with 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 transactions 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.

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 summarizes the six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality Report.

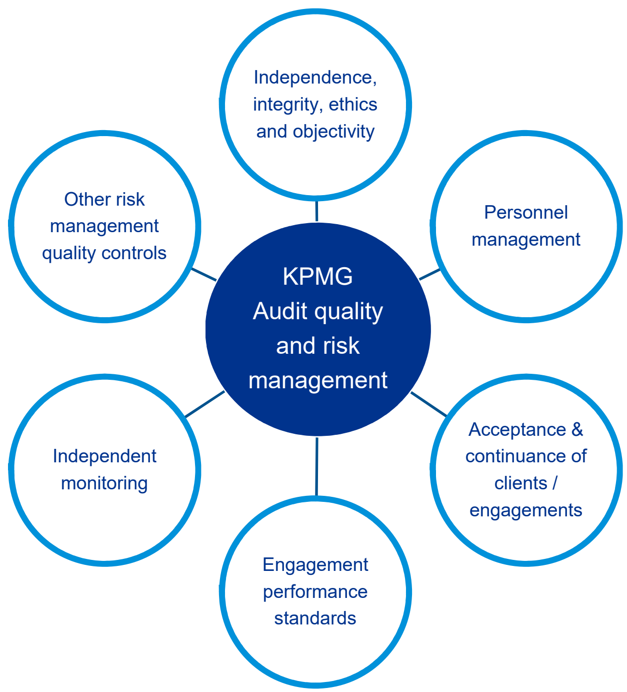
Other controls include:

- 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
- 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.

kpmg.ca/audit