



Strathcona County

Audit Findings Report For the year ended December 31, 2016

Prepared for the Council meeting on April 25, 2017.

kpmg.ca/audit



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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

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, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Mayor and Council on November 22, 2016.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Plan that was previously presented to you.

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 of accounts payable and accrued liabilities;
- Accuracy and valuation of contributions of tangible capital assets;
- Completeness and accuracy of environmental obligations and other contingencies;
- Completeness and accuracy of commitments;
- Existence and accuracy of capital expenditures against planned capital projects;
- Accuracy and valuation of investments; and
- Risk of management override of controls.

We 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 in future years.

Critical accounting estimates

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

See page 7.

*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)

Adjustments and differences

We identified one adjustment that was communicated to management and subsequently corrected in the financial statements. In addition, in we identified one difference that remains uncorrected.

See page 8 and Appendix 3.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

We have followed up on the current status of other observations previously identified and reported to Council.

See page 9.

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements of the County, with the exception of:

- 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.

We will also report separately on the following:

- Municipal Financial Information Return for the County (December 31, 2016);
- FCSS special reporting (December 31, 2016);
- LAPP reporting (December 31, 2016);
- APEX reporting (December 31, 2016);
- Schedule B Strathcona County Family and Community Services Home Visitation and Early Childhood Development Program (March 31, 2017); and
- Schedule B Strathcona County Family and Community Services Parent Link Centre Program (March 31, 2017)

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 the key areas of focus as identified in our discussion with you in the Audit Plan.

Areas of focus	Our response and significant findings
Recognition of revenue amounts subject to external restrictions	<ul style="list-style-type: none"> We reviewed the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We confirmed all significant government transfers, and examined related agreements. We identified one audit misstatement related to the government transfers receivable and deferred revenue balances. This audit misstatement had no impact on revenue recognition, and was subsequently corrected in the financial statements. Refer to Appendix 3 for the corrected audit adjustment.
Completeness of accounts payable and accrued liabilities	<ul style="list-style-type: none"> 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, 2016. 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.
Accuracy and valuation of contributions of tangible capital assets	<ul style="list-style-type: none"> We reviewed a number of developments that were completed by the County in 2016 and noted that contributed assets were recorded appropriately in the correct period. We performed a further review of the contributed assets and did not identify audit inconsistencies with the value ascribed to the contributed assets by the developers, and the value recorded by the County.
Accuracy and valuation of investments	<ul style="list-style-type: none"> 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 investment and there were no indications that the investments were impaired at year end.
Completeness and accuracy of environmental obligations and other contingencies	<ul style="list-style-type: none"> The County has performed an extensive 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 contaminated sites and no matters were identified.

Areas of audit focus (continued)

Areas of focus	Our response and significant findings
Completeness and accuracy of commitments	<ul style="list-style-type: none"> We reviewed all significant contracts entered into during the year and management's related assessment of the contracts and future commitments. We did not identify any issues with the completeness and accuracy of commitments.
Existence and accuracy of capital expenditures against planned capital projects	<ul style="list-style-type: none"> We reviewed a sample of capital expenditures and ensured they were applied against the appropriate capital expenditures. We did not note any errors or issues in our testing and have no audit findings to report.
Risk of management override of controls	<ul style="list-style-type: none"> 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.

Critical accounting estimates

Asset / liability	Balance (\$'000s)	KPMG comment
Contaminated sites liability	\$nil	The County obtained information from external consultants who specialize in contaminated sites when determining the amount of the obligation. The ongoing assessment and monitoring is performed by both external and internal resources. There have been no significant changes in how the obligations are estimated year over year.
Useful life 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	\$538	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	\$188	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 assets	\$32,711	The County typically relies on the value of the contributed 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 assets are assessed at fair value using the best available information.

We are satisfied that management's process for identifying critical accounting estimates is appropriate.

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

The management representation letter in Appendix 3 includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

The management representation letter in Appendix 3 includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected differences considered to be other than clearly trivial.

The uncorrected difference relates to a matter identified relating to the prior year that was corrected by management in the current year. The uncorrected difference is not material to the financial statements.

No amounts remain uncorrected at December 31, 2016.

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 deficiencies in ICFR.

During the course of our audit, we identified a number of observations that we believe may be of interest to Council.

These observations are based on, among other things, our understanding of the affairs and processes of the County as well as our understanding of many other municipalities and entities within the public sector.

Significant deficiencies

No significant deficiencies in internal control were identified during our audit in the current year.

Other observations

We did not identify any new matters in the current year to bring to your attention. The matters described below were raised in prior years and have been fully addressed by management. There are certain other matters that are still being addressed by management and we are satisfied that management is taking appropriate steps to address. Once these matters are addressed, we will report on their final completion to you.

Item	Observation
Development of annual process related to contaminated sites and other environmental liabilities	<p>In the prior year, we recommended that the County establish an annual process such that compliance with <i>PS3260, Liability for Contaminated Sites</i>, and other accounting standards regarding environmental liabilities is ongoing and part of the routine practice.</p> <p>In the current year, although no formal policies have been implemented, we noted that management identified roles and responsibilities, held inter-departmental meetings throughout the year, and completed a year-end update with respect to work performed.</p> <p>We are satisfied that this matter has been addressed by management.</p>
Operating segments	<p>In the prior year, we recommended that the County review the segmented information presented in the financial statements to ensure that the segments presented are consistent with the segments the County uses to manage its operations.</p> <p>In the current year, we noted the County revised the segmented information disclosure in its financial statements to present information that aligns with the segments the County uses to manage its operations.</p> <p>We are satisfied that this matter has been addressed by management.</p>

Appendices

Appendix 1: Required Communications

Appendix 2: Draft Independent Auditors' Report

Appendix 3: Management Representation Letter

Appendix 4: Audit Quality and Risk Management

Appendix 5: Background and Professional Standards

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 Independent Auditors' Report



KPMG LLP
Chartered Professional Accountants
Enbridge Centre
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Edmonton, AB T5J 0H3
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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, 2016, the consolidated statements of operations and accumulated surplus, change 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 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, 2016, and its consolidated results of operations, its consolidated change in its net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants

April 25, 2017
Edmonton, Canada

Appendix 3: Management Representation Letter

April 25, 2017

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

Re: Strathcona County Audit

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, 2016.

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 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 28, 2016, 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 relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, Council and committees of the Council that may affect the financial statements, and access to such relevant information.
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

2001 Sherwood Drive
Sherwood Park, Alberta T8A 3W7

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 management is 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 Entity and involves: management, employees who have significant roles in internal control, 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 Entity's financial statements, communicated by employees, former employees, 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.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

GOING CONCERN:

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

MISSTATEMENTS:

- 9) 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.
- 10) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Sincerely,

STRATHCONA COUNTY

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

Laura Probst, CPA, CGA, Director, Financial Services

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 the public sector *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 members.

In accordance with Canadian accounting standards for the 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.

Attachment II – Summary of Audit Misstatements Schedule



Strathcona County
Attachment II - Summary of Uncorrected Audit Misstatements
December 31, 2016
 In 000's

					Statement of Operations Effect - Debit (Credit)	Statement of Financial Position Effect - Debit (Credit)			
ID	Description of misstatement	Accounts	Debit	(Credit)	Statement of Operations - Debit (Credit)	Accumulated Surplus	Financial Assets	Non-Financial Assets	Liabilities
SAM2	In the current year, an adjustment was made by management to correct a project that was funded in 2015 by debentures but should have been funded by developer levies. As this error relates to 2015, the adjustment through 2016 results in an understatement of capital revenues in 2015 and an overstatement of other capital revenues in 2016.	Other Capital Revenues	3,469	-	3,469	3,469	-	-	-
		Accumulated Surplus	-	(3,469)	-	(3,469)	-	-	-
Aggregate effect of uncorrected audit misstatements (after tax):					3,469	-	-	-	-
Financial statement amounts (per final financial statements) (after tax):					(85,043)	(1,909,672)	353,578	1,845,110	(289,016)
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):					-4%	0%	0%	0%	0%

Strathcona County
Revised Attachment II - Summary of Uncorrected Audit Misstatements
December 31, 2015
In 000's

					Statement of Operations Effect - Debit (Credit)	Statement of Financial Position Effect - Debit (Credit)			
ID	Description of misstatement	Accounts	Debit	(Credit)	Statement of Operations - Debit (Credit)	Accumulated Surplus	Financial Assets	Non-Financial Assets	Liabilities
PY - SAM2	In the current year, an adjustment was made by management to correct a project that was funded in 2015 by debentures but should have been funded by developer levies. As this error relates to 2015,the adjustment through 2016 results in an understatement of capital revenues in 2015 and an overstatement of other capital revenues in 2016.	Deferred Revenue	3,469	-	-	-	-	-	3,469
		Other Capital Revenues	-	(3,469)	(3,469)	(3,469)	-	-	-
Aggregate effect of uncorrected audit misstatements (after tax):					(3,469)	(3,469)	-	-	3,469
Financial statement amounts (per final financial statements) (after tax):					(127,528)	(1,824,629)	337,482	1,771,304	(284,157)
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):					3%	0%	0%	0%	-1%



Strathcona County

Attachment II: Summary of Corrected Audit Misstatements

December 31, 2016

In 000's

					Statement of Operations Effect - Debit (Credit)	Statement of Financial Position Effect - Debit (Credit)			
ID	Description of misstatement	Accounts	Debit	(Credit)	Statement of Operations - Debit (Credit)	Accumulated Surplus	Financial Assets	Non-Financial Assets	Liabilities
Corrected misstatements - Final									
SAM1	To adjust the accrual of the 2016 Federal Gas Tax Fund allocation	Accounts Receivable	1,351	-	-	-	1,351	-	-
		Deferred Revenue	-	(1,351)	-	-	-	-	(1,351)
Total effect of corrected audit misstatements - Final					-	-	1,351	-	(1,351)

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.

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