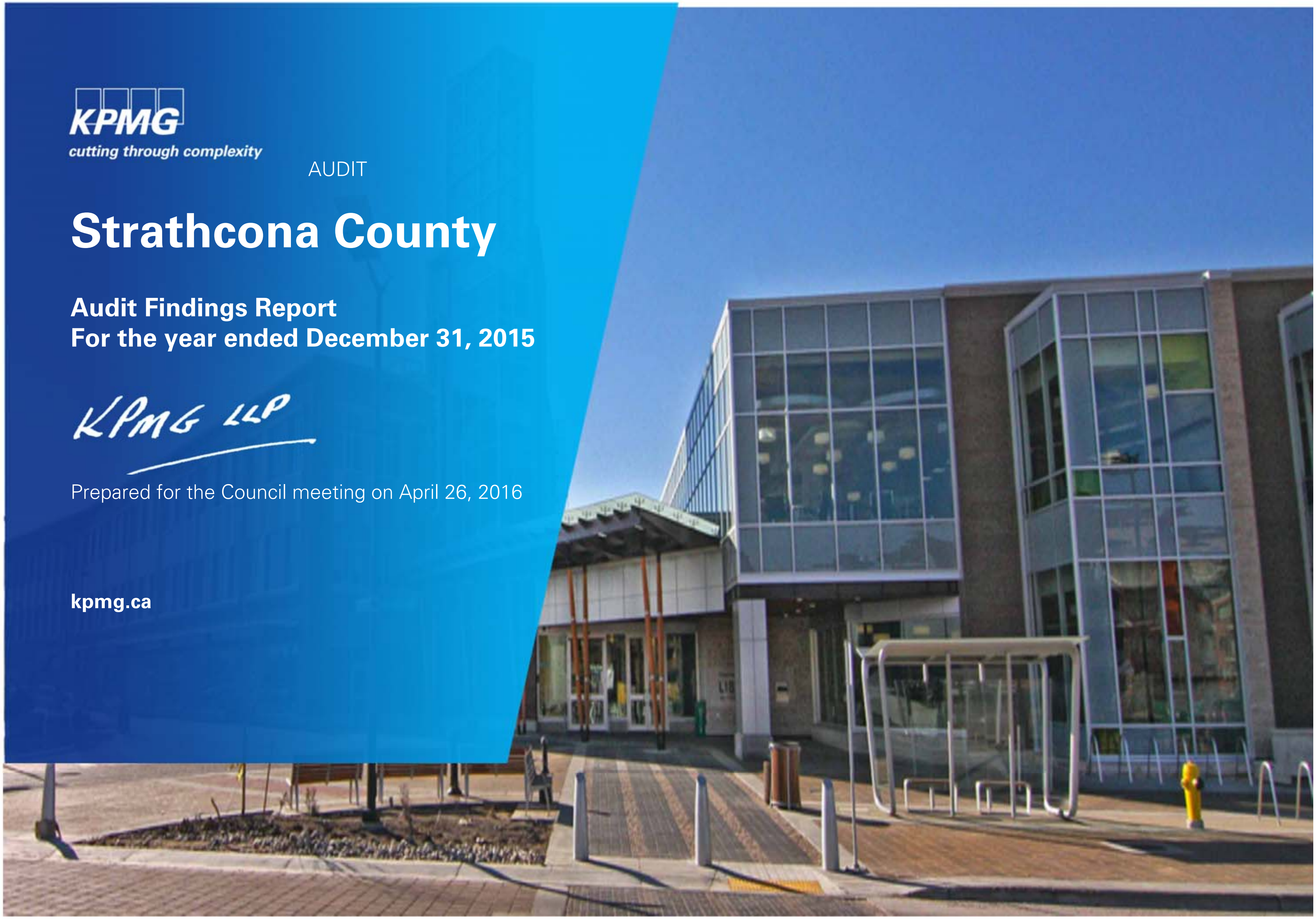

AUDIT

Strathcona County

Audit Findings Report
For the year ended December 31, 2015

KPMG LLP

Prepared for the Council meeting on April 26, 2016

kpmg.ca

The contacts at KPMG in connection with this report are:

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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, 2015.

This Audit Findings Report builds on the Audit Plan we presented to the Mayor and Council on November 3, 2015.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report 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**.

These included a number of matters and the potential impact on both the financial position of the County, as well as the results of operations for the year ended December 31, 2015. These areas included:

- 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 expenditures;
- Accuracy and valuation of investments; and
- Risk of management override of controls.

We also gained an understanding of the new fleet management system that was implemented in the year.

We are satisfied that our audit work has appropriately dealt with the areas of audit focus.

Audit adjustments and differences

We identified one audit adjustment which management corrected. We did not identify differences that remain uncorrected.

Refer to Appendix II for the adjustment.

Additionally, we identified other presentation matters which are not considered to be substantive and are discussed later in the report.

Refer to page 10.

* 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 did not identify any control deficiencies that we determined to be significant deficiencies in Internal Control over Financial Reporting ("ICFR").

Additionally, we followed up on the current status of other matters previously raised. Our update on the historic matters was presented as part of our Audit Plan, presented to Council on November 3, 2015. We do not have any other findings to bring the attention of Council.

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's representation letter included in the Appendices.

Significant account policies and practices

Significant accounting policies and practices are disclosed in Note 1 to the consolidated financial statements.

The following new significant accounting policies and practices were selected and applied during the period:

- Liability for contaminated sites

In addition, Note 1(n) 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.

Refer to page 8.

Executive summary (continued)

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 approval of the consolidated financial statements;
- obtaining a signed management representation letter; and
- reviewing the annual report and any other publications containing the consolidated financial statements.

Our independent auditors' report will be dated upon the completion of these remaining procedures (expected April 26, 2016).

We will also report separately on the following:

- Municipal Financial Information Return for the County (December 31, 2015);
- FCSS special reporting (December 31, 2015);
- LAPP reporting (December 31, 2015);
- Schedule B Strathcona County Family and Community Services Home Visitation and Early Childhood Development Program (March 31, 2016); and
- Schedule B Strathcona County Family and Community Services Parent Link Centre Program (March 31, 2016).

In addition, we have also been engaged by and have provided a separate independent auditors' report for the Strathcona County Library for the year ended December 31, 2015 (dated April 18, 2016).

Independence

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

Areas of audit focus

Inherent risk 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 audit focus as identified in our discussion with you in the Audit Plan.

Area of audit focus	Significant findings from the audit
Recognition of revenue amounts subject to external restrictions	• We reviewed the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. • We confirmed all significant government transfers, examined related agreements, and reviewed the developer levy model, including the list of active development arrangements and corresponding levies. • We identified one audit misstatement relating to grant contributions receivable. The County had accrued grant contributions receivable for a portion of a project that was not approved in 2015. Subsequent to the end of 2015, the County submitted a revised project application for the same grant funding which was approved. • Refer to our management representation letter for the corrected audit misstatement. • We did not identify any other audit findings to report.
Completeness of 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, 2015. • 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	• We reviewed a number of developments that were completed by the County in the current year and noted that the contributed assets recorded appropriate 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.
Completeness and accuracy of environmental obligations and other contingencies	• The County has performed extensive work on their review of lands and other assets, for the potential risk of contamination, and determination of a resulting obligation/liability. • We are satisfied that the County has reviewed and developed procedures and systems to ensure consistent and accurate identification of liabilities, including those associated with contaminated sites which are required to be recorded upon implementation of a new accounting standard, *PS3260, Liability for Contaminated Sites.* This new standard was effective for fiscal years on or beginning after April 1, 2014. • As a result of their review, the County has not identified contamination on sites that would be captured under the new accounting standard.

Areas of audit focus (continued)

Area of audit focus	Significant findings from the audit
Completeness and accuracy of commitments	• 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	• 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.
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.
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 issues or findings in our testing.

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
Landfill closure and post-closure care obligations	$nil	The County obtained information from external consultants who specialize in landfill closure and post-closure 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 this estimate is determined. In the current year, the tangible capital assets records were reviewed for accuracy, and adjustments to useful lives were recorded.
Accrued liabilities	$1,344	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	$60,325	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 fair values using the best available information.

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

Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as corrected audit adjustments; or uncorrected audit differences. These include disclosure adjustments and differences.

Corrected audit adjustments

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

Uncorrected audit differences

We did not identify differences that remain uncorrected.

Control and other matters

In accordance with professional standards, we are required to disclose any control deficiencies that we determined to be significant ("significant deficiencies").

Significant deficiencies

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

Other matters raised in the current year

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

Matter	KPMG comment
Budgeting for acquisition of TCA and carry forwards	• In our review of the financial statements and annual budget, we noted that the budgeted amount for the acquisition of TCA is significantly higher than the actual acquisitions for the year. • While developing the annual capital plan (budgeted acquisitions), the County reviews the capital priorities plan which includes new capital acquisitions, budgeted current-year expenditures for capital projects that span multiple fiscal years, as well as un-spent carry-forward amounts for capital acquisitions that have fallen behind plan, or not occurred as scheduled. • We encourage the County to continue their thorough review of the components of the capital plan, including revisiting historic capital priorities, approved but delayed capital plans, and the carry-forward amounts that are brought forward into the upcoming fiscal year to ensure the County has the capacity to execute and complete the capital projects. *Management's response:* *The County will continue the open capital review process, in which open projects are reviewed annually by Executive Team to reconfirm alignment to strategic priorities. Additionally, this process is closely aligned with the development of the 2017 capital budget to provide consideration of organizational capacity and priority based resource allocations.*
Allocation of amortization to departments	• We noted that amortization expense is not allocated to the various departments to which the amortization relates, but rather it is included as a single line item in the budget and actual results of the Fiscal Services department on the Consolidated Statement of Operations and Accumulated Surplus. • County departments hold tangible capital assets (TCA) specific to the provision of their departmental services. TCA purchases, maintenance and disposal (if any) are department-specific responsibilities. • We recommend that management budget amortization on a departmental basis, and that actual amortization is captured consistently with the budget. *Management's response:* *The County has identified the potential allocation of amortization as a component of the Business Planning and Budgeting Implementation project relating to the philosophy of internal chargebacks and cost allocations.* *The allocation of amortization to County departments would support accountability for the maintenance and disposal of Tangible Capital Assets; however, the methodology requires further consideration prior to implementation to evaluate the cost benefit and effectiveness of the approach.*

Control and other matters (continued)

Matter	KPMG comment
Development of annual process relating to contaminated sites and other environmental liabilities	• In order to comply with the new accounting standards, *PS3260, Liability for Contaminated Sites*, the County performed additional reviews and assessments in 2014 and 2015 to ensure the adjustment, if any, was accurately reflected in the financial records. There were significant resources allocated to this one-time implementation. • We recommend that the County establish an annual process such that compliance with this standard and other accounting standards regarding environment liabilities is ongoing and part of the routine practice. This could include the development of formal policies, administrative directives, identification of roles and responsibilities, and reporting timelines. (ie – to be included in the budget or recorded in the financial statements) *Management's response:* *The County will build on the successful implementation of PS3260 Liability for Contaminated Sites to ensure ongoing compliance. This will be achieved through further development of a sustainable annual process, which will include continued inter-departmental cooperation and communication.*
Budgeting for contributed TCA	• In our review of the budget, we noted that the County does not budget for contributed TCA. As management is aware of the current and future developments within the County, management should have a good understanding of which developments will be contributed in the year. • We recommend that the County review its current budget process to ensure contributed TCA's are budgeted for and that this information is provided to and approved by Council during its regular budget deliberations. *Management's response:* *An improved forecast of assets to be contributed in future years will support an enhanced understanding of the related further maintenance and replacement costs. This aligns with ongoing County asset management initiatives.* *The County will continue to assess what information can be obtained from third parties and the reliability of that information prior to inclusion of contributed TCA in the budget.*
Operating segments	• We noted that the County uses segments (note 22 in the financial statements) to provide additional information to the users of the financial statements. • We recommend that the County review segmented information presented in the financial statements to ensure that the segments presented are consistent with the segments the County uses to manage operations. *Management's response:* *The County will review the presentation of segmented information in the financial statements and consider amending the segments presented to be consistent with the segments the County uses to manage operations.*

Appendices

Appendix 1: Draft independent auditors’ report

KPMG LLP
Chartered Professional Accountants
10125 – 102 Street
Edmonton AB T5J 3V8
Canada

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Fax (780) 429-7379
Internet www.kpmg.ca

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, 2015, 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, 2015, 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.

Chartered Professional Accountants

April 26, 2016
Edmonton, Canada

Appendix 2: Management representation letter

STRATHCONA COUNTY

Enclosure 1

KPMG LLP
Commerce Place
10125 102 Street
Edmonton, AB T5J 3V8
Canada

April 26, 2016

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, 2015.

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:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 29, 2015, 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, of shareholders, board of directors and committees of the board of directors 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

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

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 and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

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

Yours very truly,

STRATHCONA COUNTY

By: Mr. Gregory J. Yeomans, CPA, CMA, MBA, Chief Financial Officer

By: Ms. 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 Strathcona County
Summary of Corrected Audit Misstatements
For Year Ended December 31, 2015

					Statement of Operations Effect - Debit (Credit)	Statement of Financial Position Effect - Debit (Credit)			
ID	**Description of misstatement**	**Accounts**	**Debit**	**(Credit)**	**Surplus Effect Debit (Credit)**	**Accumulated Surplus**	**Financial Assets**	**Liabilities**	**Non-Financial Assets**
SAM1	To adjust for a portion of project 500426 that was not approved for funding until February 3, 2016.	Deferred Revenue	1,584,729	-	-	-	-	1,584,729	-
		Accounts Receivable	-	(1,584,729)	-	-	(1,584,729)	-	-
	Total effect of corrected audit misstatements – Final				**-**	**-**	**(1,584,729)**	**1,584,729**	**-**

Appendix 3: 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 http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx for more information.

- 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 4: 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.