

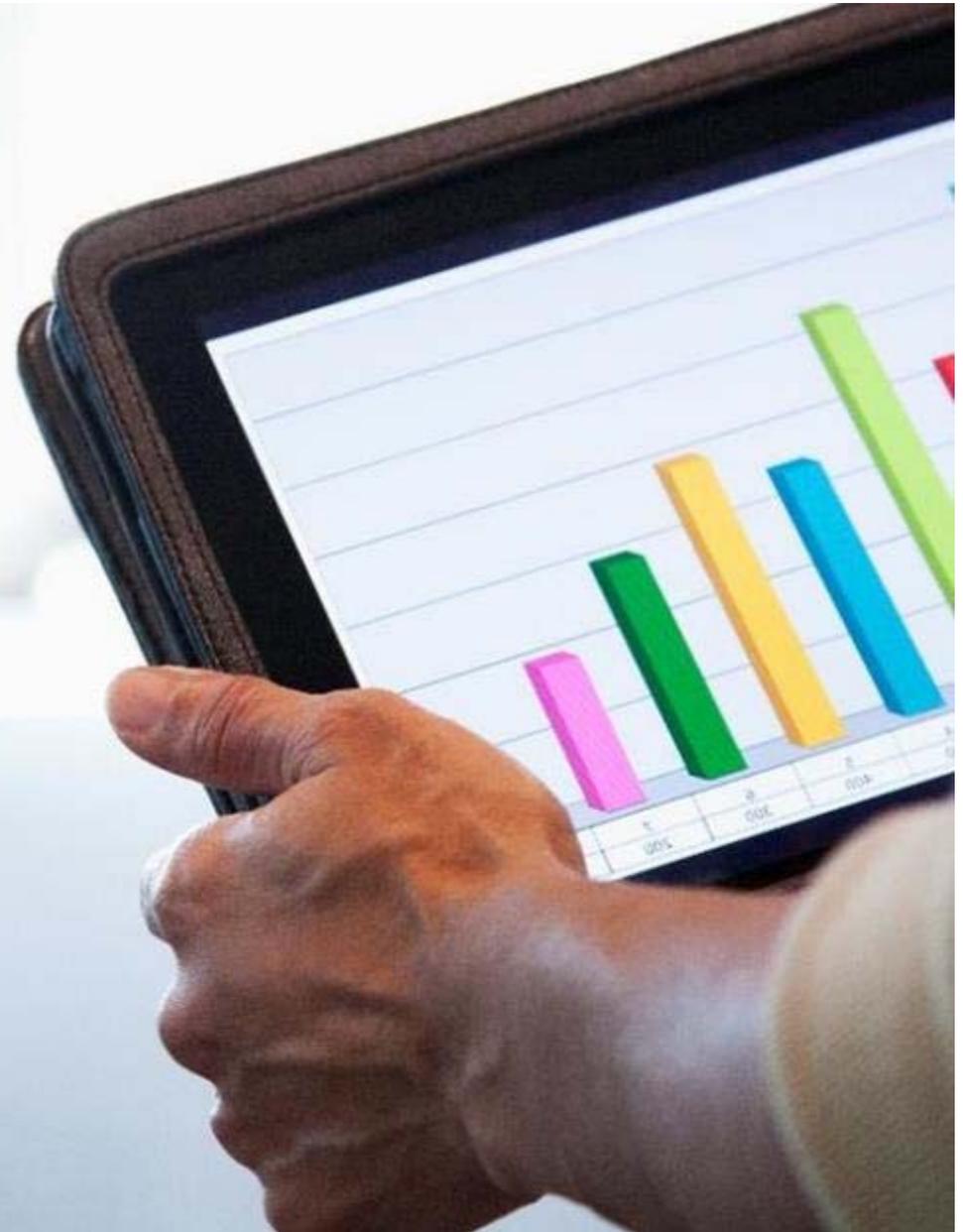


City of Spruce Grove

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

KPMG LLP

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

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

Audit testing conducted during an external audit responds to audit risk (i.e. the risk that financial statements are materially misstated and the external audit does not detect this), and audit procedures are designed to reduce audit risk to an acceptably low level.

Audit materiality

Materiality has been determined based on budgeted expenditures for the year. We have determined materiality to be \$2.76 million for the year ending December 31, 2018 (2017 - \$2.6 million).

Areas of audit focus

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

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

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

Independence

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

Current developments

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

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

This Audit Planning Report should not be used for any other purpose or by anyone other than City Management and the Mayor and Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit materiality

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and consolidated financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total actual or budgeted revenues or expenditures and accumulated surplus.	
Benchmark	Based on budgeted expenditures for the year. This benchmark is consistent with the prior year. The corresponding amount for the prior year was \$88 million.	\$92 million
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year was \$2.6 million.	\$2.76 million
% of Benchmark	The corresponding percentage for the prior year was 3%.	3%
Performance materiality	Calculated as 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year was \$1.95 million.	\$2.07 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year was \$130,000.	\$138,000

Professional standards require us to re-assess materiality at the completion of our external audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate. Our assessment of misstatements, if any, in amounts or disclosures at the completion of our external audit will include the consideration of both quantitative and qualitative factors.

Areas of audit focus

Areas of focus	Why	Our audit approach
Recognition of revenue amounts subject to external restrictions	There is a risk of inappropriate revenue recognition of amounts received with external restrictions attached to them (special taxes and levies, government transfers and other amounts).	We will review the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We will confirm all significant government transfers or other similar inflows, examine related agreements, and review the developer levy model, including the list of active development arrangements and the corresponding levies.
Completeness, existence and accuracy of property tax revenue	There is a risk that property assessments and approved tax rates are not applied appropriately.	We will evaluate the application of approved tax rates and assessment through the tax roll.
Accuracy and valuation of investments	There is a risk that investments are not appropriately valued; specifically, impairment of investments is not appropriately assessed and valuation adjustments are not recorded where appropriate.	We will verify through confirmation of investment accounts the cost and market value of investments. We will recalculate investment premiums/discounts for investments recorded at amortized cost. We will review management's assessment of impairment and consider if any potential impairment of the investments exists. We will review the portfolio of investments to ensure in compliance with the City's risk management and investment policies.
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.	We will evaluate controls over how the City captures tangible capital assets which are contributed from developers and other parties. We will review a sample of developments which have been contributed to the City during the year to ensure contributed tangible capital assets have been appropriately recorded. We will also review a sample of developments currently ongoing in the City to ensure that they are appropriately not recorded as contributed during the year. We will review the value ascribed to assets contributed and donated to the City for reasonableness.
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.	We will use our understanding of the City's operations, our discussions with management and our review of Council minutes to determine if completeness of accruals has been achieved as at December 31, 2018. Our year-end procedures will include a search for unrecorded liabilities (primarily through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals.

Areas of audit focus (continued)

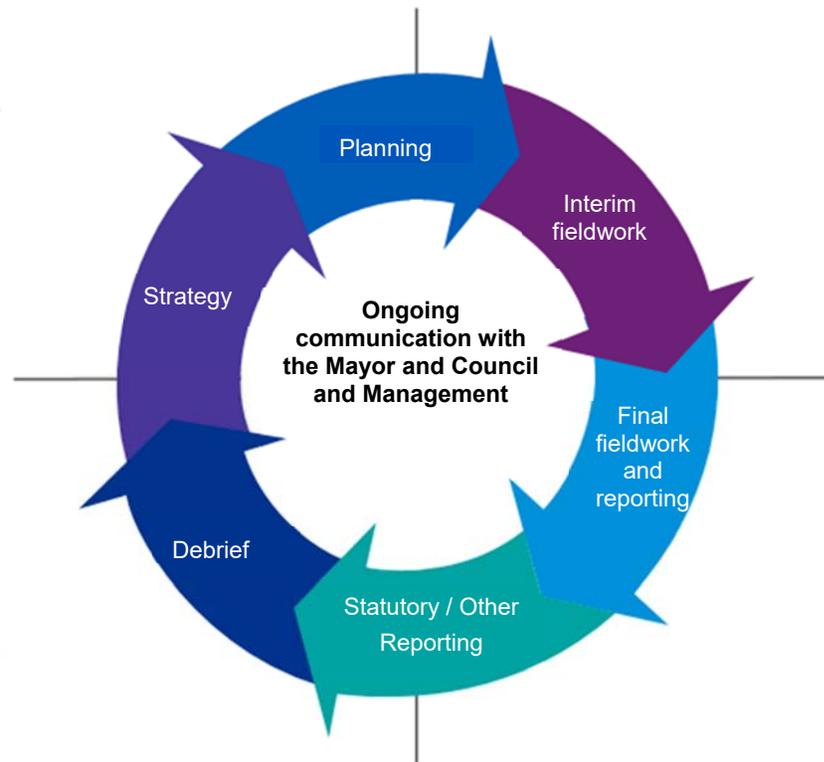
Areas of focus	Why	Our audit approach
Existence and accuracy of capital expenditures related to approved capital projects	There is a risk that capital expenditures are not appropriately recorded in the financial statements and are not appropriately recorded related to approved capital projects.	We will review a sample of capital expenditures and ensured they were applied against the appropriate capital projects.
Completeness and accuracy of environmental obligations and other contingencies	There is a risk that environmental obligations and other contingent liabilities are not appropriately identified and reasonably estimated.	<p>The City has developed an estimate of environmental obligations, other contingencies, and specifically, environmental liabilities. We will review and test the estimate as applicable for the year-end audit.</p> <p>We will conduct direct communication with the relevant City departments that all significant contingent liabilities including environmental obligations are appropriately disclosed and/or recorded.</p> <p>We will review significant findings with management and legal counsel, as required.</p>
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits note disclosures are not complete and accurately reported.	We will review a sample of employment and other contractual arrangements to ensure salaries and benefits disclosures are appropriate.
Risk from management override of controls	<p>This is a presumed risk.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

- To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Our timeline is in line with prior year.



Planning meetings:

Management: September 2018

Mayor and Council: October 22, 2018

Interim fieldwork: November 5 - 9, 2018

Final fieldwork: March 11 – 22, 2018

Closing meetings:

Management: early April 2019

Mayor and Council: April 22, 2019

Reporting Deadlines:

Audit report on financial statements by May 1, 2019

FIR & FCSS by May 1, 2019

LAPP & APEX by June 30, 2019

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

Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Current developments

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

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, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 2: KPMG's audit approach and methodology

Technology-enabled audit workflow (eAudit)

Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Mayor and Council communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

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

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter.
- **Audit planning report** – as attached.
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to Management and the Mayor and Council.
- **Audit findings report** – at the completion of our audit, we will provide a report to Management and the Mayor and Council.

Appendix 4: Current developments

Standard	Summary and implications
PS2200, Related Party Disclosures	Requires disclosure of the effect of financially material transactions between related parties. Effective for fiscal periods beginning on or after April 1, 2017.
PS3420, Inter-Entity Transactions	Provides how to account for and report transactions between entities controlled by a government and that comprise the government's reporting entity from both a provider and a recipient perspective. Effective for fiscal periods beginning on or after April 1, 2017.
PS3210, Assets	Provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Effective for fiscal periods beginning on or after April 1, 2017.
PS3320, Contingent Assets	Defines and establishes disclosure standards on contingent assets. Effective for fiscal periods beginning on or after April 1, 2017.
PS3380, Contractual Rights	Defines and establishes disclosure standards on contractual rights. Effective for fiscal periods beginning on or after April 1, 2017.
PS3430, Restructuring Provisions	Establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Effective for fiscal periods beginning on or after April 1, 2018.
PS1201, Financial Statement Presentation	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations. Effective for fiscal periods beginning on or after April 1, 2021.
PS3450, Financial Instruments	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations. Effective for fiscal periods beginning on or after April 1, 2021.
PS2601, Foreign Currency Translation	The new standard requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of remeasurement gains and losses. Effective for fiscal periods beginning on or after April 1, 2021.
PS3041, Portfolio Investments	The new standard has removed the distinction between temporary and portfolio investments. This standard now includes pooled investments in its scope and was amended to conform to Financial Instruments, PS3450. Upon adoption of PS3450 and PS3041, PS3030 Temporary Investments will no longer apply. Effective for fiscal periods beginning on or after April 1, 2021.
PS3280, Asset Retirement Obligations	The new standard defines and establishes measurement and disclosure standards for asset retirement obligations. Effective for periods beginning on or After April 1, 2021.

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