City of Edmonton

Audit Planning Report for the year ended December 31, 2018

KPMG LLP

Prepared as of October 29, 2018 for Audit Committee on November 9, 2018

kpmg.ca/audit

Table of contents

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Executive summary

External audit responsibilities

KPMG has been appointed external auditor of the consolidated statements of the City of Edmonton (the "City") for the year ending December 31, 2018. In addition, we have been engaged to report on the following for the year ending December 31, 2018:

- City of Edmonton combined Pension Fund financial statements;
- City of Edmonton Pension Fund Financial Statements for the Firefighters Supplementary Pension Fund which is prepared to comply with Section 14(3) of the Employee Pension Plan Act (Alberta) R.S.A. 2000, C.E-8, as amended;
- City of Edmonton Employee Benefit Plans including individual statements for the Group Life Plan, Dependent Group Life Plan, Dental Plan, Long Term Disability Plan and Major Medical and Supplementary Hospital Plan;
- City of Edmonton 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;
- Local Authorities Pension Plan (LAPP) and Special Forces Pension Plan (SFPP) compliance reporting;
- Family and Community Support Services (FCSS) grant compliance reporting; and
- Summer Temporary Employment Program (STEP) grant compliance reporting.

Materiality

Materiality has been determined based on budgeted expenses. We have determined group materiality to be $90 million.

See page 5

Group audit scope

The City is organized into various business areas ("BA") each responsible for managing the delivery of program services. Consistently, financial information is prepared at the BA level to be included in the group financial statements. As such, each individual BA meets the definition of a component. The components we have identified as individually significant are as follows:

- Corporate Programs;
- Police Services;
- Parks and Road Services and Edmonton Transit Services;
- Facility Services; and
- EPCOR (controlled subsidiary).

See page 6

Executive summary

Areas of audit focus

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Recognition of revenue amounts subject to external restrictions;
- Valuation of investments;
- Completeness and accuracy of contributions of tangible assets;
- Completeness of transfer of tangible capital assets under construction to available for use;
- Completeness and accuracy of accounts payable and accrued liabilities;
- Existence of developer obligation liabilities; and
- Implementation of new Public Sector Accounting Standards (PSAS).

See pages 7 to 9

Independence & Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

A collective approach

We are working closely with the Office of the City Auditor to ensure any findings appropriately considered in our risk assessment and planned audit procedures. We will continue to liaise periodically with the Office of the City Auditor.

Current developments and audit trends

Please refer to pages 11 to 12 for relevant accounting and/or auditing changes relevant to the City and relevant audit trends..

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. 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.

Materiality

Materiality Benchmark

Budgeted expenses

$3,000 million

(2017: $2,900 million)

Materiality

$90 million

3% of budgeted expenses

(2017: $85 million, 3% of budgeted expenses)

$4.5 million
(2017: $4 million)

$90 million
(2017: $85 million)

- Misstatements reported to the audit committee
- Materiality for the financial statements as a whole

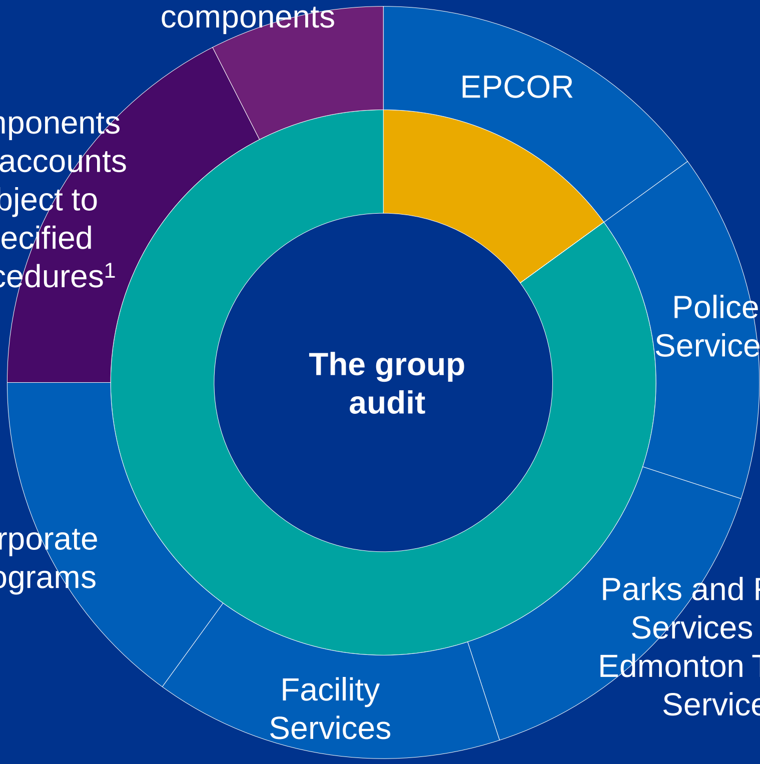
Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report:

- Corrected audit misstatements
- Uncorrected audit misstatements

Group Audit Scope



Type of work performed	Legend
Financially significant components: full scope audit performed due to the component's relative proportion to the overall financial results of the group	
Significant due to presence of significant risk (none): not otherwise financially significant, but in scope due to the presence of significant risks of error or fraud	
Subject to specified procedures: not financially significant, but certain substantive procedures deemed necessary in order to reduce aggregation risk to an acceptably low level	
Non-significant components: not financially significant and specified procedures are not deemed necessary over any underlying account balances when considering residual aggregation risk at the group level	

Procedures performed by	Legend
Group team – KPMG Edmonton	
Component auditors of EPCOR – KPMG Edmonton	

[1] Substantive procedures deemed necessary to issue our audit opinion on the consolidated financial statements. Specified audit procedures will be performed for the following financial statement captions:

- Salaries, wages and benefits;
- Investment earnings;
- Cash and temporary investments;
- Investments;
- Land for resale;
- Tangible capital assets;
- Accounts payable and accrued liabilities; and
- Long-term debt

Areas of audit focus

Professional Requirements	Why is it significant?
Fraud risk from revenue recognition.	This is a presumed fraud risk. We have rebutted this risk for the City given revenue does not involve elements of significant judgment. As a result, we have not identified a risk of material misstatement of revenue due to fraudulent financial reporting by management.
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

- As this risk has been rebutted, our audit methodology in relation to revenue is limited to analytical procedures, review of the recognition of amounts subject to external restrictions and external confirmations of significant revenue inflows.
- 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.

Areas of audit focus (continued)

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 (taxes, government transfers and other amounts).	▪ We will test the recognition of amounts subject to external restrictions. ▪ We will confirm on a test basis government transfers or other similar inflows and examine related agreements.
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 test the existence and accuracy 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 test management's assessment of impairment and consider if any potential impairment of the investments exists.
Completeness and accuracy of contributions of tangible assets	There is a risk that contributions of tangible capital assets are not appropriately recorded.	▪ We will obtain an understanding of the process by which departments capture tangible capital assets which are contributed from developers and other parties and assess the consistency of the process applied across all departments. ▪ We will test a sample of developments which have been completed by the City during the year to assess whether contributed tangible capital assets have been appropriately recorded. ▪ We will test the value ascribed to assets contributed and donated to the City, including tangible capital assets transferred by Northlands to the City (net of loan extinguishment).
Completeness of transfer of tangible capital assets under construction to available for use	There is a risk that tangible capital assets under construction are not appropriately transferred to tangible capital assets and amortized once available for use.	▪ We will evaluate the City's capitalization process to ensure appropriate communication is taking place between project managers and finance with respect to when a tangible capital asset is available for use. ▪ We will perform a high-level review of projects included in Tangible Capital Assets-Under-Construction ("AUC") to ensure selected tangible capital assets are appropriately classified and amortized when available for use.

Areas of audit focus (continued)

Areas of focus	Why	Our audit approach
Completeness and accuracy of accounts payable and accrued liabilities	There is a risk that appropriate cut-off of accrued liabilities is not achieved.	▪ We will use our understanding of the City's operations, our discussions with management and our review of City Council and various City Committee meeting 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.
Existence of developer obligation liabilities	There is a risk that developer obligation liabilities are not properly being derecognized as a liability upon project initiation.	▪ We will obtain an understanding of the process of regular review performed over the developer obligation fund accounts, including management's monitoring of projects that the City has assumed responsibility over. ▪ We will review a sample of developer obligation liabilities and verify the details of the associated project, including status and ownership.
New Public Sector Accounting Standards (PSAS) implementation of: ▪ PS2200 Related Party Disclosures ▪ PS3420 Inter-Entity Transactions ▪ PS3210 Assets ▪ PS3320 Contingent Assets ▪ PS3380 Contractual Rights	There is a risk that the new accounting standards are not implemented appropriately and therefore accounting treatment and/or disclosures are inaccurate or incomplete.	▪ We will gain an understanding of management's implementation process of the new PSAS standards. ▪ We will evaluate any critical assumptions made within management's assessment of the implementation of the new standards and, on a test basis, obtain supporting documentation to evaluate the critical assumptions. ▪ We will review significant findings with management, internal legal counsel and internal specialists/subject matter experts, as applicable.

Key deliverables and milestones

September	October	November	December	January	February	March	April
	Audit planning report presentation (Nov 9)				Year-end fieldwork		2018 audit report (Apr 12)
Planning year-end 2018 audit		Interim fieldwork (Nov 5 – 9)				Year-end fieldwork Closing meeting by Mar 31	

Current developments and audit trends

The following is a summary of the current developments that are relevant to the City:

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.
PS3400, Revenue	The new standard provides guidance on two categories of revenue: 1) exchange transactions; and 2) Unilateral (non-exchange) transactions. Effective for periods beginning on or after April 1, 2022.

Current developments and audit trends (continued)

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
Audit Quality 2017	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report

The 2018 Auditors' Report

Highlights of changes to your 2018 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section

Separate section on "Other Information" (e.g. Financial statement discussion and analysis)

Expanded descriptions of management's, including those related to assessing the Entity's ability to continue as a going concern

New description of responsibilities of those charged with governance

Expanded descriptions of management's, those charged with governance and auditors' responsibilities

Key audit matter reporting

Communicating the key audit matters (KAMs) apply for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance, that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.

Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.

Appendices

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
- 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.

We do not offer services that would impair our independence.

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.

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.

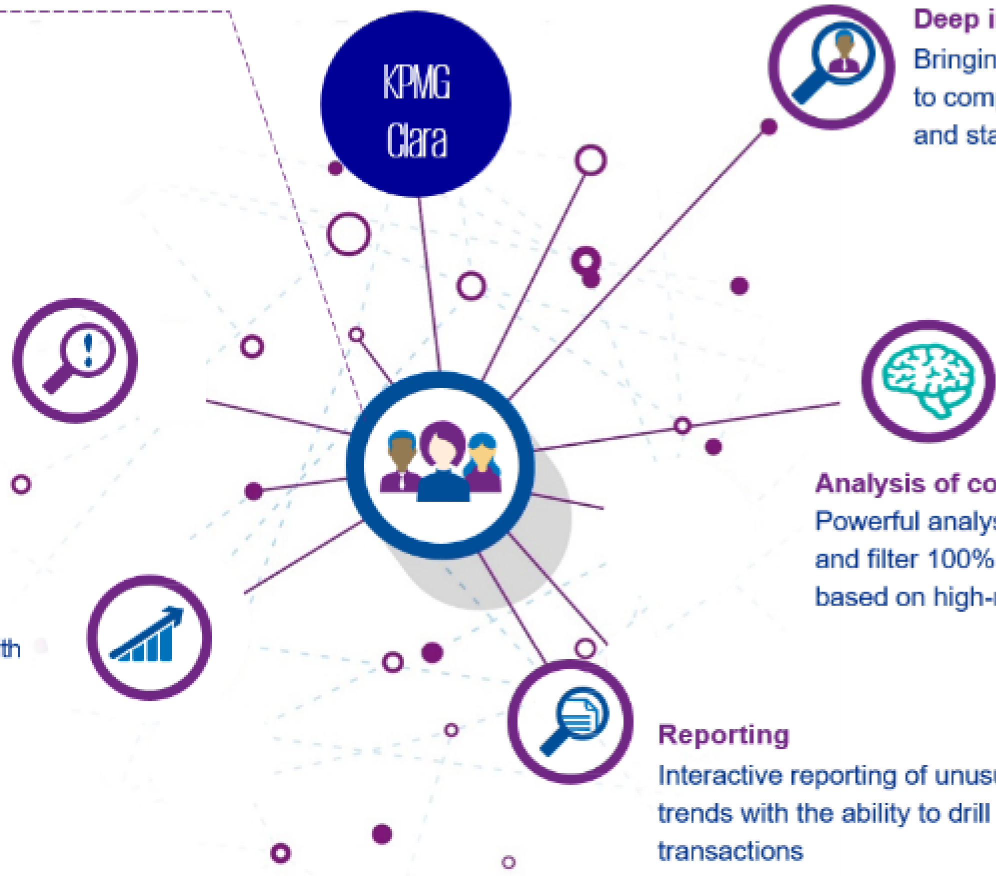
Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification
Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers



Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 3: 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:

Statement of work

The objectives of the audit, our responsibilities in carrying out our audit are set out in the statement of work.

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 the Audit Committee.

Audit planning report

As attached

Audit findings report

At the completion of our audit, we will provide a report to the Audit Committee

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

Annual independence letter

At the completion of our audit, we will provide a letter to the Audit Committee

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

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