

City of Edmonton

Audit Planning Report
for the year ended December 31, 2021

KPMG LLP

Prepared for the Audit Committee meeting on
December 3, 2021

kpmg.ca/audit



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Executive summary

Group audit scope

Our audit of the City of Edmonton (the “City”) consists of five in-scope components over which we plan to perform full scope audit procedures.

In addition, specified audit procedures will be performed over certain financial statement captions deemed necessary to issue our audit opinion.

A collective approach

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

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.

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements. We have determined group materiality to be \$94 million (2020 - \$94 million). Refer to page 3.

Areas of audit focus

Our audit is risk focused. In planning our audit, we have identified areas of financial reporting where significant risks of material misstatement may arise. These include:

- Presumption of the risk of fraud involving improper revenue recognition
- Presumption of the risk of fraud resulting from management override of controls

Other areas of focus include:

- Recognition of revenue amounts subject to external restrictions
- Valuation of investments
- Completeness and accuracy of contributed tangible capital 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
- Upcoming asset retirement obligation ('ARO') standard

Refer to pages 4 to 6.

Newly effective accounting and auditing standards

There are no new relevant accounting or auditing standards that will impact the December 31, 2021 year-end.

Refer to Appendix 2 for accounting changes coming in future years.

This report to the Audit Committee is intended solely for the information and use of management and the Audit Committee and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the audit committee has to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

External reporting responsibilities

We have been engaged to inspect the records and accounts of the City as at and for the year ended December 31, 2021 and to provide an opinion on whether its consolidated financial statements are fairly stated in accordance with Canadian public sector accounting standards.

In addition, we have been engaged to report on the following for the year ending December 31, 2021:

- Financial statements of the City of Edmonton combined Pension Fund financial statements;
- Financial statements of the 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;
- Financial statements of the 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 Fund;
- 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;
- Family and Community Support Services (FCSS) grant reporting; and
- Social Supports to Communities for COVID-19 Response grant reporting.

Further, we have been separately engaged and will report on the following entities for the year ended December 31, 2021 which are included within the consolidated financial statements of the City:

- EPCOR Utilities Inc.;
- The City of Edmonton Library Board;
- The City of Edmonton Non-Profit Housing Corporation;
- 2492369 Canada Corporation (operating as Waste RE-Solutions Edmonton);
- Explore Edmonton Corporation; and
- Innovate Edmonton.

Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate 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. Refer to page 9 for our component materiality.

Materiality determination	Comments	Group amount 2021	Group amount 2020
Metrics	Relevant metrics include 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.	\$3,200 million	\$3,180 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 consolidated financial statements.	\$94 million	\$94 million
% of Benchmark		2.9%	2.9%
Performance Materiality	Calculated as 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$70.5 million	\$70.5 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$4.7 million	\$4.7 million

We will report to the Audit Committee:



Uncorrected audit misstatements

Areas of audit focus

Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



Other areas of focus	Why are we focusing here?	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).	<ul style="list-style-type: none"> We will test the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We will confirm all significant government transfers and other similar inflows received from third parties. On a sample basis, we will validate that the expenses incurred in the period are in compliance with restrictions imposed by third parties through an inspection of signed agreements and related invoices.
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.	<ul style="list-style-type: none"> 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 test management's assessment of impairment and consider if any potential impairment of the investments exists.
Completeness and accuracy of contributed tangible capital assets	There is a risk that contributions of tangible capital assets are not appropriately recorded in the consolidated financial statements.	<ul style="list-style-type: none"> 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 contributed to 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 for reasonableness. 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.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?	Our audit approach
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.	<ul style="list-style-type: none"> We will evaluate the City's capitalization process to ensure appropriate communication is taking place between 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 to ensure selected tangible capital assets are appropriately classified and amortized once available for use.
Completeness and accuracy of accounts payable and accrued liabilities	There is a risk that appropriate cut-off of accounts payable and accrued liabilities is not achieved.	<ul style="list-style-type: none"> We will use our understanding of the City's operations, our discussions with management and our review of City Council and City Committee minutes to determine if completeness of accruals has been achieved. 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 being appropriately derecognized as a liability upon project initiation.	<ul style="list-style-type: none"> We will obtain an understanding of the process of regular review over the developer obligation fund accounts, including management's monitoring of projects that the City has assumed responsibility over. We will test a sample of developer obligation liabilities and verify the details of the associated project, including status and ownership.
Upcoming asset retirement obligation ("ARO") standard	The ARO standard will have a significant impact on the public sector when it comes into effect in fiscal 2023.	<ul style="list-style-type: none"> We will continue to discuss the City's project plan for implementation of this standard with management to determine the potential impact on the consolidated financial statements. We will share Thought Leadership as it becomes available and connect City management with KPMG experts on this topic, as applicable. Refer to Appendix 2 for additional information.

Areas of audit focus (continued)

Professional requirement – significant risk	Why is it significant?
Risk of material misstatement resulting from fraudulent revenue recognition.	<p>This is a presumed risk of material misstatement due to fraud.</p> <p>We have not identified any risks of material misstatement resulting from fraudulent revenue recognition.</p>
Our audit approach <p>The risk of fraud from revenue recognition has been rebutted given revenue does not involve elements of significant judgment. 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.</p>	
Professional requirement – significant risk	Why is it significant?
Fraud risk from management override of controls.	<p>This is a presumed risk of material misstatement due to fraud.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>
Our audit approach <p>As this presumed risk of material misstatement due to fraud 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.</p>	

Key milestones and deliverables

Our key activities during the year are designed to achieve our one principle objective: to provide a robust audit, efficiently delivered by a high-quality team focused on key issues. Our timeline is in line with the prior year.



Planning meetings:

- Management: October-November 2021
- Audit Committee: December 3, 2021

Fieldwork:

- Interim: November 1 to 5, 2021
- Year-end: February 21 to March 25, 2022

Closing meetings:

- Management: by March 25, 2022
- Audit Committee: April 2022 (TBD)

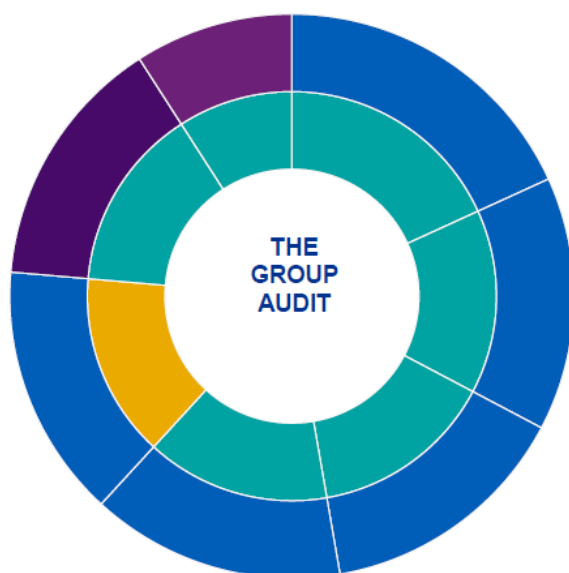
Reporting Deadlines:

- Audit report on consolidated financial statements: by April 30, 2022

Debrief and strategy discussions:

- Management: by June 30, 2022

Group audit – scope



Type of work performed	Components	Legend
Individually financially significant	Transportation Services	
	Police Services	
	Facility Services	
	Corporate Programs	
	EPCOR Utilities Inc.	
In-scope not significant	Components with accounts subject to specified procedures ¹	
Not significant – Untested	Not applicable	

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

¹ Substantive audit procedures deemed necessary to issue our audit opinion on the consolidated financial statements. Such procedures will be performed over the following financial statement captions:

- Salaries, wages and benefits
- Cash and cash equivalents
- Investments
- Investment earnings
- Land held for resale
- Tangible capital assets
- Accounts payable and accrued liabilities
- Long-term debt

Group audit – component materiality

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality for each individually financially significant component.

Individually financially significant component	Component materiality	Component performance materiality	Component AMPT
Corporate Programs	\$74 million	\$55.5 million	\$3.7 million
Transportation services	\$64 million	\$48 million	\$3.2 million
EPCOR Utilities	\$50 million	\$37.5 million	\$2.5 million
Police services	\$41 million	\$30.75 million	\$2.05 million
Facility Services	\$41 million	\$30.75 million	\$2.05 million

Appendices

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Appendix 2: PSAB Accounting Update

Appendix 3: Audit and Assurance Insights

Appendix 4: Audit Quality: How do we delivery audit quality?

Appendix 1: Required Communications



Statement of work

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, 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

This report.



Audit findings report

At the completion of our audit, we will provide our audit findings to management and the Audit Committee.



Control deficiencies

On a timely basis, identified significant deficiencies will be communicated to the Audit Committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.



Annual independence letter

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

CPAB Communication Protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of recent quality inspections in Canada:

- [Audit Quality Insights Report: 2020 Annual Audit Quality Assessments](#)
- [CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic](#)
- [CPAB Audit Quality Insights Report: 2020 Interim Inspection Results](#)

Appendix 2: PSAB Accounting Update

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> – The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 <i>Financial Instruments</i> which were included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB approved other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 <i>Financial Instruments</i> which were included in the Handbook in the Spring of 2021.
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, <i>Employee Benefits</i> in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Standard	Summary and implications
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023 and may be applied retroactively or prospectively. The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. In addition, PSAB is proposing: <ul style="list-style-type: none"> Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. Separating liabilities into financial liabilities and non-financial liabilities. Restructuring the statement of financial position to present non-financial assets before liabilities. Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. A new provision whereby an entity can use an amended budget in certain circumstances. Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none"> – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
2022 – 2027 Strategic Plan	<ul style="list-style-type: none"> – PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities – The Strategic Plan emphasizes four key priorities: – Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. – Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. – Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. – Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

Appendix 3: Audit and Assurance Insights

Our latest thinking on the issues that matter most to audit committees, board of directors and management.

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>Accelerate</u>	The key issues driving the audit committee agenda in the time of COVID-19
<u>Board Leadership Centre</u>	Supporting you in your Director role
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>KPMG Global IFRS Institute</u>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
<u>KPMG Climate Change Financial Reporting Resource Centre</u>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<u>You can't go green without blue - The blue economy is critical to all companies' ESG ambitions</u>	In this report, we consider how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.
<u>The future of local government: embracing connectivity and customer centricity</u>	We invite you to explore this page and unpack KPMG's global research and insights on <i>The future of local government</i> .

Appendix 4: Audit Quality: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

‘Perform quality engagements’ sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define ‘**audit quality**’ as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



Transparency report



Doing the right thing. Always.



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KPMG member firms around the world have 227,000 professionals in 146 countries.

