



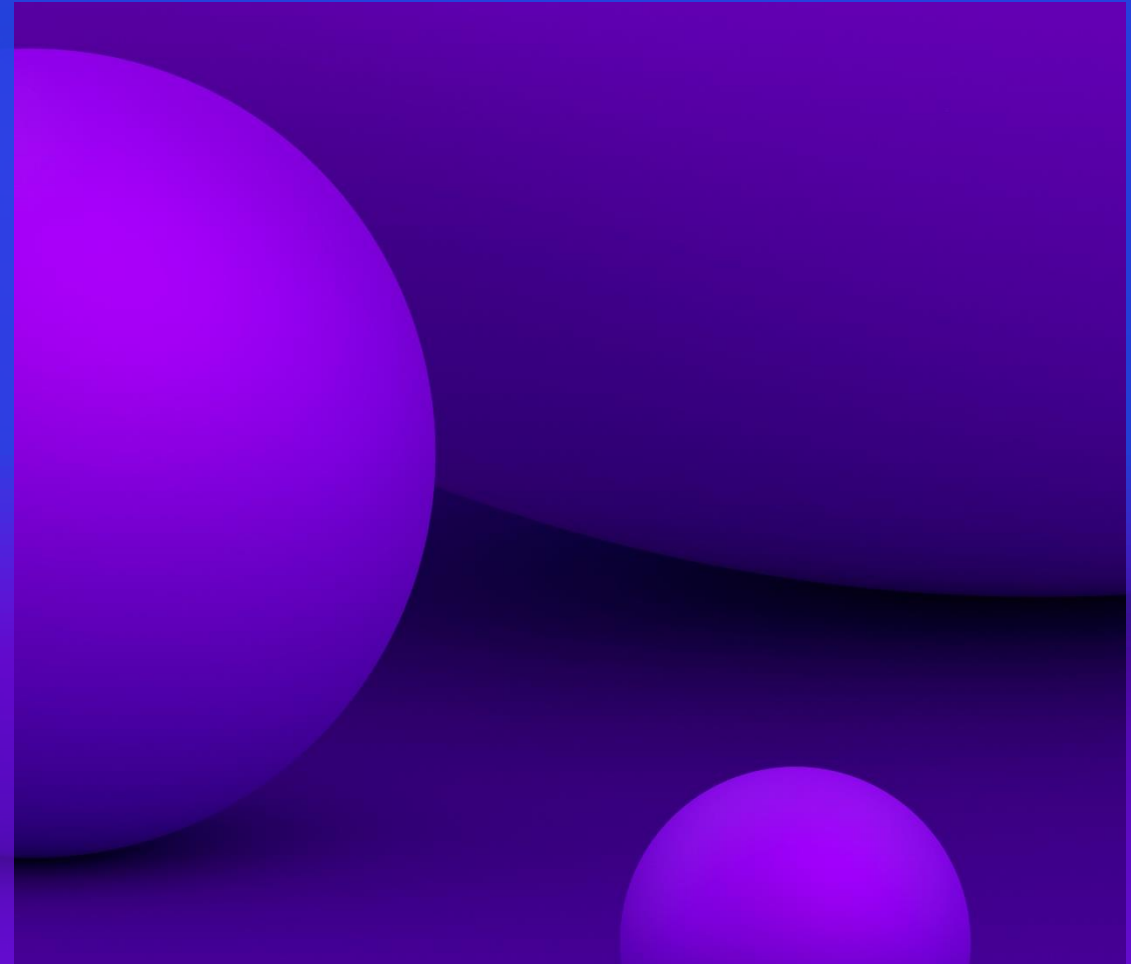
City of Edmonton

**Audit Planning Report
for the year ending
December 31, 2023**

KPMG LLP

Prepared for the meeting of the Audit Committee on
November 30, 2023

kpmg.ca/audit



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Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.



Click on any item in the table of contents to navigate to that section.

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit Committee, the Mayor and Council 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 not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit highlights

Scope of Work

Our audit of the consolidated financial statements (“financial statements”) of the City of Edmonton (“the City”) as of and for the year ending December 31, 2023, will be performed in accordance with Canadian generally accepted auditing standards (“CASs”). In addition to our audit of the financial statements of the City, we have been engaged to report on the following for the year ending December 31, 2023:

- 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;
- Local Authorities Pension Plan compliance reporting; and
- Special Forces Pension Plan compliance reporting.

Further, we have been separately engaged and will report on the following entities for the year ended December 31, 2023 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;
- Explore Edmonton Corporation; and
- Edmonton Unlimited.



Audit highlights



No matters to report



Matters to report – see link for details

Audit strategy

Materiality \$98,000,000

Involvement of others

Updates to our prior year audit plan

We continue to work 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.

Risk assessment

Risk of management override of controls

Other significant risks

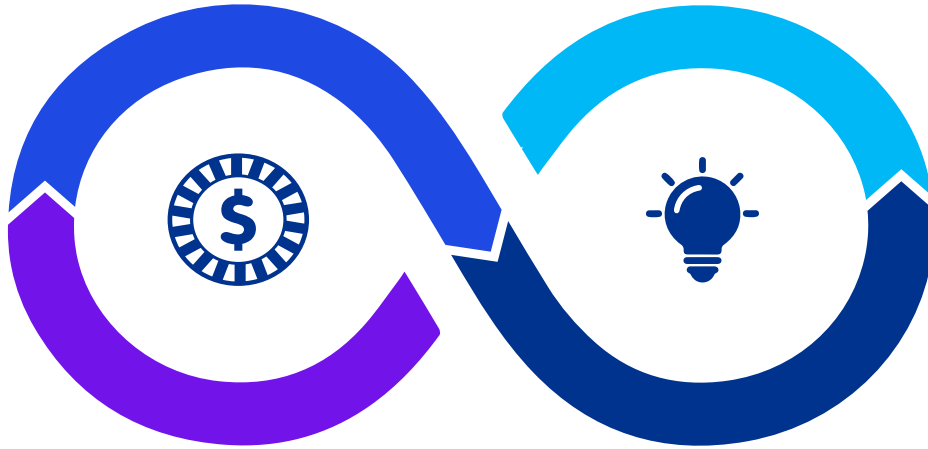
Presumed risk of fraudulent revenue recognition

Other risks of material misstatement





Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

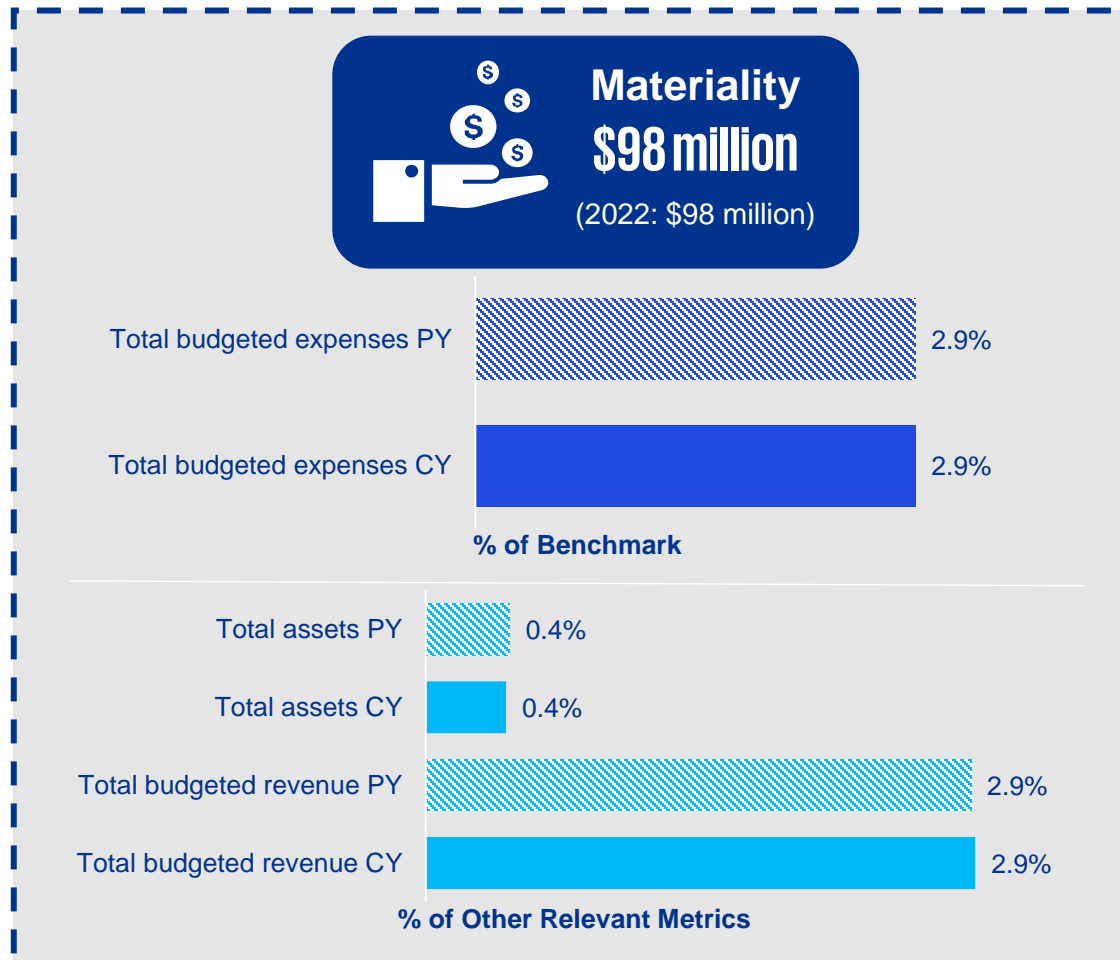
Evaluate the effect of misstatements

We also **use materiality** to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.



Initial materiality



Total budgeted expenses

\$3.4 billion

(2022: \$3.4 billion)

Total budgeted revenue

\$3.4 billion

(2022: \$3.4 billion)

Total estimated assets

\$23.0 billion

(2022: \$21.9 billion)



Updates to our prior year audit plan

New significant risks



Significant risks



There are no changes in our risk assessments, either with respect to our identification of significant risks or our areas of focus. Refer to slide 11 for further discussion of our areas of focus for the current period audit.

Other significant changes



Newly effective accounting standards



PS 3280 *Asset Retirement Obligations*, is required to be adopted for the year ending December 31, 2023. Under the new standard, asset retirement obligations associated with post-retirement maintenance and monitoring costs of tangible capital assets are required to be recognized within the financial statements. The initial adoption of this standard requires the expertise of finance, legal and operational personnel, in order to completely identify existing asset retirement obligations and determine the associated measurement. Our planned audit approach will include:

- Assessment of the completeness of the assets analyzed, by management, for asset retirement obligations;
- Evaluation of the method used by management to calculate the liability on transition and as at the current period;
- Evaluation of key assumptions used by management to estimate the measurement of asset retirement obligations, such as costs associated with remediation activities, timing of remediation and discount rates;
- Recalculation of asset retirement obligations; and
- Review of disclosures included within the financial statements.

Our audit work is focused on material transactions and is performed on a test basis.





Additionally, the following standards are effective for the year ending December 31, 2023:

- PS 3450 *Financial instruments*
- PS 3041 *Portfolio investments*
- PS 1201 *Financial statement presentation*
- PS 2601 *Foreign currency translation*
- Amendments to PS 3050 *Loans Receivable*

The adoption of these standards will result in changes to the presentation of the financial statements, with the introduction of the Statement of Remeasurement Gains and Losses and other note disclosures. Management is currently assessing the impact on the recognition and measurement of these standards. Incremental time and effort will be required during the audit to address the City's assessment and adoption of these standards.



Group audit - Scoping

Type of work performed	Total assets	Total revenue
Total full-scope audits	82% 	80% 
Total specified audit procedures	6% 	3% 
Total work performed	88%	83%
Untested	12% 	17% 
Total consolidated	100%	100%

Business units subject to full-scope audits includes:

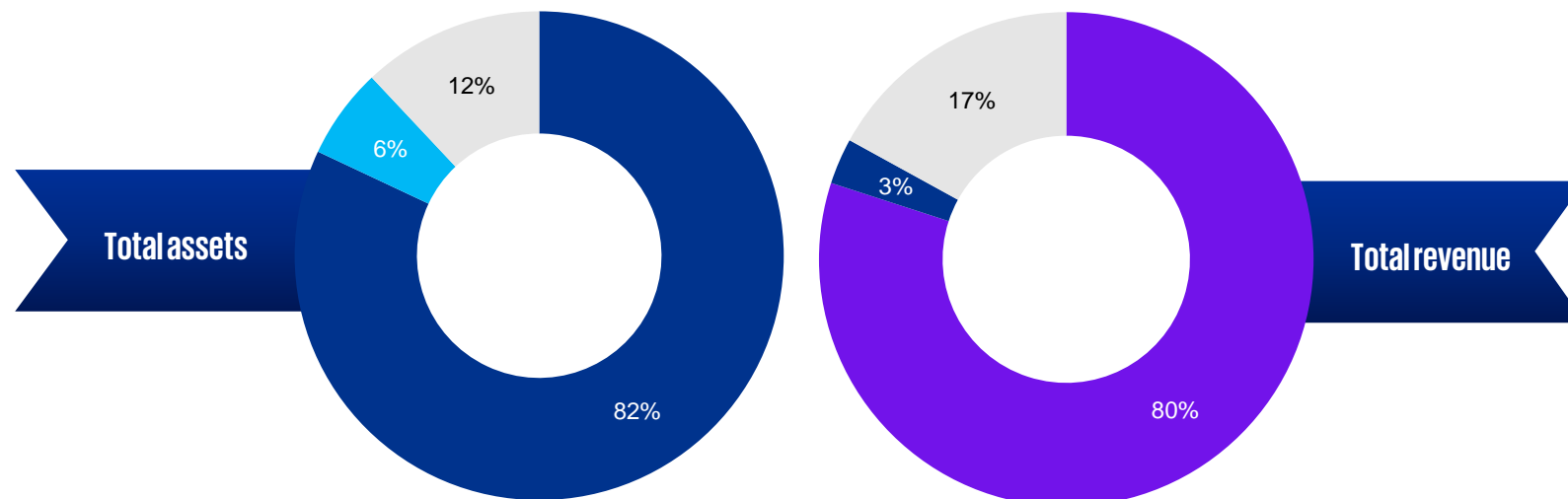
- Transportation Services
- Police Services
- Facility Services
- Corporate Programs
- EPCOR Utilities

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

Business units subject to specified audit procedures

include those where additional substantive audit procedures are 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





Significant risks



Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF



FRAUD

Why is it significant?

Presumption of the risk of fraud resulting from management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our planned response

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
- evaluating the business rationale of significant unusual transactions.

Advanced technologies

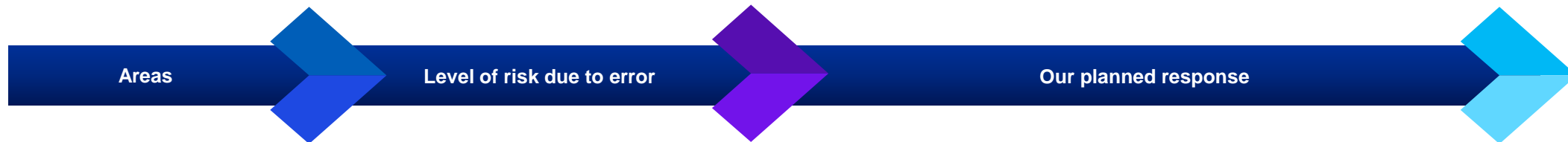
Our KPMG Clara Journal Entry Analysis Tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.



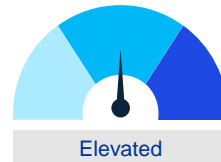
[Click to learn more](#)



Other risks of material misstatement



Recognition of revenue amounts subject to external restrictions



Revenue may not be appropriately recognized for amounts received with external restrictions attached to them, such as special taxes and levies, government transfers and other amounts. Our planned audit response includes:

- Testing the recognition of amounts subject to external restrictions to ensure they are recognized appropriately.
- Confirming all significant government transfers and other similar inflows received from third parties.
- Validating 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. This will be done on a sample basis.

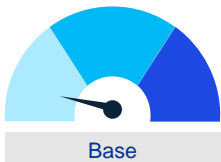
Valuation of investments



With the implementation of new accounting standards with respect to the valuation of investments, there is a risk that investments are not appropriately valued. Specifically, impairment of investments may not appropriately assessed, and valuation adjustments are not recorded where appropriate. Our planned audit response includes:

- Confirming investment accounts with investment custodians.
- Perform procedures over the year end valuation of investments, including agreeing key assumptions and data to third-party information.
- Testing management's assessment of impairment and consider if any potential impairment of the investments exists.

Completeness of transfer of tangible capital assets under construction to available for use

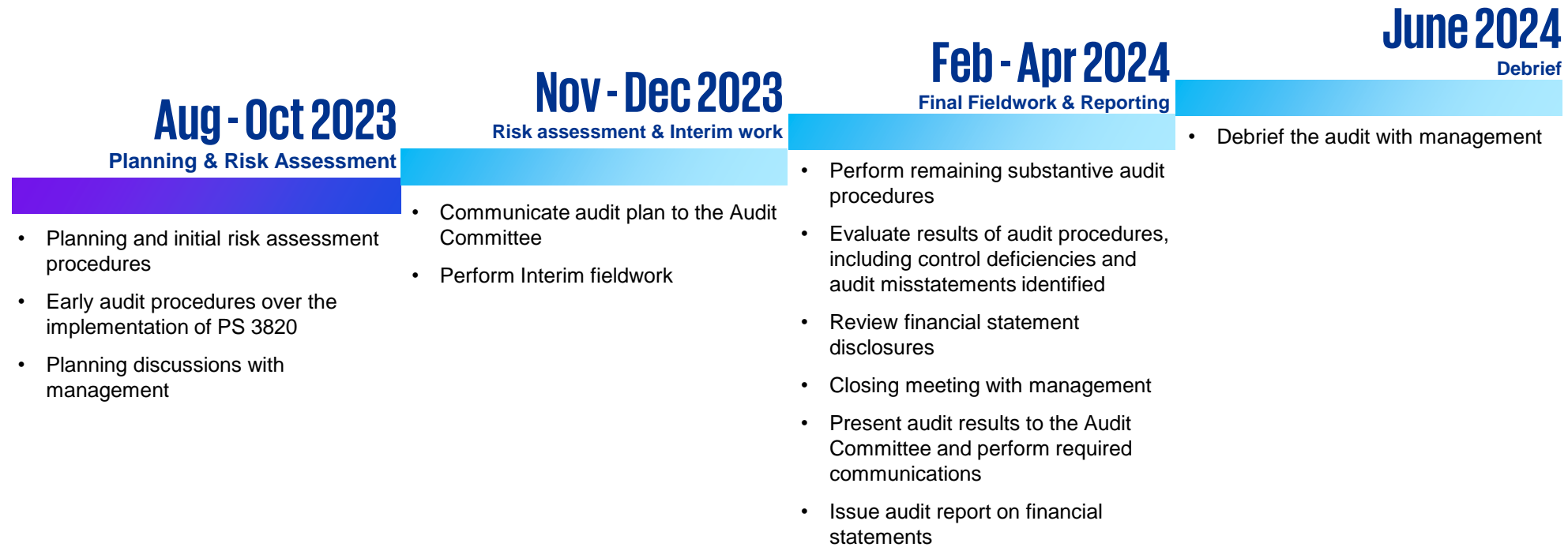


There is a risk that tangible capital assets under construction are not appropriately transferred to tangible capital assets and amortized once available for use. Our planned audit response includes:

- Updating our understanding of 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.
- Performing 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.
- Specifically, as the Valley Line Southeast was put into service in the current year, we will performed detailed testing over the transfer of amounts related to this project from assets under construction to available for use.



Key milestones and deliverables





Appendices



A Required communications



B Audit quality



C Use of Technology



D New Auditing Standards



E Insights





Appendix A: Other required communications



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 quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2023 Interim Inspections Results](#)



Required inquiries

1. How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?
2. What are your views about fraud risks, including management override of controls, at the entity and whether you have taken any actions to respond to these risks?
3. Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
4. Are you aware of or have you received tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?
5. Are you aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
6. What is the audit committee's understanding of the entity's relationships and transactions with related parties that are significant to the entity?
7. Does any member of the audit committee have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?
8. Has the entity entered into any significant unusual transactions?



Appendix B: 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 contributes to its delivery.

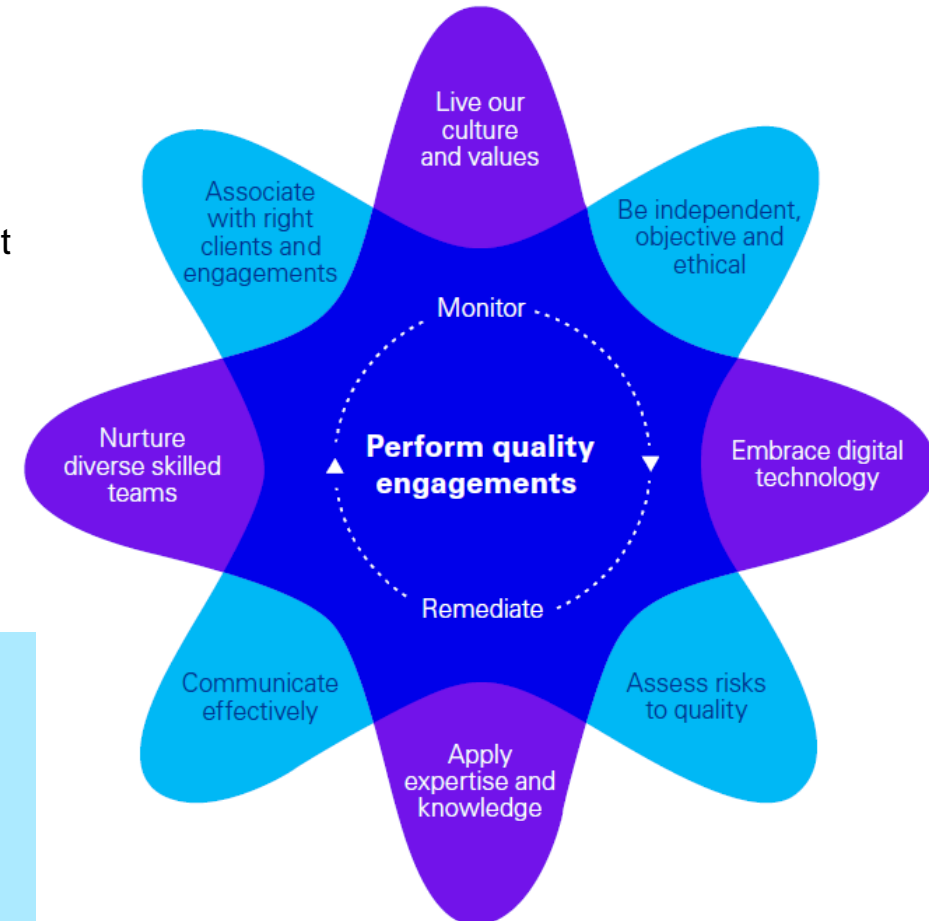
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

 [KPMG 2022 Audit Quality and Transparency Report](#)

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 management**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.





Appendix C: KPMG Clara



Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



Secure

A secure client portal provides centralized, efficient coordination with your audit team.



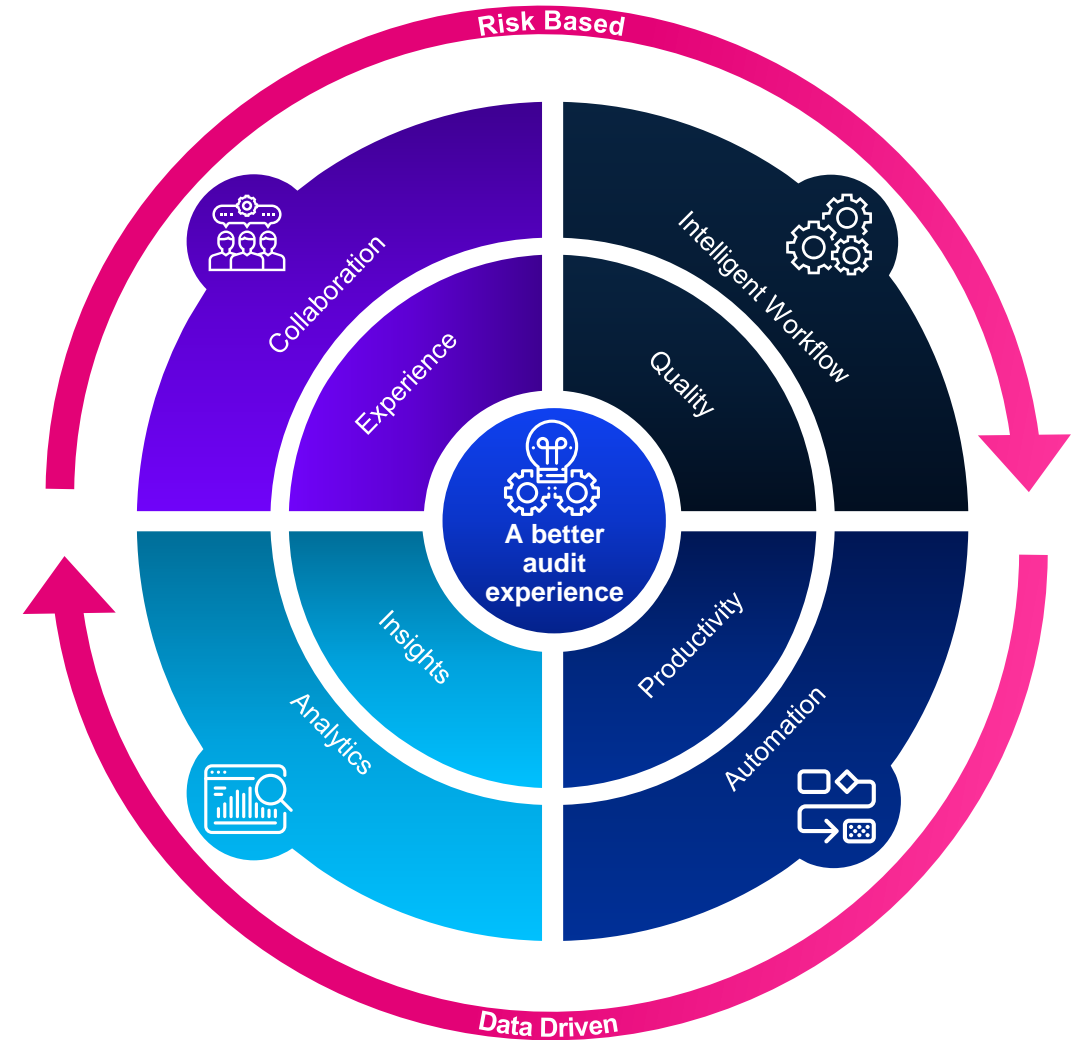
Intelligent workflow

An intelligent workflow guides audit teams through the audit.



Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.





Appendix D: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

.....
(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

.....
Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

.....
Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

.....
Revised special considerations – Audits of group financial statements



Appendix E: Audit and assurance insights

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

[KPMG Audit & Assurance Insights](#)

Curated research and insights for audit committees and boards.

[Board Leadership Centre](#)

Leading insights to help board members maximize boardroom opportunities

[Audit Committee Guide – Canadian Edition](#)

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

[Accelerate 2023](#)

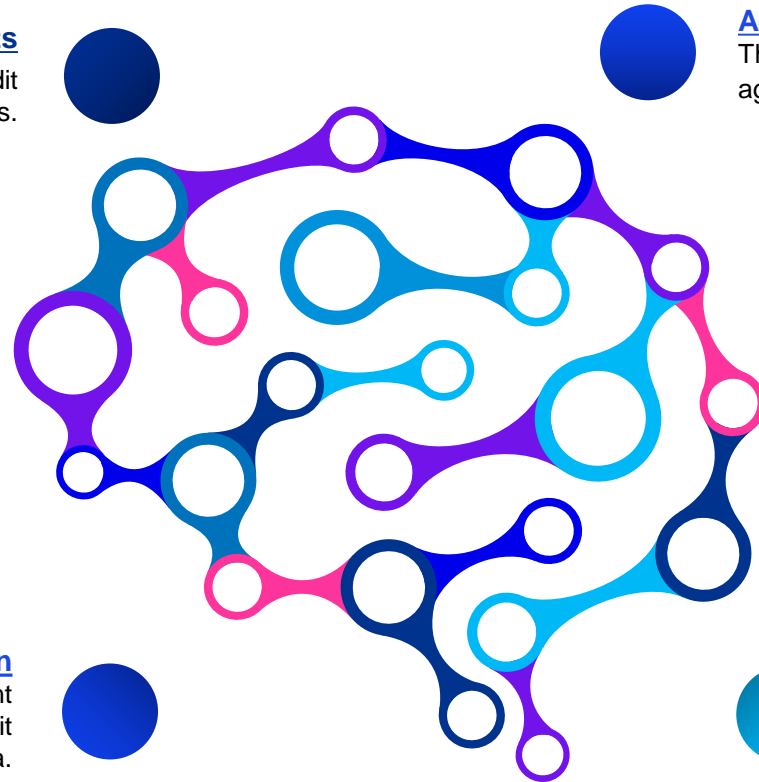
The key issues driving the audit committee agenda in 2023.

[Momentum](#)

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

[KPMG Climate Change Financial Reporting Resource Centre](#)

Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.





[kpmg.ca](https://www.kpmg.ca)

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