# City of Edmonton

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

Prepared for the Audit Committee
meeting on November 17, 2020

kpmg.ca/audit

# Table of contents



# KPMG contacts

The contacts at KPMG in connection with this report are:


**Robert Borrelli**

**Partner**

Tel: 780-429-6081
rborrelli@kpmg.ca



**Caitlyn Cox**

**Senior Manager**

Tel: 780-429-6088
caitlyncox@kpmg.ca



**Kyle Yurkiw**

**Manager**

Tel: 780-801-5937
kyurkiw@kpmg.ca

# 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.

Refer to page 2 for additional information on our external reporting responsibilities.

## Areas of audit focus

Our external audit is risk focused. In planning our audit, we have taken into account a number of key areas of audit focus including:

- Risk of material misstatement resulting from fraudulent revenue recognition;
- Fraud risk from management override of controls;
- 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; and
- Existence of developer obligation liabilities.

Refer to pages 3 to 6.

## Audit materiality

Audit materiality has been determined based on total budgeted expenditures for the year. We have determined materiality to be $94 million (2019 - $94 million).

Refer to page 7.

## COVID-19

COVID-19 will undoubtedly continue to have an impact on the City's operations and financial reporting.

Refer to page 8.

## Current developments

There are no new accounting standards that are applicable for the City's year ending December 31, 2020. There are a number of new accounting standards that are relevant to the City and will be applicable in future years.

There is a new auditing standard with respect to auditing accounting estimates and related disclosures that we will incorporate into our audits in the current year.

Refer to pages 10 to 11.

## 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.

## 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.

# 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, 2020 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, 2020:

- 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 compliance reporting;
- Summer Temporary Employment Program (STEP) grant compliance 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, 2020 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; and
- 2492369 Canada Corporation (operating as Waste RE-Solutions Edmonton).

# Areas of audit focus

**Relevant factors affecting our risk assessment**

Complexity Estimate Related party transaction

| Professional requirements | Why is it significant? |
|---|---|
| Risk of material misstatement resulting from fraudulent revenue recognition. | This is a presumed risk of material misstatement due to fraud.<br><br>We have not identified any risks of material misstatement resulting from fraudulent revenue recognition. |

**Our audit approach**

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. Refer to page 5.

# Areas of audit focus (continued)

| Professional requirements | Why is it significant? |
|---|---|
| Fraud risk from management override of controls. | This is a presumed risk of material misstatement due to fraud.<br>We have not identified any specific additional risks of management override relating to this audit. |

## Our audit approach

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.

We would also like to understand the Committee's view on the following items:

- What are your views about fraud risks at the City?
- How does the Committee exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and what internal controls has management established to mitigate these fraud risks?
- 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?
- Has the City entered into any significant unusual transactions?

# Areas of audit focus (continued)

| 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). | • We will test the recognition of amounts subject to external restrictions to ensure they are recognized appropriately.<br>• We will confirm all significant government transfers and other similar inflows received from third parties.<br>• 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. | • 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.<br>• 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. | • 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.<br>• 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.<br>• We will test the value ascribed to assets contributed and donated to the City for reasonableness.<br>• 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. | • 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.<br>• 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. | • 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.<br>• 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. | • 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.<br>• We will test a sample of developer obligation liabilities and verify the details of the associated project, including status and ownership. |

# Audit materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the consolidated 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.

| Materiality determination | Comments | Group amount 2020 | Group amount 2019 |
|---|---|---|---|
| **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. | $3,180 million | $3,200 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:**

- Corrected audit misstatements
- Uncorrected audit misstatements

# COVID-19: embedding resilience & readiness

COVID-19 is undoubtedly going to have an impact to the City's operations and financial reporting. As a result, COVID-19 is a major consideration in the development of our audit plan for your 2020 consolidated financial statements.

### Planning and risk assessment

- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Understanding the changes in City's environment, and changes in the City's system of internal control, and their impact on our:
    - identified and assessed risks of material misstatement
    - audit strategy, including the involvement of others and the nature, timing and extent of tests of controls and substantive procedures

### Execution

- Understanding the changes in City's environment, and changes in the City's system of internal control, and their impact on our:
    - design of the analytical procedures (e.g. more disaggregated analytical procedures)
    - need to perform additional procedures or early audit work
- Remote auditing, as required
    - Increased use of other collaboration tools (Microsoft Teams, Skype etc.) and the need for written management acknowledgement for their use
    - Potential increased use of electronic evidence (and understanding the City's processes to provide such evidence to us)
- Timing of procedures may need to change
    - Evaluation of the design and implementation of internal controls may need to be deferred (to allow the City to put new or revised controls in operation and to be able to re-perform such controls)

### Reporting

- Understanding the potential financial reporting impacts, including:
    - events and conditions that cast significant doubt regarding going concern
    - new accounting policies
    - significant management judgements in applying accounting policies
    - major sources of estimation uncertainty that have significant risk
    - liquidity risks

# Key deliverables and milestones

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 2020
- Audit Committee: November 17, 2020

**Fieldwork:**

- Interim: November 2 to 6, 2020
- Year-end: February 22 to March 26, 2021

**Closing meetings:**

- Management: by March 26, 2021
- Audit Committee: April 16, 2021

**Reporting Deadlines:**

- Audit report on consolidated financial statements: by April 30, 2021

**Debrief and strategy discussions:**

- Management: by June 30, 2021

# Current developments

The following is a summary of upcoming audit standards that are relevant for the City:

| Standard | Summary and implications | Effective date |
|---|---|---|
| **PS1201, Financial Statement Presentation** | The new standard requires a new statement of re-measurement gains and losses separate from the statement of operations. | April 1, 2022<br>(December 31, 2023 for the City) |
| **PS3450, Financial Instruments** | The new standard requires a new statement of re-measurement gains and losses separate from the statement of operations. | April 1, 2022<br>(December 31, 2023 for the City) |
| **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 re-measurement gains and losses. | April 1, 2022<br>(December 31, 2023 for the City) |
| **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. | April 1, 2022<br>(December 31, 2023 for the City) |
| **PS3280, Asset Retirement Obligations** | The asset retirement obligation section will have a significant impact on the public sector. Municipal councils have a vital role to play in setting the tone for a successful implementation and financial reporting success. | April 1, 2022<br>(December 31, 2023 for the City) |
| **PS3400, Revenue** | This section establishes how to account for and report on revenue. | April 1, 2023<br>(December 31, 2024 for the City) |

**Status and supporting resources**

Through discussion with management, they continue to assess the preceding standards to determine their potential impact on the City’s consolidated financial statements.

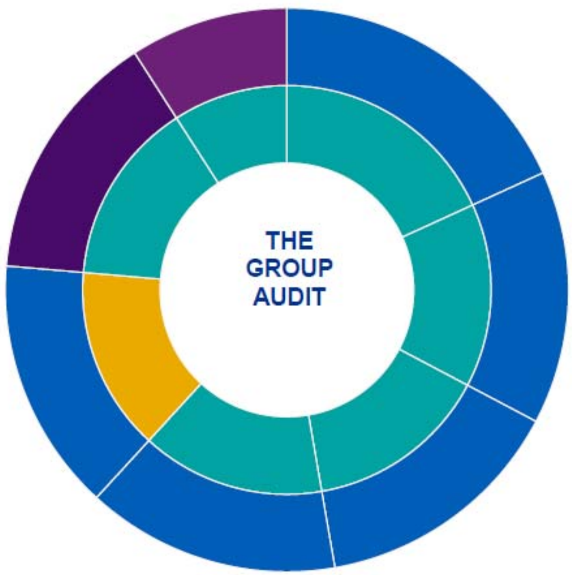
We have attached a “Preparing for PSAB Changes” slip sheet in the following pages that summarizes the standards that are expected to have the most significant impact on the City’s financial statements. Refer to Appendix 4.

# Current developments (continued)

The new auditing standard that is effective and relevant for the current year is as follows:

| Standard | Key observations | Reference |
|---|---|---|
| **CAS 540, Auditing Accounting Estimates and Related Disclosures**<br>**Effective for audits of Entities with year-ends on or after December 15, 2020** | **Expected impact on the audit:**<br>— more emphasis on the need for exercising professional skepticism<br>— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)<br>— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)<br>— more focus on how we respond to levels of estimation uncertainty<br>— more emphasis on auditing disclosures related to accounting estimates<br>— more detailed written representations required from management<br><br>**In-scope estimates include:**<br>— Expropriations<br>— Employee benefit obligations<br>— Amortization of tangible capital assets | CPA Canada Client Briefing |

# Group audit scope




| Type of work performed | Components | Legend |
|---|---|---|
| Individually financially significant | Transportation Services<br>Police Services<br>Facility Services<br>Corporate Programs<br>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; and
- Long-term debt.

# Appendices

## Content



# Appendix 1: 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, 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.

### 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 of 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 our independence letter to the Audit Committee.

# Appendix 2: KPMG's audit approach and methodology

**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.

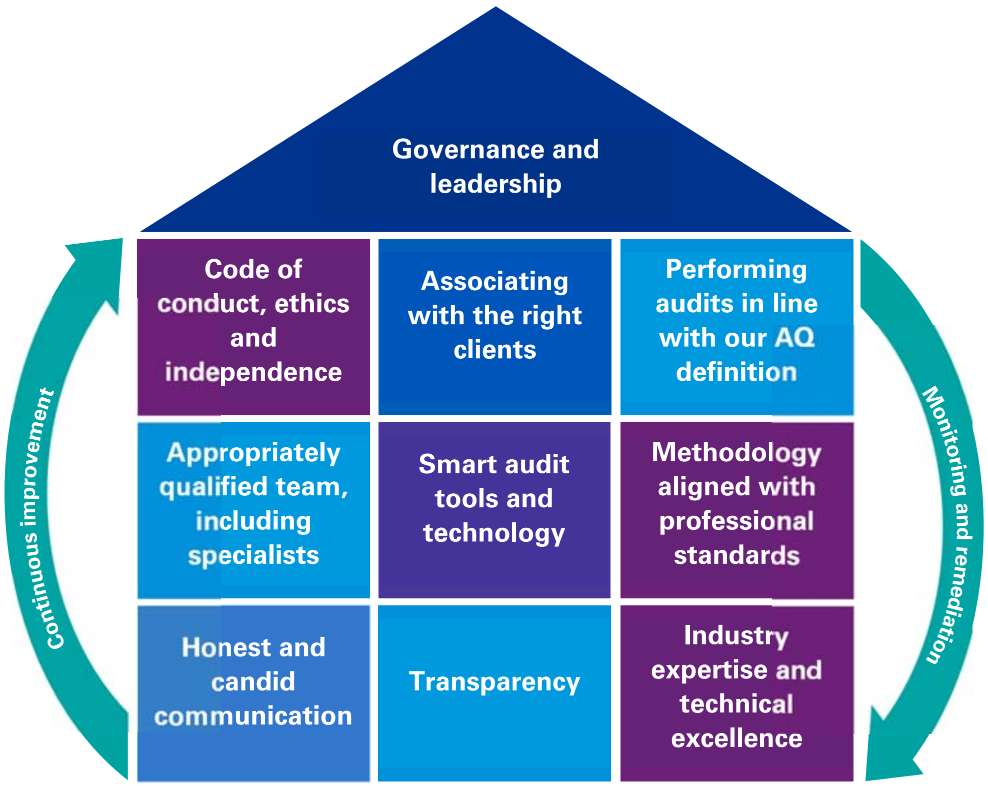

**Deep industry insights**
Bringing intelligence and clarity to complex issues, regulations and standards.

**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: Audit quality and transparency

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 summarizes the key elements of our quality control system.




Audit Quality Framework

### What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

# Appendix 4: Preparing for PSAB changes

KPMG

# Preparing for PSAB Standard Changes

## Are you ready to implement PSAB's impactful series of new standards?

Public sector entities are preparing to implement three significant Public Sector Accounting standards through 2023. These standards will impact not only your accounting policies, but also how Finance engages key stakeholders.

# Asset Retirement Obligations

PS3280 addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.

PS3280 will apply to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. Three transition options are available – retroactive, modified retroactive, prospective.

Asset retirement activities are defined to include all activities related to an asset retirement obligation. These may include but are not limited to:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed
- decontamination created by the normal use of the tangible capital asset
- post-retirement activities such as monitoring
- constructing other tangible capital assets in order to perform postretirement activities

With the introduction of PS3280 PSAB has withdrawn existing Section PS3270, solid waste landfill closure and post-closure liability.

Some examples of asset retirement obligations which fall under scope of proposed PS3280 include:

- end of lease provisions (from a lessee perspective)
- removal of radiologically contaminated medical equipment
- wastewater or sewage treatment facilities
- firewater holding tanks
- closure and post-closure obligations associated with landfills
- septic beds
- fuel storage tank removal

Whether you are an education or health institution or a government entity (federal, provincial, municipal or Indigenous) this accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.

Under PS3280, an asset retirement obligation should be recognized when, as at the financial reporting date, ALL of the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset
- the past transaction or event giving rise to the liability has occurred
- it is expected that future economic benefits will be given up
- a reasonable estimate of the amount can be made

# Are You Ready?

1. *Has a project plan been developed for the implementation of this section?*
2. *Has Finance communicated with key stakeholders, including Council or Board on the impact of this section?*
3. *Does Finance communicate with representatives of the Public Works, Asset Management, Facilities Management or Legal functions through the financial reporting process?*
4. *Has a complete inventory been developed of all inactive or active assets or sites, to provide a baseline for scoping of potential retirement obligations?*
5. *If a complete inventory has been developed, does it reconcile back to information currently reported in the entity's financial statements for tangible capital assets or contaminated sites?*
6. *Does your entity have data on non-recorded assets or sites (ie: assets which were originally expensed on purchase, or recorded at no book value) which could have retirement obligations?*
7. *Does your entity have an active solid waste landfill site?*
8. *If yes, does your entity have an existing estimate of the full costs to retire and monitor the landfill site?*
9. *Is your entity aware of any of its buildings which have asbestos?*
10. *If so, does your entity have information to inform a cost estimate to remove/ treat the asbestos?*
11. *Is your entity aware of underground fuel storage tanks or boilers which must be removed at end of life?*
12. *If so, does your entity have information to inform a cost estimate to remove the tanks?*
13. *Is your entity aware of any lease arrangements where it will be required to incur costs to return the premises to pre-existing conditions at the end of the lease?*
14. *Has your entity determined if it has any sewage or wastewater treatment plants which have closure plans or environmental approvals which require full or partial retirement of the plant at the end of its life?*
15. *Is your entity aware of any other contractual or legal obligations to retire or otherwise dismantle or remove an asset at the end of its life?*

# Revenues

PS3400 outlines a framework describing two categories of revenue – transactions with performance obligations (exchange transactions) and transactions without performance obligations (unilateral transactions).

- This section will apply to fiscal years beginning on or after April 1, 2023, with earlier adoption permitted.
- This Section may be applied retroactively or prospectively.
- This section will not impact the present accounting for taxation revenues and government transfers.

Transactions which give rise to one or more performance obligations are considered to be exchange transactions. Performance obligations are defined as enforceable promises to provide goods or services to a payer as a result of exchange transactions. Revenue from an exchange transaction would be recognized when the public sector entity has satisfied the performance obligation(s), at a point in time or over a period of time.

If no performance obligations are present, the transaction would represent unilateral revenue, and be recognized when the public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources.

Public sector entities will need to review their revenue recognition policies for in-scope transaction types. Impacted areas may include:

- Development charges
- Permits
- Licences
- Advertising programs

# Are You Ready?

1. *Has the entity identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (ie: the entity is required to provide a good or service to earn that revenue)?*
2. *If so, has the entity reviewed its accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met?*
3. *Has the entity quantified the impact of any change in accounting policy, or determined that there is no impact?*

# Financial Instruments

PS3450 establishes standards on how to account for and report all types of financial instruments including derivatives.

- This Section applies to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
- Government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook applied this Section to fiscal years beginning on or after April 1, 2012.
- This section must be adopted with Section PS 2601, Foreign Currency Transaltion.
- Specific transition requirements are outlined in the section.

This section prescribes a fair value measurement framework for derivatives, and equity instruments that are quoted in an active market.

Where an entity manages risks, the investment strategy, or performance of a group of financial assets, financial liabilities or both on a fair value basis, they may also be meased at fair value.

Other financial instruments are measured at cost/ amortized cost.

Changes in the fair value of a financial instrument in the fair value category are recognized in the Statement of Remeasurement Gains and Losses as a remeasurement gain or loss until the financial instrument is derecognized.

- Upon derecognition, the remeasurement gain or loss is realized in the Statement of Operations.

# Are You Ready?

1. *Does the entity hold any financial assets which are equity or derivative instruments?*
2. *Has the entity determined if it has any embedded derivatives that might arise from existing contractual arrangements?*
3. *Does the entity have other financial assets which it assesses performance of based on fair value, and for which it might elect a fair value measure?*
4. *If yes to any of the above three questions, does the entity have readily observable market data to inform a fair value measure?*
5. *Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section?*
6. *Does the entity enter into transactions involving foreign exchange?*
7. *Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?*

**kpmg.ca/audit**