City of Edmonton

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Prepared for the Audit Committee Meeting
on April 16, 2021

kpmg.ca/audit

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Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of the City of Edmonton (the "City") as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on November 17, 2020.

Changes from the audit plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Finalizing the audit

We have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures that are customarily done at or near the date the Council approves the consolidated financial statements, which include, amongst others:

- Obtaining evidence of Council's approval of the consolidated financial statements;
- Obtaining a signed management representation letter; and
- Completing our subsequent event review to the date of Council's approval of the consolidated financial statements

We will update the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report will be dated upon the completion of any remaining procedures.

Independence

We have included a copy of our annual independence letter dated April 19, 2021, which notes that we are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

Significant policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

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[1] This Audit Findings Report is intended solely for the information and use of Management, the Audit Committee, 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 Audit Findings 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.

Executive summary (continued)

Areas of audit focus

We discussed with you at the start of the audit a number of areas of audit focus including:

- Presumed risk of fraud from management override of controls;
- Recognition of revenue amounts subject to external restrictions;
- Valuation of investments;
- Completeness and accuracy of contributions of 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.

These matters have been addressed in our audit. See pages 4 to 7.

Impact of COVID-19

The implications of the COVID-19 pandemic have been incorporated into our audit. See page 8.

Adjustments and differences

We did not identify differences that remain uncorrected. See page 9.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Current developments

There are a number of new accounting standards that are relevant to the City and will be applicable in future years. See page 10.

There is also a new Canadian Auditing Standard effective for the current year relating to estimates. See page 11.

Additional reporting responsibilities

We have been engaged to report on and have reported or will report on the following for the year ended December 31, 2020:

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

Further, we have been separately engaged and have previously reported or will report on the following entities for the year ended December 31, 2020 that 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 (o/a Waste RE-solutions Edmonton).

Areas of audit focus and results

We highlight our significant findings in respect of **significant financial reporting risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant financial reporting risks identified.

Significant financial reporting risk	Why is it significant?
Fraud risk from management override of controls	Canadian Auditing Standards (CASs) presume a risk of fraud related to revenue recognition.

Our response

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

We took the following steps to address this risk as required under professional standards:

– Evaluated the design and implementation of controls surrounding journal entries and other adjustments;
– Determined criteria to identify high-risk journal entries and other adjustments;
– Tested high-risk journal entries and other adjustments made at the end of the reporting period.

Significant findings

We have no significant findings to report

Areas of audit focus and results (continued)

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	Why	Our response and significant findings
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).	**Summary of audit approach:** • We confirmed all significant government transfers, and examined related agreements; and • On a sample basis, we validated 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. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.
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.	**Summary of audit approach:** • We have tested the existence and accuracy of investment accounts through confirmation, including the cost and market value of investments. We have recalculated investment premiums/discounts for investments recorded at amortized cost; and • We have tested management's assessment of impairment and considered if any potential impairment of the investments exists. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.

Areas of audit focus and results (continued)

Area of focus	Why	Our response and significant findings
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.	**Summary of audit approach:** • We updated our understanding of the process by which departments capture tangible capital assets which are contributed from developers and other parties and assessed the consistency of the process applied across all departments; • We tested a sample of developments which were completed by the City during the year to assess whether contributed tangible capital assets have been appropriately recorded; • We tested the value ascribed to assets contributed and donated to the City; and • We reviewed a sample of developments currently ongoing at the City to ensure that they were appropriately not recorded as contributed during the year. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.
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.	**Summary of audit approach:** • We evaluated the City's capitalization process to ensure an adequate process is in place for timely communication between project managers and finance with respect to when a tangible capital asset is available for use; and • We performed a review of projects included in Tangible Capital Assets-Under-Construction ("AUC") to assess whether selected tangible capital assets are appropriately classified and amortized when available for use. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.

Areas of audit focus and results (continued)

Area of focus	Why	Our response and significant findings
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.	**Summary of audit approach:** • We updated our understanding of the City's operations, held discussions with management and reviewed City Council and various City Committee meeting minutes to evaluate the completeness of accruals as at December 31, 2020; and • Our year-end procedures included a search for unrecorded liabilities (primarily through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.
Existence of developer obligation liabilities	There is a risk that developer obligation liabilities are not being appropriately derecognized as a liability upon project initiation.	**Summary of audit approach:** • We updated our 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; and • We inspected a sample of developer obligation liabilities and verified the details of the associated project, including status and ownership. **Results:** No misstatements or other findings were identified as a result of performing the above procedures.

Impact of COVID-19

We adapted our audit to respond to the continued changes in the City's operations, including the impacts on financial reporting and internal controls over financial reporting.

Area of Impact	Key Observations

Financial reporting and internal controls over financial reporting implications	— We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the financial statements.
	— In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty.
	— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic on the City's operating environment, including an assessment of fraud risk factors. We did not identify any additional risks of material misstatement as a result of the pandemic.
	— The areas of our substantive testing and the financial statements most affected included:
	    — Our evaluation of management's assessment of liquidity risks was enhanced to respond to uncertainties in the economic environment; and
	    — We assessed management's disclosure surrounding the impact of COVID-19.
	— Through our review of the control environment, we did not note any significant changes in internal control over financial reporting.

Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements. No changes have been made from what was communicated in the audit planning report.
Working remotely	— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. — We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.

Adjustments and differences

Differences and adjustments include disclosure and presentation differences and adjustments.

Professional standards require that we request of management and the Audit Committee that all identified differences be corrected. We have already made this request of management.

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Current developments

Accounting standards issued but not yet effective are disclosed in note 1(w) to the consolidated financial statements and highlighted in Appendix 5. In 2021, the City will continue to assess the impact and prepare for the adoption of these standards. While the timing of standard adoption can vary, certain standards must be adopted concurrently.

The Public Sector Accounting Board 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.

Standard	Summary and implications	Implementation project
PS3280, Asset Retirement Obligations Effective April 1, 2022 (December 31, 2023 for the City)	Establishes guidance on the accounting and reporting of legal obligations associated with the retirement of tangible capital assets that are both in use and no longer in productive use.	In our discussions with management, we understand that a project plan has been developed and the implementation of this standard has commenced. Management is in the process of developing a complete inventory of all active and inactive assets or sites, including leased properties and non-recorded assets or sites, to identify potential retirement obligations. Assessments and historical information are being reviewed to develop preliminary standard costing information for remediation, monitoring and retirement costs. We will continue to discuss this status of this standard with management and share Thought Leadership as it becomes available.

Current developments (continued)

New auditing standards
The following new auditing standards that are effective for the current year had an impact on our audit.

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	— The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”. — The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team. — We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method. — We considered the potential for management bias. — We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed. The new standard was applied to the expropriations accrual as there is a risk of material misstatement due to estimation uncertainty. We do not have any findings to report from these procedures.

Appendices

Content

Appendix 1: Required Communications

Auditors' Report	Representations of management
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	In accordance with professional standards, a copy of the management representation letter is provided to the audit committee. The management representation letter is attached in Appendix 2.

Matters pertaining to independence	Audit Quality in Canada
The independence letter is attached, dated as of the date of this report. Please refer to Appendix 3.	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: 2020 Interim Inspection Results • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results **Visit our** Audit Quality Resources page **for more information including access to our** Transparency report

Appendix 2: Management Representation Letter

KPMG LLP
Chartered Professional Accountants
Enbridge Centre
2200, 10175 – 101 Street
Edmonton, AB T5J 0H3

April 19, 2021

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of the City of Edmonton (“the Entity”) as at and for the period ended December 31, 2020.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the statement of work #2020-01 relating to the City of Edmonton contract for audit services dated October 28, 2020, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of City Council and committees of City

Council that may affect the financial statements. All significant actions are included in such summaries.

c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

f) We have disclosed to you all information regarding investigations into possible fraud and/or non-compliance or suspected non-compliance with laws and regulations, including illegal acts, that we have undertaken at our discretion and completed, including the results of such investigations, and the resolution of the matters, if any, identified in such investigations.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Accounting policies:

11) The accounting policies selected and applied are appropriate in the circumstances.

12) There have been no changes in, or newly adopted, accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

Provisions:

13) Provisions, when material, have been made for losses to be sustained as a result of other-than-temporary declines in the fair market value of investments.

Commitments & contingencies:

14) There are no other liabilities that are required to be recognized or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework; including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

Employee future benefits:

15) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

16) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits other than disclosed in the financial statements.

17) For employee future benefit plans, each actuarial assumption used reflects management's best estimate solely with respect to that individual assumption, determined on a basis that the plan will continue to be in effect in the absence of evidence to the contrary.

18) The discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date based on management's best estimates of expected long-term experience and short-term forecasts.

19) The assumptions included in the actuarial valuation are those that management instructed Aon Hewitt to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.

20) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

21) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and such have been communicated to you as well as to the actuary.

Segment disclosures:

22) The Entity's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework.

Other information:

23) We confirm that the final version of the documents likely to be entitled “2020 Annual Report” and “2020 Financial Report to Citizens” will be provided to you when available, and prior to issuance

by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

24) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002).

25) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

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Andre Corbould
City Manager

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Mary Persson, FCPA, FCMA
Deputy City Manager and Chief Financial Officer, Financial and Corporate Services

cc: Audit Committee

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Appendix 3: Independence Letter

KPMG LLP
2200, 10175 101 Street
Edmonton, AB T5J 0H3
Telephone (780) 429-7300
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www.kpmg.ca

Mayor Don Iveson
Audit Committee Chair
City of Edmonton
2nd Floor, City Hall
1 Sir Winston Churchill Square
Edmonton, Alberta T5J 2R7

April 19, 2021

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity and our firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City of Edmonton (and its related entities) from January 1, 2020 up to the date of our auditors' report:

Description of Professional Services
Audit Audit of the December 31, 2020 consolidated financial statements of the City of Edmonton (and certain related entities) as set out in the terms of the statement of work #2020-01 relating to the City of Edmonton contract for audit services dated October 28, 2020, including: - Municipal Financial Information Return for the City of Edmonton

- Employee Benefit Plan Financial Statements for each of:
    o Group Life Plan
    o Dependent Group Life Plan
    o Dental Plan
    o Long-term Disability Plan
    o Major Medical and Supplementary Hospital Plan
- Combined Pension Fund Financial Statements
- Individual Financial Statement - Firefighters Supplementary Pension Fund
- Family and Community Support Services (FCSS) grant schedules
- Local Authorities Pension Plan compliance report
- Special Forces Pension Pan compliance reporting
In addition, KPMG has been separately appointed by and has separately reported matters related to independence to the board of directors of EPCOR Utilities Inc. KPMG has also been separately appointed to audit the financial statements of the following entities related to the consolidated financial statements of the City of Edmonton:
- The City of Edmonton Library Board
- The City of Edmonton Non-Profit Housing Corporation (HomeEd)
- 2492369 Canada Corporation (operating as Waste RE-Solutions Edmonton)

Advisory - Asset Management System Roadmap and Disbursements - Comprehensive Tax Review - Edmonton Fire Rescue Services Review - Edmonton Policy Services Safety Review - homeEd Growth Strategy Support - Reimagine Services Review Project - Shared Training Facility Review - Transit Safety Initiative - Way Ahead Program Service Review

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. We have not provided any prohibited services. We have applied the following safeguards regarding threats to independence created by the services listed above:

– We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.

– We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.

– We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We evaluated the family and personal relationships of KPMG employees. We are not aware of any relationships between our firm and the Entity that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

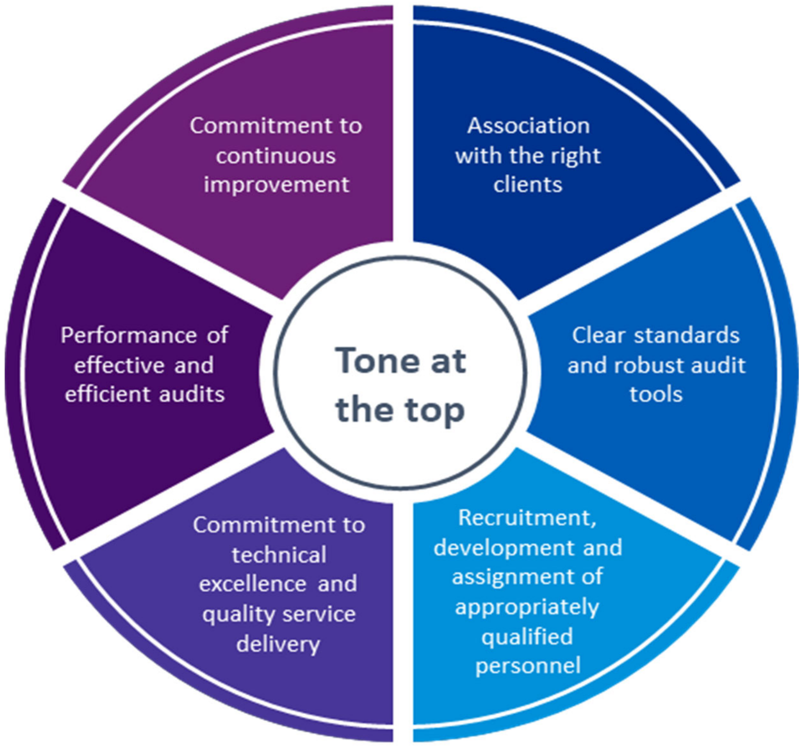
Yours very truly,

KPMG LLP

Chartered Professional Accountants

Appendix 4: KPMG's System of Quality Control

Quality control is fundamental to our business and is the responsibility of every partner and employee. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework shown below. These are the cornerstones of how we execute our responsibilities



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.

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

Visit our Audit Quality Resources page for more information including access to our Transparency report.

Appendix 5: Current Developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations ("ARO")	– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – 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. Current Canadian public sector accounting standards contain 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: • 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	– 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	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* 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.
Employee Future Benefit Obligations	– Standard setters have initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, standard setters approved a revised project plan. – Standard setters to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* 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, standard setters 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.
Public Private Partnerships ("P3")	– Standard setters have proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership and are in the process of reviewing feedback provided by stakeholders on the exposure draft. – The exposure draft proposes 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 exposure draft proposes that the public sector entity recognize 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. – The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023.

Standard	Summary and implications
Concepts Underlying Financial Performance	– Standard setters are in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – Standard setters have released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021. – Standard setters are proposing a revised, ten-chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. 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, Standard setters are proposing: • 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
International Strategy	– Standard setters reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. Standard setters noted that the decision will apply to all projects beginning on or after April 1, 2021. – An exposure draft to modify the GAAP hierarchy has been issued with responses due by February 15, 2021.
Purchased Intangibles	– In October 2019, standard setters 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. – Standard setters have 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.

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