Parkland County

Audit Planning Report
for the year ending
December 31, 2019

KPMG LLP

November 5, 2019

kpmg.ca/audit

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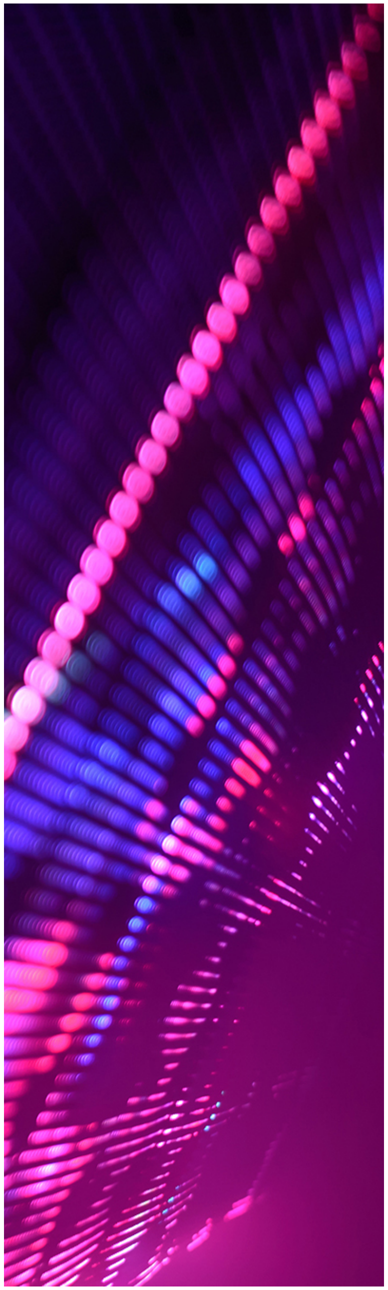


Executive summary

An external audit involves inspecting the records and accounts of Parkland County (the “County”) to provide an opinion on whether its consolidated financial statements are presented fairly stated in accordance with Canadian Public Sector Accounting Standards. The overall objective of an external audit is to obtain reasonable assurance whether the consolidated financial statements as a whole are free from material misstatement. An external audit provides reasonable assurance, and not absolute assurance, as the external audit does not test everything.

Audit testing conducted during an external audit responds to audit risk (i.e. the risk that financial statements are materially misstated and the external audit does not detect this), and audit procedures are designed to reduce audit risk to an acceptably low level.

Areas of audit focus

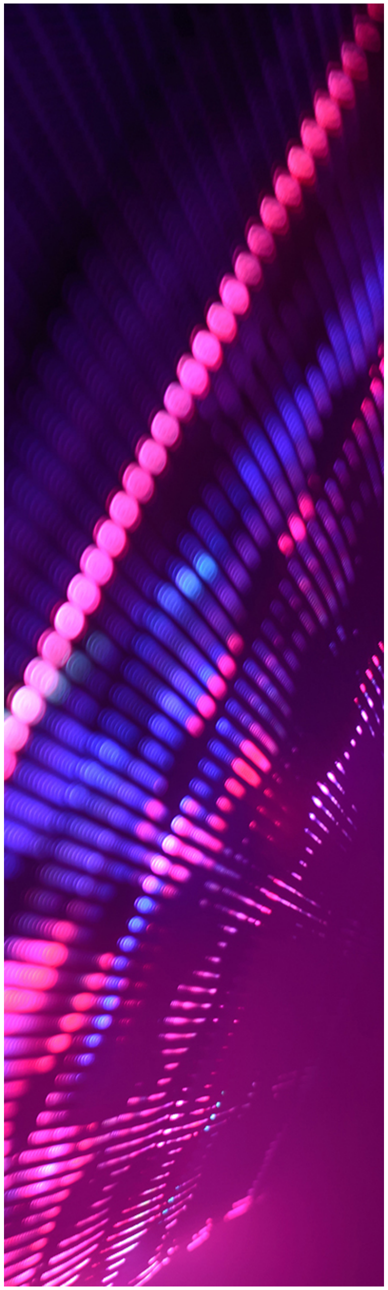
The external audit is risk-focused. In planning the external audit we have taken into account a number of areas of audit focus. These include:

- Recognition of revenue amounts subject to external restrictions;
- Completeness, existence and accuracy of property assessments and taxation;
- Accuracy and valuation of investments;
- Accuracy and valuation of inventory;
- Accuracy and valuation of contributed tangible capital assets;
- Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities;
- Existence and accuracy of capital expenditures related to approved capital projects;
- Completeness, existence and accuracy of debt.
- Completeness and accuracy of environmental obligations and other contingencies;
- Completeness and accuracy of salaries and benefits note disclosures;
- Risk of fraudulent revenue recognition; and
- Risk of management override of controls.

We will also follow up on control and other observations previously brought to the attention of the Mayor and Council and the status of implementation of any recommendations that were provided.

Audit Materiality

Materiality has been determined based on prior year consolidated total expenditures per the December 31, 2018 audited financial statements. We have determined materiality to be $2.5 million for the year ended December 31, 2019 (2018 - $2.4 million).



Executive summary

Independence and Quality Control

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 County and follow established reporting protocols.

Current developments and Audit Trends

There is one new accounting standard that is applicable for the County's year ending December 31, 2019, PSAS 3430 *Restructuring Transactions.* As part of our audit, we will review the consolidated financial statements and related disclosure to ensure that this new accounting standard has been appropriately adopted.

There are a number of new accounting standards that are relevant to the County and will be applicable for the County's year ending December 31, 2021. Relevant accounting standards include PS1201 –Financial Statement Presentation; PS3450 – Financial Instruments; PS2601– Foreign Currency Translation; PS3041 – Portfolio Investments; PS3280 – Asset Retirement Obligations; and PS3400 – Revenue.

As part of our external audit, we will review to ensure that these new accounting standards have been appropriately adopted.

This Audit Planning Report should not be used for any other purpose or by anyone other than Mayor and Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Areas of audit focus

Professional requirements	Why is it significant?
Fraud risk from revenue recognition.	This is a presumed fraud risk.
There is no risk resulting from revenue recognition.	The risk of fraud from revenue recognition has been rebutted.

Our audit approach

As this risk has been rebutted, our audit methodology in relation to revenue is limited to analytical procedures and external confirmation on significant revenue inflows.

Professional requirements	Why is it significant?
Fraud risk from management override of controls.	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
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).
Completeness, existence and accuracy of property assessments and taxation	There is a risk that property assessments and taxation are not complete and consistent with approved taxation rates.

Our audit approach

We will review the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. We will confirm all significant government transfers or other similar inflows, examine related agreements, and review the developer levy model, including the list of active development arrangements and the corresponding levies.

We will evaluate the application of assessment through the tax roll and taxation rates established by the County.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
Accuracy and 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.
Accuracy and valuation of inventory	There is a risk that inventory is not valued appropriately in the financial statements.
Accuracy and valuation of contributed tangible capital assets	There is a risk that contributions of tangible capital assets are not appropriately captured in the consolidated financial statements.

Our audit approach

We will verify through confirmation of investment accounts the cost and market value of investments.

We will recalculate investment premiums/discounts for investments recorded at amortized cost.

We will review management's assessment of impairment and consider if any potential impairment of the investments exists.

We will review the portfolio of investments to ensure in compliance with the County's risk management and investment policies.

We will review the County's inventory and on a sample basis will test the valuation and any impairments or write downs.

We will evaluate controls over how departments capture tangible capital assets which are contributed from developers and other parties.

We will review a sample of developments which have been completed by the County during the year to ensure contributed tangible capital assets have been appropriately recorded.

We will review the value ascribed to assets contributed and donated to the County.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
Completeness, existence and accuracy of operating costs and accounts payable and accrued liabilities	There is a risk that appropriate cut-off of accounts payable and accrued liabilities is not achieved.
Existence and accuracy of capital expenditures related to approved capital projects	There is a risk that capital expenditures are not appropriately recorded in the financial statements and are not appropriately recorded related to approved capital projects.
Completeness, existence and accuracy of debt	There is a risk that there is a breach in compliance with debt and that the debt is not appropriately recorded in the financial statements.

Our audit approach

We will use our understanding of the County's operations, our discussions with management and our review of Council minutes to determine if completeness of accruals has been achieved as at December 31, 2019.

We will perform work over the County's budgeting process and obtain a detailed understanding of significant variances from approved budget.

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.

We will review a sample of capital expenditures and ensured they were applied against the appropriate capital projects.

We will use our understanding of the County's operations, our discussions with management and our review of Council minutes to determine if completeness of debt has been achieved as at December 31, 2019.

We will confirm all significant outstanding debt obligations and other key features of the debt, including all amounts outstanding at period end, interest rates, debt maturity and repayment terms, restrictive covenants, and assets pledged and guarantees, etc.

We will assess compliance with restrictive covenants for all debt agreements, including debt limit regulation.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
Completeness, existence and accuracy of environmental obligations and other contingencies	There is a risk that environmental obligations and other contingent liabilities are not appropriately identified and reasonably estimated.
Completeness and accuracy of salaries and benefits note disclosures	There is a risk that salaries and benefits note disclosures are not complete and accurately reported.

Our audit approach

The County has developed an estimate of environmental obligations, other contingencies, and specifically, environmental liabilities. We will review and test the estimate as applicable for the yearend audit.

We will conduct direct communication with the relevant County departments that all significant contingent liabilities including environmental obligations are appropriately disclosed and/or recorded.

We will review significant findings with management and internal legal counsel.

We will review a sample of employment and other contractual arrangements to ensure salaries and benefits disclosures are appropriate.

Materiality

Materiality determination	Comments	Amount
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 financial statements. The corresponding amount for the prior year's audit was $2.4 million.	$2.5 million
Benchmark	Based on the prior year actual expenditures for the year. This benchmark has changed from the prior year, which was based on budgeted expenditures for the year.	$86 million
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
[Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $125,000.	$129,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

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

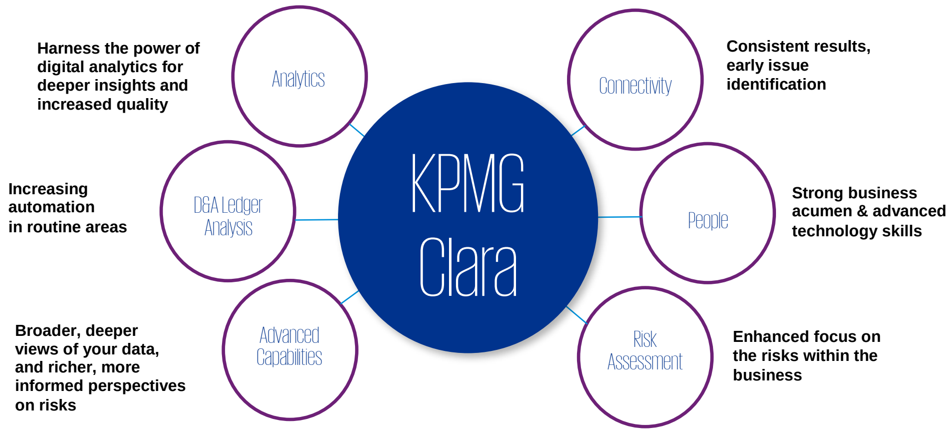
We will report to the Mayor and Council:

- Corrected audit misstatements
- Uncorrected audit misstatements

The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Client Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts such as (teams to edit for client-specific D&A routines; i.e., revenue and receivables, salaries, purchases and payables) and journal entries.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.

Journal Entry Analysis	Our journal entry 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.
Data & Analytics Routines	Team to add details of specific D&A routines done on the client (can be combined with KPMG Clara Advanced Capabilities on the previous page).
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

Key deliverables and milestones

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

Reporting deadlines:

- Audit report on financial statements by May 1, 2020
- FIR & FCSS by May 1, 2020
- LAPP & APEX by June 30, 2020

	Presentation to Council: November 5, 2019 Interim fieldwork: November 25 – 29, 2019 Meeting with CAO		Send out required audit confirmations		Conduct year-end audit work: March 16 – 27, 2020		Audit debrief and audit strategy discussions
October	**November**	**December**	**January**	**February**	**March**	**April**	**May/June**
Planning 2019 year-end audit Meeting with management: October 21, 2019 Interim PBC provided: October 18, 2019		Review of draft financial statement format and provide comments Year-end PBC provided: By December 31, 2019		Follow up on confirmations and ensure audit team and County team are prepared for year-end fieldwork.		Audit completion meeting with management: By April 10, 2020 Presentation to Council: April 28, 2020 Audit Reports provided: April 30, 2020	

Current developments

Standard	Summary and implications	Reference
PS3430, Restructuring Transactions	Establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.	April 1, 2018 (December 31, 2019 for the County)
PS1201, Financial Statement Presentation	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations.	April 1, 2021 (December 31, 2022 for the County)
PS3450, Financial Instruments	The new standard requires a new statement of remeasurement gains and losses separate from the statement of operations.	April 1, 2021 (December 31, 2022 for the County)
PS2601,Foreign Currency Translation	The new standard requires that monetary assets and liabilities denominated in a foreign currency and non-monetary items included in the fair value category, denominated in a foreign currency, be adjusted to reflect the exchange rates in effect at the financial statement date. Unrealized gains and losses are to be presented in the new statement of remeasurement gains and losses.	April 1, 2021 (December 31, 2022 for the County)
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, 2021 (December 31, 2022 for the County)
PS3280, Asset Retirement Obligations	The new standard defines and establishes measurement and disclosure standards for asset retirement obligations.	April 1, 2021 (December 31, 2022 for the County)
PS3400, Revenue	This section establishes standards on how to account for and report on revenue	April 1, 2021 (December 31, 2022 for the County)


Appendices

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality and Transparency Report.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

Appendix 2: KPMG's audit approach and methodology

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

Collaboration in the audit

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

Issue identification

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

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

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

Reporting

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

Appendix 3: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: 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:

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters.

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 Mayor & Council.

Audit planning report

This report.

Audit findings report

At the completion of our audit, we will provide our audit findings to the Mayor & Council.

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 Mayor & Council.

CPAB Audit Quality Insights Report (October 2018) (formerly the "Big Four Firm Public Report")
CPAB Annual Inspections Results (March 2019)

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