

Parkland County

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

Prepared for the Mayor and Council

kpmg.ca/audit

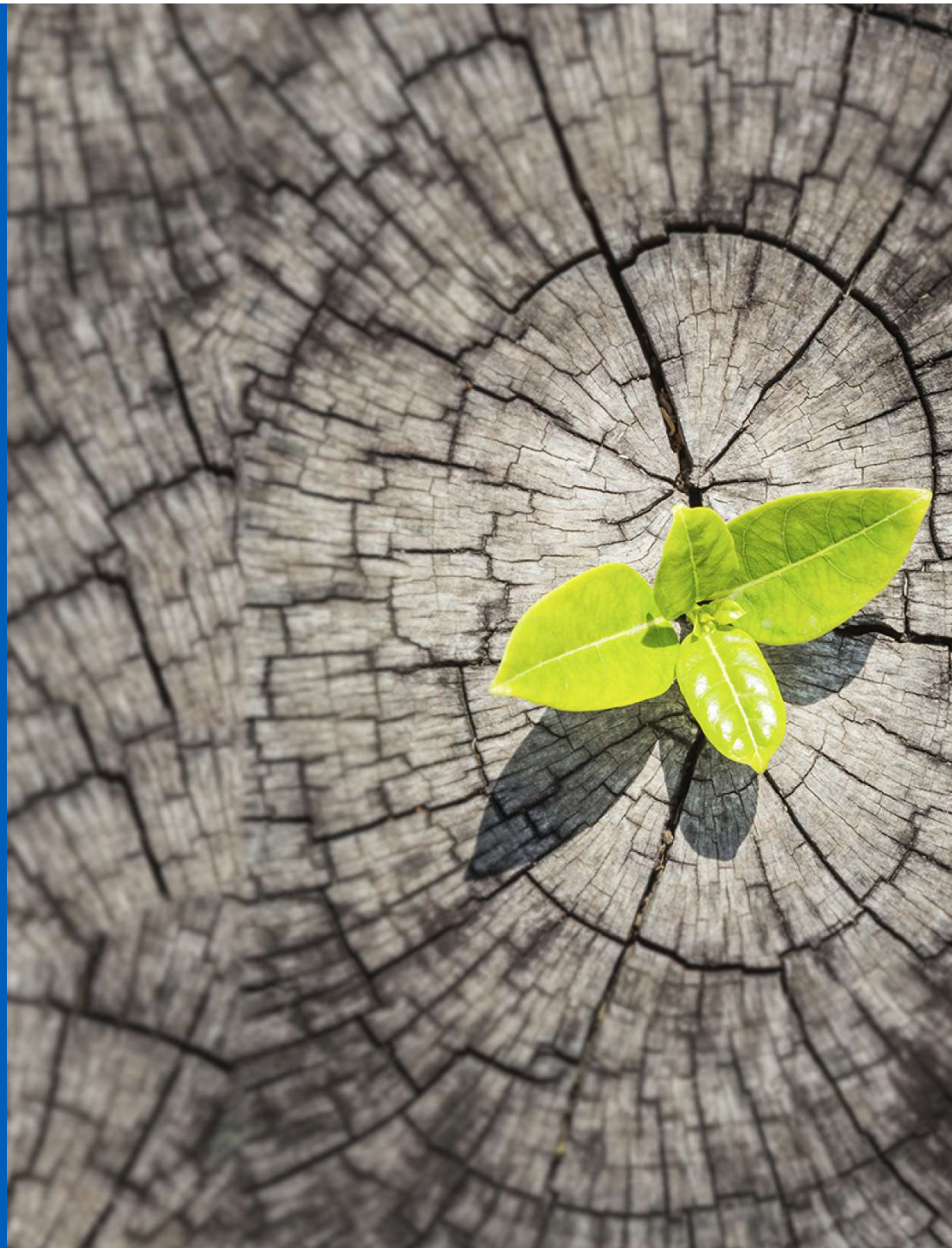


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Executive summary

Our reporting responsibilities

We have been engaged to inspect the records and accounts of Parkland County (the “County”) 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 to our audit of the County, we have been engaged to report on the following for the year ended December 31, 2020:

- Municipal Financial Information Return (FIR) for the County; and
- Family and Community Support Services (FCSS) special reporting.

Audit materiality

Materiality has been determined based on prior year consolidated total expenditures. We have determined materiality to be \$2.4 million for the year ended December 31, 2020 (2019 – \$2.5 million).

Area of audit focus

Our external audit is risk-focused. In planning the external audit, we have taken into account a number of 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;
- Completeness, existence and accuracy of property assessments and taxation;
- Accuracy and valuation of investments;

This Audit Planning Report should not be used for any other purpose or by anyone other than the County Management and the 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.

- Accuracy and valuation of inventory;
- Accuracy and valuation of contributed tangible capital assets;
- 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, existence and accuracy of operating costs and accounts payable and accrued liabilities; and
- Completeness and accuracy of salaries and benefits note disclosures.

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

COVID-19 and other current developments

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

There is a new auditing standard with respect to auditing accounting estimates and related disclosures that will be incorporated in our audits in the current year. There are no other relevant accounting changes to be brought to your attention at this time.

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 County and follow established reporting protocols.

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 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	2020 Amount	2019 Amount
Metrics	Relevant metrics included total actual or budgeted revenues or expenditures and accumulated surplus.		
Benchmark	Based on prior year total consolidated expenditures per the December 31, 2019 audited financial statements. This benchmark is consistent with the prior year.	\$ 83.0 million	\$86.0 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 financial statements.	\$2.4 million	\$2.5 million
% of Benchmark		3%	3%
Performance Materiality	Calculated as 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$1.8 million	\$1.8 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$120,000	\$140,000

We will report to the Mayor and Council:



Corrected audit misstatements



Uncorrected audit misstatements

Areas of audit focus

Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



Professional requirements

Risk of material misstatement resulting from fraudulent revenue recognition

Why is it significant?

This is a presumed risk of material misstatement due to fraud.

We have not identified any risk 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 and external confirmations of significant revenue inflows.

Professional requirements

Fraud risk from management override of controls

Why is it significant?

This is a presumed risk of material misstatement due to fraud.

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.

Areas of audit focus (continued)

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 tax assessments and taxation	There is a risk that property assessments and approved tax rates are not applied appropriately.
Accuracy and valuation of investments	There is a risk that investments are not appropriately valued and valuation adjustments are not recorded where appropriate.
Existence and valuation of inventory	There is a risk that inventory is does not exist and is not valued appropriately.

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 approved tax rates and assessment through the tax roll.

We will verify through confirmation of investments 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 processes to confirm the existence of inventories and conduct physical observations as appropriate.

We will verify the overall valuation of the County's inventories and consider whether any impairments or write-downs are required.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
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.
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.

Our audit approach

We will evaluate controls over how the County captures tangible capital assets which are contributed from developers and other parties.

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

We will also review a sample of developments currently ongoing in the County to ensure that they are appropriately not recorded as contributed during the year.

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

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.

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 ensure they are applied against appropriate capital projects.

Areas of audit focus (continued)

Other areas of focus	Why are we focusing here?
Completeness, existence and accuracy of debt	There is a risk that there is breach in compliance with debt and that the debt is not appropriately recorded in the financial statements.
Completeness 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

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.

We will confirm all significant outstanding debt obligations and other key features of the debt, including all amounts outstanding at year-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.

The County has development an estimate of environmental obligations, other contingencies, and specifically, environmental liabilities. We will review and test the estimate as applicable for the year-end 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 legal counsel, as required.

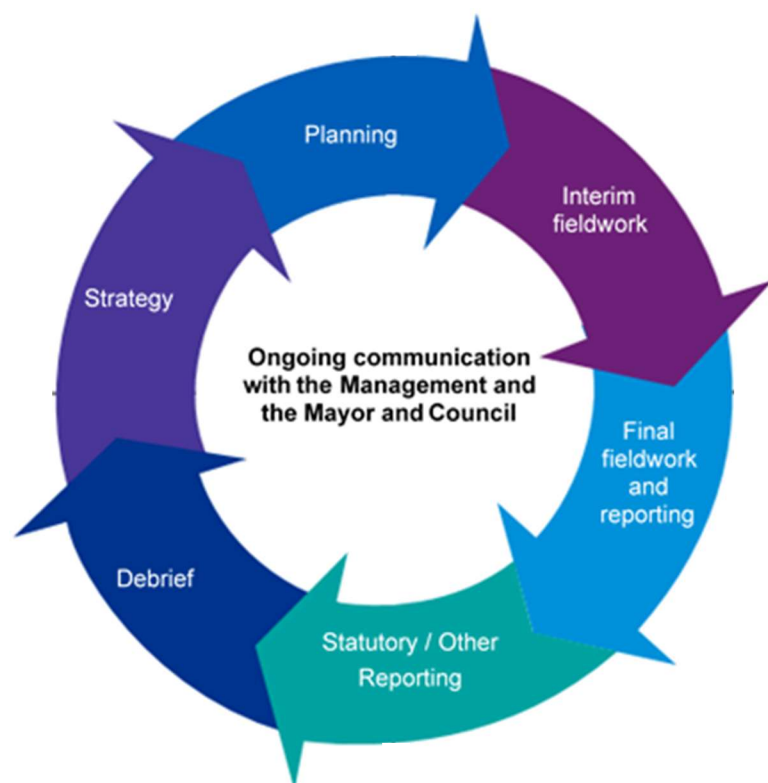
We will review a sample of employment and other contractual arrangements to ensure salaries and benefits disclosures are appropriate.

COVID-19: embedding resilience & readiness

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

Engagement Letter Rider		
Planning and risk assessment	Execution	Reporting
<ul style="list-style-type: none"> 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 County's environment, and changes in the County's system of internal control, and their impact on our: <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Understanding the changes in County's environment, and changes in the County's system of internal control, and their impact on our: <ul style="list-style-type: none"> design of the analytical procedures (e.g. more disaggregated analytical procedures) need to perform additional procedures or early audit work Remote auditing, as required <ul style="list-style-type: none"> 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 County's processes to provide such evidence to us) Timing of procedures may need to change <ul style="list-style-type: none"> Evaluation of the design and implementation of internal controls may need to be deferred (to allow the County to put new or revised controls in operation and to be able to re-perform such controls) 	<ul style="list-style-type: none"> Understanding the potential financial reporting impacts, including: <ul style="list-style-type: none"> 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



Planning meetings:

- Management: October 29, 2020
- Mayor and Council: December 2020

Fieldwork:

- Interim: October 26-30, 2020
- Final: March 22 – April 9, 2021

Closing meetings:

- Management: Mid April 2021
- Mayor and Council: April 27, 2021

Reporting Deadlines:

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

Debrief and strategy discussions:

- Management: by June 30, 2021

New auditing standards

The new auditing standards that are effective and relevant for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures Effective for audits of Entities with year-ends on or after December 15, 2020	Expected impact on the audit: <ul style="list-style-type: none">— more emphasis on the need for exercising professional skepticism— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)— more focus on how we respond to levels of estimation uncertainty— more emphasis on auditing disclosures related to accounting estimates— more detailed written representations required from management	CPA Canada Client Briefing

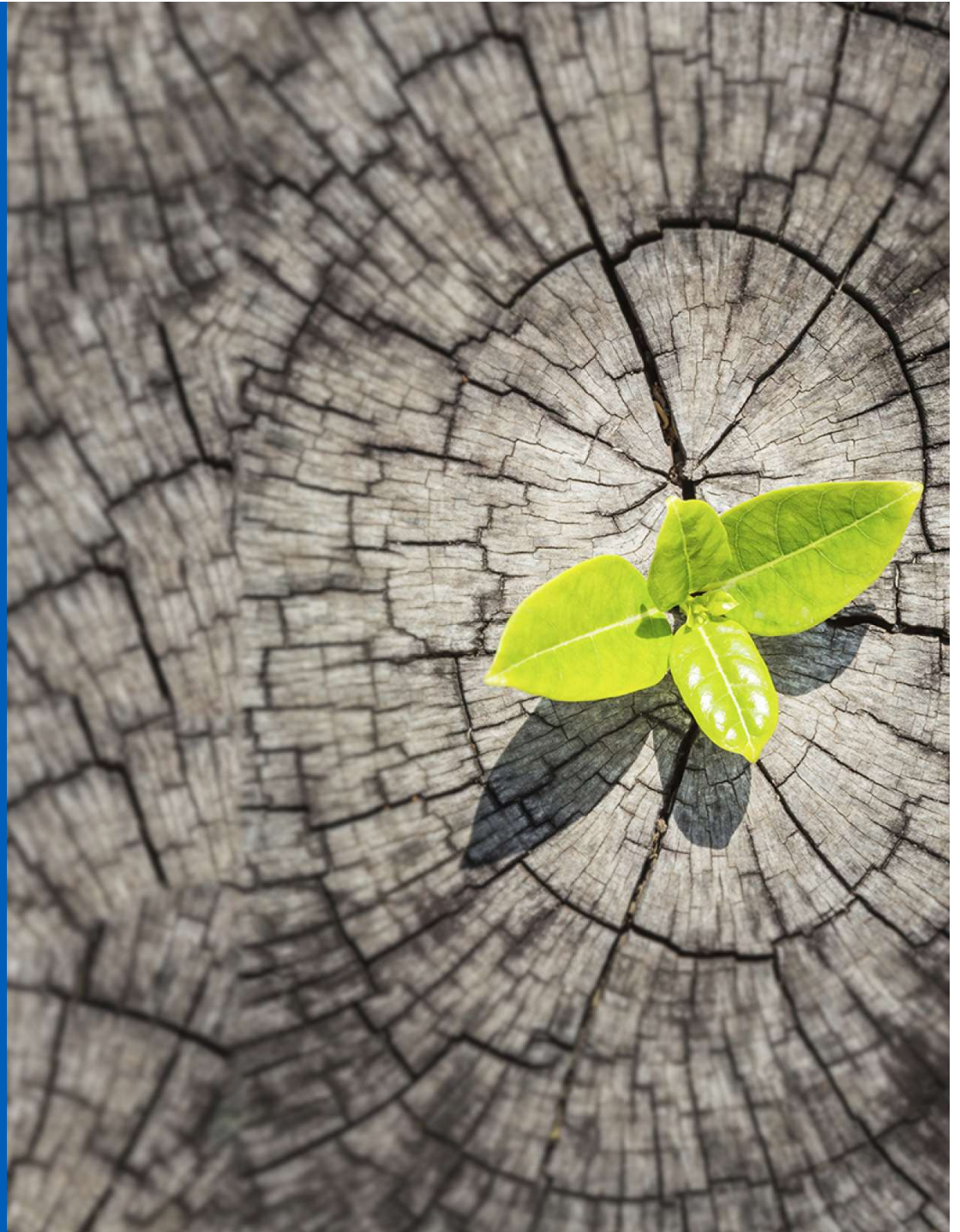
Appendices

Content

Appendix 1: Required communications

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Audit quality and transparency



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:



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.



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 and Council.



Audit planning report

This report.



Audit findings report

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

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

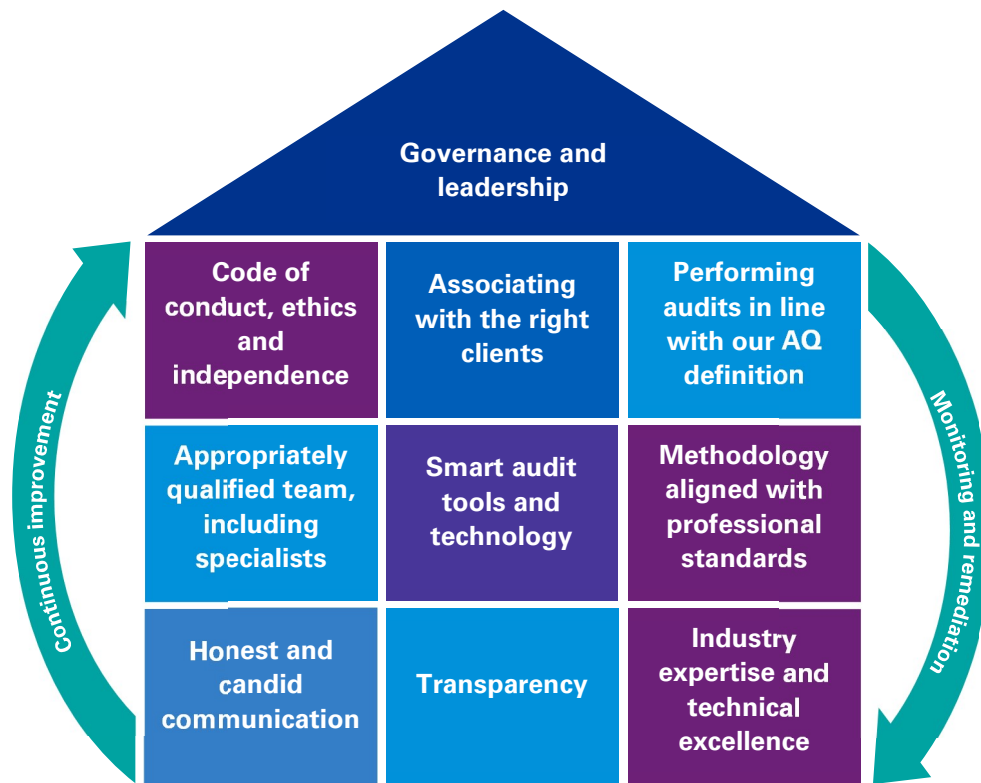
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

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](#).



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