

# The City of Spruce Grove

Audit Planning Report  
for the year ending  
December 31, 2021

*KPMG LLP*

Prepared for the Mayor and Council  
[kpmg.ca/audit](http://kpmg.ca/audit)



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# Executive summary

## Our reporting responsibilities

We have been engaged to perform an external audit of the records and accounts of the City of Spruce Grove (the "City") as at and for the year ended December 31, 2021 and to provide an opinion on whether its consolidated financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards.

In addition to our audit of the City, we have been engaged to report on the following for the year ended December 31, 2021:

- Municipal Financial Information Return (FIR) for the City;
- Local Authorities Pension Plan (LAPP) special reporting;
- APEX special reporting; and
- Family and Community Support Services (FCSS) special reporting.

We will ensure that the results of the TransAlta Tri Leisure Centre and the City of Spruce Grove Public Library, which are audited by other auditors, have been appropriately included in the City's consolidated financial statements.

## 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 City and follow established reporting protocols.

## Materiality

Materiality has been determined based on consolidated expenditures in the prior year. We have determined materiality to be \$2.7 million (2020 - \$2.8 million).

This report to the Mayor and Council is intended solely for the information and use of City Management and the Mayor and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Mayor and Council has 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

Our external audit is risk-focused. In planning our external audit, we have considered a number of areas of audit focus including:

- Presumption of the risk of fraud involving improper revenue recognition
- Presumption of the risk of fraud resulting 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
- 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
- Completeness and accuracy of salaries and benefits note disclosures

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

We will also consider the continued impact of COVID-19 on the City's operations and financial reporting.

# Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to 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 (e.g., performance materiality or, in the case of a group audit, component materiality).

Materiality determination	Comments	Amount
<b>Metrics</b>	Relevant metrics included total actual or budgeted revenues or expenditures and accumulated surplus.	
<b>Materiality</b>	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 \$2.8 million.	\$2.7 million
<b>Benchmark</b> (the metric that is <u>most</u> relevant to the users)	Based on prior year total consolidated expenditures. This benchmark is consistent with the prior year. The corresponding amount for the prior year's audit was \$94 million.	\$90 million
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 3.0%.	3.0%
<b>Performance Materiality</b>	Calculated as 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$2.1 million.	\$2.0 million
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was \$140,000.	\$135,000

## 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



### Significant risk - professional requirements

Presumption of the risk of fraud involving improper revenue recognition

### Why is it significant?

We have not identified any risk of material misstatement resulting from fraudulent revenue recognition.

### Our audit approach

The risk of fraud from recognition of contributions has been rebutted given contributions 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.

### Significant risk - professional requirements

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

### Why is it significant?

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

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)

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 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; specifically, impairment of investments is not appropriately assessed, and valuation adjustments are not recorded where appropriate.

## 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 City's risk management and investment policies.

# 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
<ul style="list-style-type: none"> <li>– We will evaluate controls over how the City captures tangible capital assets which are contributed from developers and other parties.</li> <li>– We will review a sample of developments which have been contributed to the City during the year to ensure contributed tangible capital assets have been appropriately recorded.</li> <li>– 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.</li> <li>– We will review the value ascribed to assets contributed and donated to the City for reasonableness.</li> </ul>
<ul style="list-style-type: none"> <li>– We will use our understanding of the City's operations, our discussions with management and our review of Council minutes to determine if completeness of accruals has been achieved.</li> <li>– We will perform work over the City's budgeting process and obtain a detailed understanding of significant variances from approved budget.</li> <li>– 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.</li> </ul>
<ul style="list-style-type: none"> <li>– We will review a sample of capital expenditures and ensure they are applied against appropriate capital projects.</li> </ul>

# 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	
<ul style="list-style-type: none"> <li>– We will use our understanding of the City’s operations, our discussions with management and our review of Council minutes to determine if completeness of debt has been achieved.</li> <li>– 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.</li> <li>– We will assess compliance with restrictive covenants for all debt agreements, including debt limit regulation.</li> </ul>	
<ul style="list-style-type: none"> <li>– The City 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.</li> <li>– We will conduct direct communication with the relevant City departments that all significant contingent liabilities including environmental obligations are appropriately disclosed and/or recorded.</li> <li>– We will review significant findings with management and legal counsel, as required.</li> </ul>	
<ul style="list-style-type: none"> <li>– We will review a sample of employment and other contractual arrangements to ensure salaries and benefits disclosures are appropriate.</li> </ul>	



# Key milestones and deliverables



## Planning meetings:

- Management: October 13, 2021
- Mayor and Council: November 1, 2021

## Fieldwork:

- Interim: October 25 -29 2021
- Final: March 14 – 25, 2022
  - LAPP & APEX*: March 14 – 25, 2022
  - MFIR & FCSS*: March 14 – 25, 2022

## Closing meetings:

- Management: April 13, 2022
- Mayor and Council: April 25, 2022

## Reporting Deadlines:

- Audit report on consolidated financial statements: by April 30, 2022
- *MFIR & FCSS*: by April 30, 2022
- *LAPP & APEX*: by April 30, 2022

## Debrief and strategy discussions:

- Management: by June 30, 2022

# Appendices

## Content

Appendix 1: Other required communications

Appendix 2: Audit quality

Appendix 3: Audit and assurance insights



# Appendix 1: Other required communications

<b>Report</b>	<b>Engagement terms</b>
A draft report will be provided at the completion of the audit which will highlight the form and content of the report.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.
<b>Audit findings report</b>	<b>Representations of management</b>
At the completion of the audit, we will provide our findings report to management and the Mayor and Council.	We will obtain from management certain representations at the completion of the audit.
<b>Required inquiries</b>	<b>Control deficiencies</b>
Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.	On a timely basis, identified significant deficiencies will be communicated to management and the Mayor and Council in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.
<b>CPAB Communication Protocol</b>	
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 recent quality inspections in Canada:	
<ul style="list-style-type: none"><li>• <a href="#">Audit Quality Insights Report: 2020 Annual Audit Quality Assessments</a></li><li>• <a href="#">CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic</a></li><li>• <a href="#">CPAB Audit Quality Insights Report: 2020 Interim Inspection Results</a></li></ul>	

# Appendix 2: Audit quality



**Quality** essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

**‘Perform quality engagements’** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

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**.



**Doing the right thing. Always.**

# Appendix 3: Audit and assurance insights

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

Featured insight	Summary
<a href="#"><u>KPMG Audit &amp; Assurance Insights</u></a>	Curated research and insights for audit committees and boards
<a href="#"><u>Accelerate</u></a>	The key issues driving the audit committee agenda in the time of COVID-19
<a href="#"><u>Board Leadership Centre</u></a>	Supporting you in your Director role
<a href="#"><u>Current Developments</u></a>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<a href="#"><u>KPMG Global IFRS Institute</u></a>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
<a href="#"><u>KPMG Climate Change Financial Reporting Resource Centre</u></a>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<a href="#"><u>You can't go green without blue - The blue economy is critical to all companies' ESG ambitions</u></a>	In this report, we consider how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.



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