Attachment 1

Deloitte.

The City of Edmonton

Fiscal 2007 Audit Scope Memorandum
December 31, 2007

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Introduction

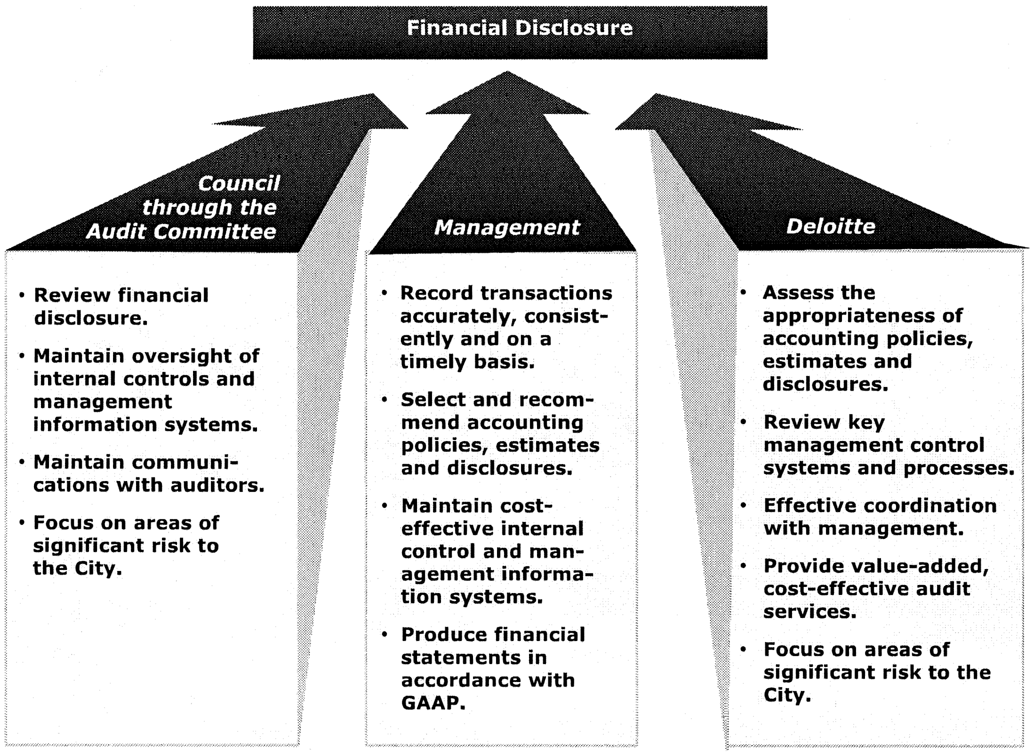
Deloitte & Touche LLP ("Deloitte") has been appointed as auditors to examine and report on the consolidated financial statements (the "financial statements") of the City of Edmonton (the "City"). We are also engaged to complete other assurance engagements as outlined in Appendix B. This memorandum outlines the scope and general approach to the 2007 audit.

Our role as auditors is to form an independent opinion and report to City Council ("Council"). Our audit report concludes whether the respective financial statements fairly present the financial position, the financial activities and statement of changes in financial position for the year ended December 31, 2007 and whether all are in accordance with Canadian generally accepted accounting principles ("GAAP") or applicable legislation or agreement.

This communication is intended solely for the use of the City Council and the Audit Committee to assist each in discharging its responsibilities with respect to the financial statements of the City and is not intended for any other purpose. We disclaim any obligation to any third party who may rely on this report.

Responsibilities for financial reporting

We view Council as our client. The conduct of an effective audit commences with a good understanding of the respective roles of Council, management and us as auditors. At Deloitte, we believe that the responsibility for financial disclosure is a shared responsibility as described in the exhibit below.



All three elements of responsibility are directed towards the common task of providing appropriate, adequate and transparent financial statement disclosure. This perspective of disclosure, being a shared responsibility, underlines the importance of the auditors having strong working relationships with both Council and management.

Audit objectives

Objective

The objective of the audit of the financial statements is to express an opinion on the fairness with which they present the financial position, financial activities and statement of changes in financial position of the City in accordance with GAAP. Such an opinion is not an assurance as to the future financial viability of the entities.

While certain types of fraud, error and other irregularities may be disclosed, an audit is not designed to specifically detect this type of transaction and will not involve tests of a sufficient proportion of the transactions of the entities to afford assurance that such matters, should they exist, will be uncovered. Should any material irregularities come to our attention during the course of our work, they will be reported promptly to the appropriate level of management and to Council.

As required by Section 5135 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, we will review management's assessment of fraud risks and consider their responses when completing the risk assessment for purposes of audit planning. We will also report to Council if significant fraud risk factors are identified for which there are not mitigating controls.

Auditors' responsibilities

Our statutory responsibilities as auditors are determined by Canadian generally accepted auditing standards ("GAAS").

Auditors' responsibilities under GAAS

To discharge our professional responsibilities as auditors, we conduct our audit in accordance with GAAS as defined by the CICA. These standards contemplate, among other things, that such tests and other procedures will be performed as are considered necessary in the circumstances to obtain sufficient, appropriate audit evidence to report on the financial statements. Audits, in order to serve their purpose and yet be cost effective, must by necessity be conducted on a test basis. Accordingly, our audit is designed to provide reasonable but not absolute assurance that the financial statements are presented fairly, in all material respects.

The audit includes assessing the risk that the financial statements may contain material misstatement, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and their application and assessing the significant estimates made by management.

GAAS also requires that there will be an appropriately organized study and evaluation of those internal controls on which the auditors intend to rely in determining the nature, extent and timing of auditing procedures.

Management's responsibilities

The operations of the City are under the control of management, which has the responsibility for the accurate recording of transactions and the preparation of financial statements in accordance with appropriate accounting principles. These responsibilities include designing and maintaining accounting records and internal controls, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error. An audit of the financial statements does not relieve management of its responsibilities. The auditors may make suggestions as to the form or content of the financial statements; however, the financial statements remain the responsibility of management.

Audit objectives (continued)

As part of our audit, a letter of representation will be requested from management. This will confirm to us that:

1. Certain representations, made to us orally during our audit that are not reflected in books of account or other records covering such matters as the existence of pledged assets, commitments, derivatives, litigation or contingencies and the possible occurrence of illegal or questionable acts, have been appropriately described;

2. Certain other representations implicit in the books and records maintained by employees such as minutes relating to various corporate meetings and accounting records are complete and the transactions with affiliates and related parties and details of financial instruments and exposures related thereto are disclosed; and

3. The financial statements are presented fairly in accordance with GAAP.

Audit scope

Overall

Appendix B summarizes the scope of each assurance engagement. Appendix C outlines the expected commencement of our fieldwork and completion of our reporting obligations.

Materiality

Materiality as it relates to the conduct of the audit recognizes that some matters, either individually or in aggregate, are important if the financial statements are to be presented fairly in accordance with GAAP, whereas other matters are not as important. A misstatement or the aggregate of all misstatements in the financial statements is considered to be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities, would be changed or influenced by such misstatement or the aggregate of all misstatements. Misstatements in financial statements arise from departures from appropriate accounting principles and include departures from fact, inappropriate determination of accounting estimates and omissions of necessary information.

Auditors are required to determine materiality based on their perception of the needs of the users and as such materiality becomes a matter for the auditors' professional judgment. Materiality will be calculated using the Deloitte audit approach and guidelines published by the CICA.

While conducting the audit, it is normal to come across immaterial errors that are accumulated on a summary sheet. Upon completion of the audit, the total of all immaterial errors is considered to ensure that the financial statements are not materially misstated as a whole. We will review any misstatements with you that we determine to be significant. We develop our testing thresholds on the assumption that we will find very few errors. We expect that all significant errors will be investigated and adjusted by management.

Our preliminary materiality has been based on budgeted expenditures for the City and professional judgment. For the 2007 year-end, materiality has been set at $30,000,000 (2006 - $28,500,000).

Monetary precision for the purpose of audit testing and sample selection is $24,000,000 (2006 - $22,800,000). Our testing is set at 80% of materiality to ensure it is sufficient to support our audit opinion if errors are found. Errors, individually or in aggregate, in excess of 20% of materiality will result in an increase in our audit scope.

We use the materiality calculated as part of our audit planning in several ways:

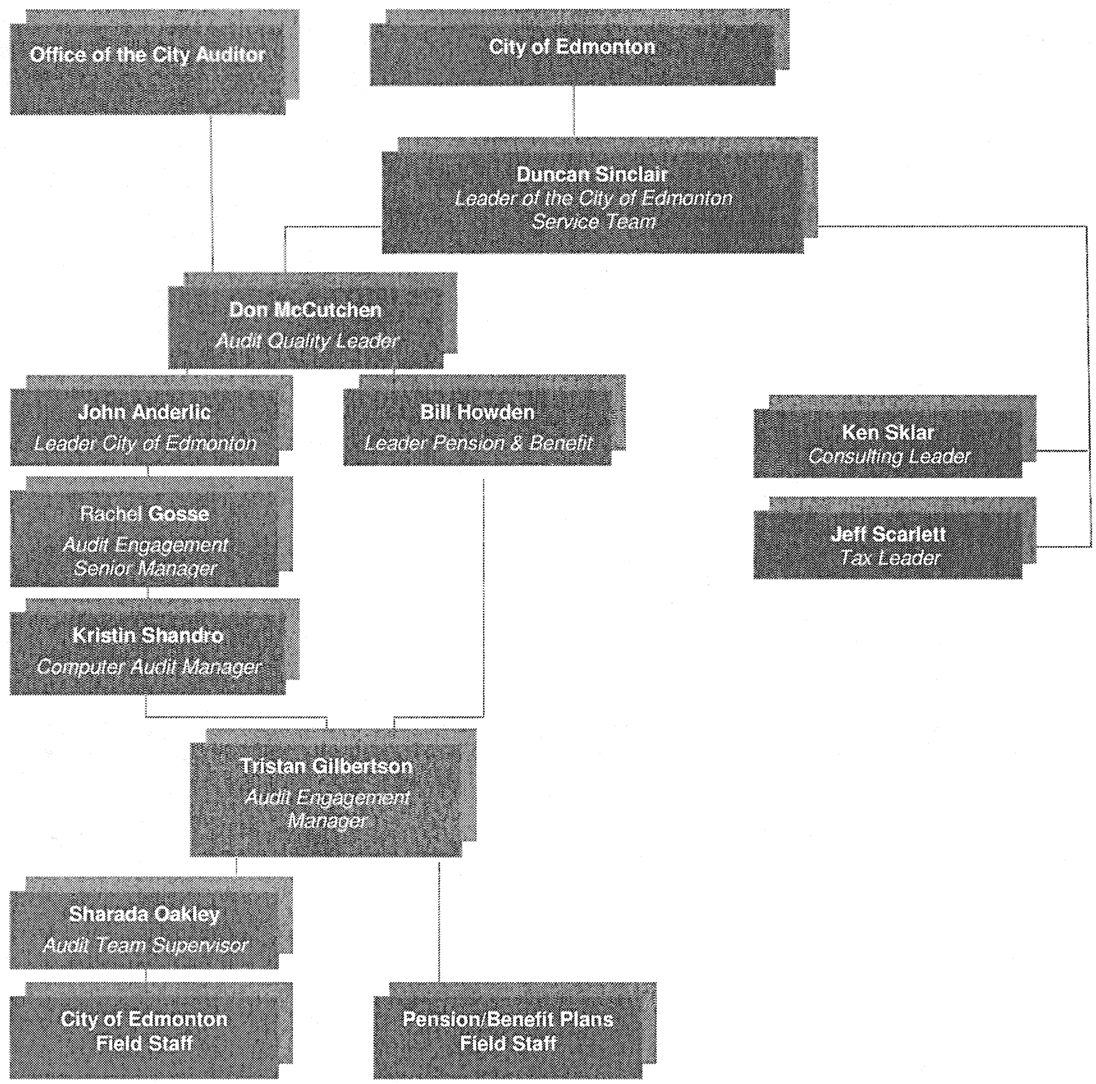
- To assess the impact of errors on the financial statements;
- To determine the size of our samples to be selected for testing; and
- To determine if a particular account is significant and should be tested.

In preparing our audit approach, there are various items we plan to review as part of the audit which are not impacted by the materiality calculation, including:

- Samples selected to test design and implementation and operating effectiveness of controls;
- Related party transactions;
- Unusual transactions or account balances, even if immaterial; and
- If errors are found, we expand our testing.

In completing the year-end audit, we reassess the materiality set during the planning phase to ensure it is still appropriate and if not, review the impact on the audit work performed.

Client service team



Your client service team is built around a combined group of experienced professionals who have the attitude, expertise and experience with municipalities, utilities and complex organizations enabled by SAP to provide value through the external audit process and help the City achieve its long-term objectives.

Effectively integrating our work with the Office of the City Auditor enables a more efficient and effective external audit of the City.

Appendix A – Current issues

Current year impact for the City

PSG-6, *Including Results of Organizations and Partnerships Applying Fair Value Measurement*
Updated January 2007

Section was amended as a result of issuing revised Section PS 1200. Final Guideline approved in January 2006. The Guideline applies to the summary financial statements of all governments. The purpose of this Guideline is to provide guidance on the reporting of government organizations and government partnerships in a government's summary financial statements that are in accordance with:

- Section 1530, Comprehensive Income;
- Section 3855, Financial Instruments - Recognition And Measurement; and
- Section 3865, Hedges.
  - The first key proposal pertains to the reporting by a government of any other comprehensive income ("OCI") reported by a government business enterprise or government business partnership (a "GBE").
  - The second key proposal amends paragraph PS 2510.45, *Additional Areas of Consolidation,* and adds new paragraphs PS 2510.50-.51.
  - Finally, the guideline references existing standards confirming requirements to:
    - Conform accounting used by governmental units and government partnerships other than government business partnerships to the CICA Public Sector Accounting ("PSA") Handbook in preparing government summary financial statements;
    - Conform the values of financial assets and financial liabilities held by a government organization when it ceases to be a GBE; and
    - Account for inter-organizational bond holdings.

Provisions mandate implementation no later than for interim and annual periods beginning on or after October 1, 2006 by those organizations preparing their financial statements applying the CICA Handbook - Accounting.

PSG-7, *Tangible Capital Assets of Local Governments*
Updated January 2007

Section was amended as a result of issuing revised Section PS 1200. Final Guideline approved in January 2006.

PSG-7 provides guidance to local governments on presenting information in notes or schedules related to tangible capital assets in accordance with *Objectives of Financial Statements - Local Governments*, paragraph PS 1700.110. It is applicable to fiscal years beginning on or after January 1, 2007. Earlier adoption is encouraged.

Revisions to PS 1300, *Government Reporting Entity*
Issued May 2007
20 Questions About the Government Reporting Entity
This guide is useful for elected officials, the media, taxpayers and others as it answers questions about a government's reporting entity - what it is; why it is important and how summary financial statements are put together.

Appendix A –
Current issues (continued)

Current year impact for the City (continued)

SORP 2 Public Performance Reporting-Public Sector
Issued May 2007
Guide to Preparing Public Performance Reports
This Guide revises and replaces the Public Performance Reporting Assessment Guide.

Future impact for the City

PS 1000, *Financial Statement Concepts*
Issued January 2007

This Section outlines the conceptual framework for accounting by governments and other public sector entities applying the CICA Public Sector Accounting Handbook. This Section also:

- Provides a definition of "revenue";
- Defines the users of public sector financial statements and provides the qualitative characteristics that financial statements should have;
- Defines assets, liabilities, revenues and expenses from an economic resources perspective; and
- Provides recognition and measurement guidance.

This Section applies to fiscal years beginning on or after January 1, 2009.

PS 1100, *Financial Statement Objectives*
Issued January 2007

This Section sets out the objectives related to the scope of government financial statements, reporting financial position, annual results, changes in net debt and cash flows, and objectives related to legislative control and financial accountability. This Section also identifies the unique characteristics of governments and the related reporting implications. As a consequence, Section PS 1700, *Objectives of Financial Statements - Local Governments* is withdrawn. This Section applies to fiscal years beginning on or after January 1, 2009.

PS 1200, *Financial Statement Presentation – Local Government*
Issued January 2007

This Section establishes standards for recognition, presentation and disclosure in government financial statements. The main features of the Section are as follows:

- Governments are required to present a statement of financial position, statement of operations, statement of changes in net debt and a statement of cash flows.
- Financial statements should present net debt and accumulated surplus/deficit on the statement of financial position, annual surplus/deficit, the change in net debt and changes in cash flows.
- Current year budget and actual figures are to be presented on both the statement of operations and the statement of changes in net debt.
- Funds and reserves are to be reported in the notes or schedules when the government chooses to report on them.

Appendix A – Current issues (continued)

Future impact for the City (continued)

PS 1200, *Financial Statement Presentation – Local Government* (continued)

As a consequence, Section PS 1800, *General standards of financial statement presentation - local governments* and *Sale-leaseback transactions* (PSG-3) were withdrawn and the following standards were amended:

- PSG-2, Leased tangible capital assets;
- PSG-6, Including results of organizations and partnerships applying fair value measurement; and
- PSG-7, Tangible capital assets of local governments.

This Section applies to local governments for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

Revisions to PS 1300, *Government Reporting Entity*

This Section applies to fiscal years beginning on or after April 1, 2005. However, when a government organization that was not included as part of the government reporting entity in the financial statements of the previous fiscal year is newly included and the government organization has all of the characteristics set out in paragraph PS 1300.49, a government may choose to include the government organization in the financial statements on a modified Equity basis, rather than fully consolidating, from the date of initial application until fiscal years beginning on or after April 1, 2008. For fiscal years beginning on or after April 1, 2008, a government fully consolidates these government organizations, in accordance with paragraph PS 1300.27.

This Section has been amended to add transitional provisions that allow a government, in limited cases, to choose to defer consolidating certain government organizations until fiscal years beginning on or after April 1, 2008.

For the transitional period, government organizations that have not been included in the reporting entity in the previous fiscal year and that have specific characteristics may be accounted for on a modified Equity basis rather than being fully consolidated. For fiscal years beginning on or after April 1, 2008, all government organizations, except government business enterprises, would be fully consolidated.

PS 2700, *Segment Disclosures*

This Section establishes standards on how to define and disclose segments in a government's summary financial statements. These standards apply to the summary financial statements of federal, provincial, territorial and local governments. Other government organizations that apply the standards of the CICA Public Sector Accounting Handbook (CICA PSA Handbook) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.

Summary financial statements provide aggregated information about government and serve as a means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Generally, however, the activities of a government are so broad and encompass so wide a range of different activities that it is valuable to disclose selected disaggregated financial information about particular segments of a government in the summary financial statements. The guidance in this Section is intended to start with the summary financial statements and separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the summary statements. This Section applies to fiscal years beginning on or after April 1, 2007. Earlier adoption is encouraged.

Appendix A – Current issues (continued)

Future impact for the City (continued)

PS 3150, *Tangible Capital Assets - Public Sector Revised*
Guide to Accounting for and Reporting Tangible Capital Assets
This Guide is a useful reference for orders of government implementing Section PS 3150, *Tangible Capital Assets*, and the new reporting requirements. It contains valuable information on the need for and benefits of accounting for tangible capital assets, implementation considerations and subsequent accounting requirements, and how that information could be linked with ongoing asset management practices. *Tangible Capital Assets*, Section PS 3150 [JAN. 2009] revises and replaces Section PS 3150, *Tangible Capital Assets*. The Section now applies to all orders of government. The revisions include amended definitions and standards for senior levels of government, and reordering of existing material. This Section applies to the City for the fiscal year beginning on January 1, 2009. Earlier adoption is encouraged.

Potential future impact for the City

Assessment of Tangible Capital Assets
Issued June 2007

The PSAB has issued a Statement of Principles of a new Statement of Recommended Practices ("SORP"), *Assessment of Tangible Capital Assets*. The SORP is intended to apply to all governments and government organizations. The Public Sector Accounting Board proposes to expose *Assessment of Tangible Capital Assets*, as a new SORP. The main features of this Statement of Principles are as follows:

- The assessment of tangible capital assets should include those that are recognized in the summary financial statements of an entity and those of its government business enterprises recognized on a modified equity basis of accounting.
- Information should include a physical condition rating assessment, the extent of assets in each rating category and remaining average life expectancy of tangible capital assets.
- Narrative information should provide explanations of the reasons for changes in the assessment, the implications of those changes and any known and planned expenditures that affect the assessment.

Comments period ended June 15, 2007

Proposal- revised - PS 3410, *Government Transfers - Public Sector*
Re-issued April 2007

The PSAB has issued a Re-Exposure Draft of revised Section PS 3410, *Government Transfers*. The new proposals take a different approach to recipient government accounting and may have significant fiscal implications for some governments.

Comments period ended September 15, 2007.

The main features of this Exposure Draft are as follows:

- Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:
  - Receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
  - Expect to be repaid in the future, as would be expected in a loan; or
  - Expect a direct financial return, as would be expected in an investment.
- Government transfers should be recognized as revenue or expenses when the transfer has been authorized and any eligibility criteria have been met.

Appendix A –
Current issues (continued)

Potential future impact for the City (continued)

Proposal- revised - PS 3410, *Government Transfers - Public Sector* (continued)

- A determination that a transfer is authorized requires evidence at the financial statement date of:
- The authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and
- The exercise of authority under legislation, regulations or by-laws in place at the financial statement date.

The revised Section is expected to apply to local governments for fiscal years beginning on or after January 1, 2009.

Incorporating International Financial Reporting Standards ("IFRSs") into Canadian GAAP
The AcSB has prepared a Bulletin that deals with converging with International Financial Reporting Standards. This bulletin points to the advance planning decisions that companies should take to prepare for their own adoption of IFRSs. The AcSB received an update on discussions held, publications reviewed and other activities undertaken to date, to evaluate the readiness of Canadian publicly accountable enterprises to adopt IFRSs beginning on January 1, 2011, as outlined in the *Progress Review — Steps to IFRS Incorporation into Canadian GAAP (PDF)*. Based on work undertaken to date, no significant impediments to adopting IFRSs on the proposed changeover date have been identified. Further work will be undertaken over the next few months, including consultation with the Accounting Standards Oversight Council in October 2007. The AcSB expects to be in a position to confirm by March 31, 2008 whether the effective date for adopting IFRSs will be January 1, 2011.

The AcSB has published its plan for assessing the progress Canada is making towards its convergence with IFRSs, to confirm that anticipated timing of full convergence continues to be appropriate.

Appendix B – Assurance engagements

December 31, 2007 year-ends

- The City of Edmonton consolidated financial statements
- Municipal Financial Information Return
- Edmonton Public Library Board financial statements
- Pension Fund financial statements - includes the combined financial statement as well as individual schedules for the Annuity Fund, Police Supplementary Pension Fund, Firefighters' Supplementary Pension Fund and Fire Chief and Deputy Fire Chiefs' Supplementary Pension Fund
- Annuity Fund, Police Supplementary Fund and Firefighters' Supplementary Fund financial statements prepared to comply with section 14(3) of the Employment Pension Plans Act (Alberta)
- Employee Benefit Plans financial statements - includes individual statements for the Supplementary Income Replacement Plan, Group Life Plan, Dependant Group Life Plan, Dental Plan, Short-term Disability Plan, Long-term Disability Plan and the Major Medical Plan
- Alberta Cities Transportation partnership statements
- Family and Community Support Services Statement

Appendix C – Audit timing

Activity	Dates
Interim audit	
Commence interim audit fieldwork, including updating of systems	November 12, 2007
Present audit scope memorandum to Audit Committee	November 20, 2007
Year-end audit	
Field work commences	February 25, 2008
Substantial completion of audit field work	March 31, 2008
Auditor's meeting with management to discuss audit issues and review draft reports and letters	TBD
Financial statements received by Audit Committee for review	April 23, 2008
Financial statements received by Council for information	April 30, 2008
Draft management letter presented to the City's management for comment	TBD
Management letter presented to the Audit Committee	June 17, 2008

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