

The Corporation of the Town of Halton Hills

Audit Planning Report for the year ended
December 31, 2021

KPMG LLP

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7, 2022

kpmg.ca/audit



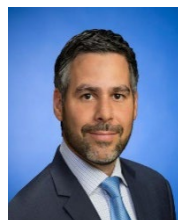
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Our refreshed Values

What we believe



Executive summary

Updates to our audit plan

See page 2 for updates in our audit plan compared to the prior period.

Audit quality

See page 3 for how we deliver audit quality and how you can measure our audit quality.

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenues, total expenses and total assets. We have determined group materiality to be \$2,175,000.

See page 4 for additional details.

Group audit scope

Our audit consists of 5 of components over which we plan to perform full scope audits for each.

See page 5

Audit risks

Our audit is risk-focused. In planning our audit, we have taken into account key areas of focus for financial reporting. These areas include:

- Revenue recognition including government grants, user charges and fees and related deferrals (including obligatory)
- Tangible capital assets
- Post-employment benefit liability
- Contaminated sites liability
- Operating expenditures including payroll
- Investment in Halton Hills Community Energy Corporation

See pages 6 – 8 for more information.

Proposed fees

Proposed fees for the annual audit are included in the engagement letter for December 31, 2021. A copy can be obtained from management.

This report to Council is intended solely for the information and use of management 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 Council has to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Updates to our audit plan

New significant risks and other matters related to COVID-19	Description
COVID-19 Risk Assessment	As the global pandemic continues to impact businesses and markets, we will inquire with management and complete a COVID-specific risk assessment in order to assess the impact to our audit plan.
Government Assistance	Consistent with our approach from the prior year, we will substantively test material amounts of COVID-related funding provided from other levels of government, if applicable.
Other significant changes	Description
Going Concern	Based on the nature of the Town, we have not identified going concern as a risk area for the audit.
Virtual Auditing & Safety Protocols	<p>KPMG has implemented thorough safeguards and guidelines in response to the pandemic's impact on our ability to travel and work at client sites. We will work with management to ensure that, should it be deemed mutually beneficial to work on-site, all safety protocols from both the Town and KPMG are communicated and adhered to.</p> <p>Based on our planning discussions to date, we expect the audit will be conducted primarily in a remote setting, with occasional on-site time when it is more efficient and beneficial to do so.</p>

Audit Quality: How do we deliver audit quality?

Transparency report



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.

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	Group amount
Materiality	The corresponding amount for the prior year's audit was \$2,025,000	\$2,175,000
Benchmark (the metric that is <u>most</u> relevant to the users)	Based on prior year total revenue. This benchmark is consistent with the prior year.	\$87,009,429
% of Benchmark	Range of 1 to 3 percent. The corresponding percentage for 2020 was 2.5%.	2.5 %
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing, and extent of audit procedures. The corresponding amount in the previous year was \$1,518,750.	\$1,630,000
Audit misstatement posting threshold ("AMPT")	Threshold used to accumulate misstatements identified during the audit. The corresponding amount in the previous year was \$101,250.	\$100,000

We will report to the audit committee:



Corrected audit misstatements



Uncorrected audit misstatements

Group audit – Significant components

Nature of the planned involvement in the work of component auditors of significant components:

Individually financially significant components	Materiality	Our Audit Approach
The Corporation of the Town of Halton Hills	\$2,070,000	Statutory audit of component financial information for consolidation. Carlos Alvarez as engagement partner is responsible for the overall delivery and execution of the group audit engagement.
Halton Hills Community Energy Corporation	\$1,780,000	Statutory audit of component financial statements. Same engagement partner as for the Town audit.
Halton Hills Public Library	\$127,000	Statutory audit of component financial statements. Same engagement partner as for the Town audit.
Acton BIA	\$10,000	Statutory audit of component financial statements. Same engagement partner as for the Town audit.
Georgetown BIA	\$10,000	Statutory audit of component financial statements. Same engagement partner as for the Town audit.

Audit risks

Significant risk - professional requirements	Why is it significant?
Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	<p>This is a presumed risk of material misstatement due to fraud.</p> <p>As permitted under Canadian Auditing Standards, we have rebutted the fraud risk from revenue recognition.</p> <p>The majority of revenue is driven directly from levying of taxation dollars and user charges with little judgement over timing of revenue recognition.</p>

Our audit approach

While we will not design procedures to address a fraud risk, nevertheless revenues represent a significant account in your financial statements. Our approach will consist of performing substantive procedures over revenue as well as incorporating an element within journal entry testing designed to identify unusual entries with respect to revenue.

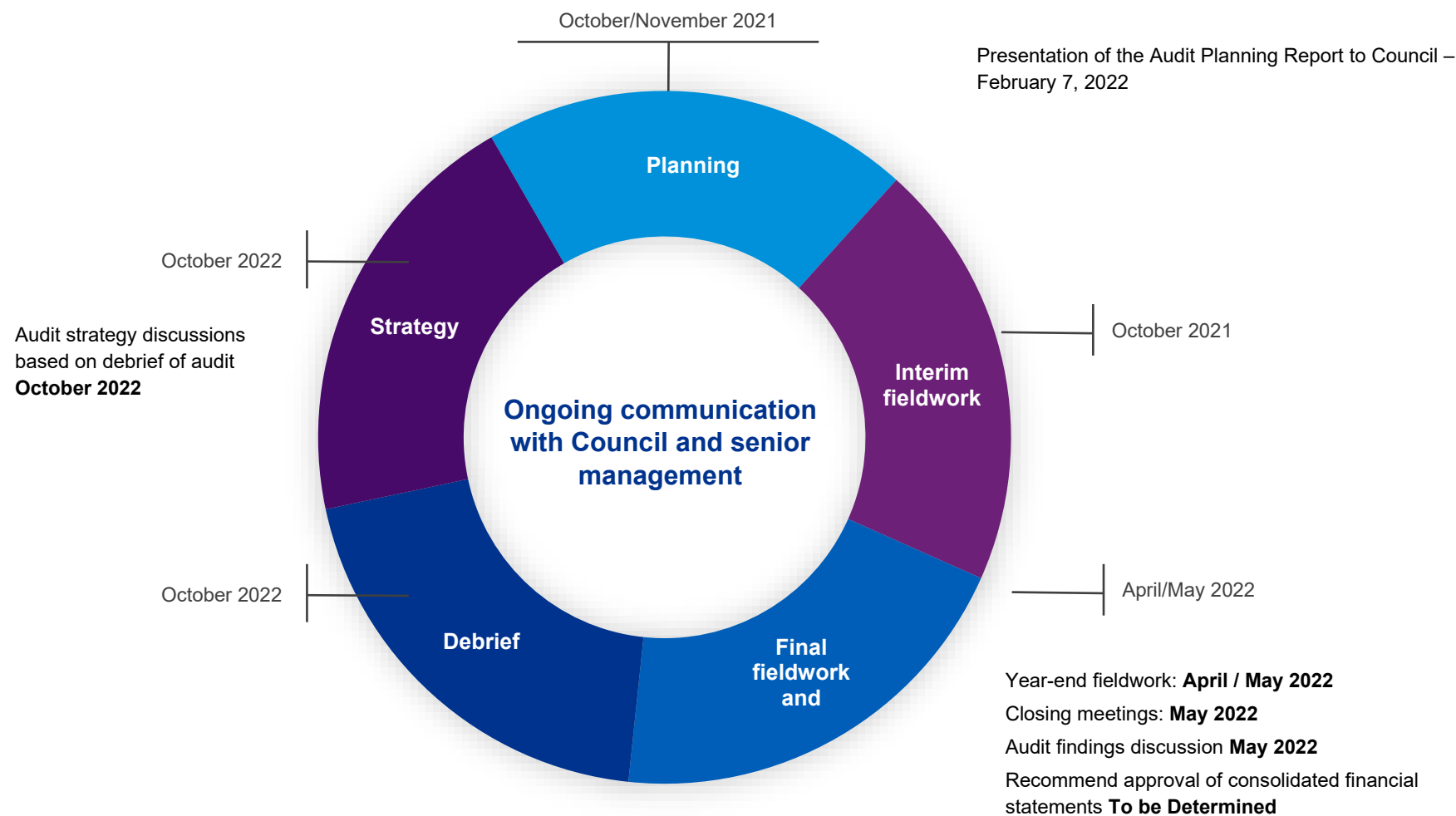
Audit risks (continued)

Significant risk – professional requirements	Why is it significant?
<p>Risk of material misstatement due to fraud resulting from management override of controls.</p>	<p>This is a presumed risk of material misstatement due to fraud</p> <p>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.</p>
Our audit approach	
<p>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.</p>	

Audit approach

Other areas of focus	Why	Our audit approach
Government grants, users charges and fees and related deferrals (including obligatory)	Risk of material misstatement related to the completeness, existence and accuracy of grant and obligatory deferred revenue	<ul style="list-style-type: none"> – We will perform substantive procedures to address the relevant assertions
Tangible capital assets	Risk of material misstatement related to the classification, completeness and accuracy of tangible capital assets	<ul style="list-style-type: none"> – We will perform substantive procedures to address the relevant assertions including testing of significant additions and disposals and assessing the status of any capital projects identified as work-in-process. – We will perform procedures over the fair value of contributed assets and recognition as revenue – We will agree fair value estimates of contributed tangible capital assets to supporting third party documentation or estimated by the Town.
Post-employment benefit liability	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> – We will perform substantive procedures to address the relevant assertions including a review of the actuarial valuation and applicable assumptions and assessing the use of management's expert as audit evidence. – We will ensure appropriate disclosures are made within the Town's financial statements. – Communicate with actuaries and test HR data provided to the actuaries, if applicable.
Contaminated sites liability and post closure solid waste landfills	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> – We will perform substantive procedures to address the relevant assertions including a review of the methodology, assumptions and actual monitoring costs incurred during the year. – We will ensure appropriate disclosures are made within the Town's financial statements.
Operating expenditures including payroll	Risk of material misstatement related to the completeness, existence and accuracy of expenditures	<ul style="list-style-type: none"> – We will perform substantive procedures to address the relevant assertions including the use of Data & Analytical procedures.
Investment in Halton Hills Community Energy Corporation	Significant given the size of and nature of the investment held	<ul style="list-style-type: none"> – As required by the Ontario Energy Board, an audit is completed over Halton Hills Hydro Inc. ("HHHI"), for which Carlos Alvarez is also the Lead Audit Engagement Partner. We complete an audit of HHHI as well as Halton Hills Community Energy Corporation ("HHCEC") including any additional subsidiaries. For purposes of the Town's audit, we rely on the audit performed at the component level for reporting in the Town's financial statements. – We maintain regular contact with the HHCEC engagement team – We will ensure appropriate disclosures are made within the Town's financial statements

Key milestones and deliverables



Highly talented and experienced team

Team member	Background experience	Discussion of the role
Carlos Alvarez Lead Audit Engagement Partner	<p>Over 22 years of experience with KPMG Hamilton and Calgary</p> <p>Continuity as the lead audit engagement partner, having overseen the audit of the Town in the prior period. He is also a noted presenter on municipal issues such as the new and upcoming ARO standard.</p> <p>Diverse client portfolio in both the public and private sectors including several municipalities, past and present including:</p> <p>City of Hamilton, City of St. Catharines, Town of Halton Hills, Town of Banff, Town of Niagara-on-the-Lake, Wheatland County</p> <p>He is also leader of several hydro clients (greater than 6) throughout the Niagara, Hamilton, London and Halton regions.</p>	<p>Carlos will take an active role in the audit leading the team, directly being involved with the completion of the audit and the issuance of the audit report.</p> <p>He will serve as a key contact for management and will present our audit report and findings to Council alongside the team.</p>
Heather Doerksen Audit Senior Manager	<p>Over 10 years of public accounting experience, including serving public sector clients on an on-going basis each year</p> <p>Continuity as the lead-manager of the Town's audit for several periods in succession (beginning in 2019)</p> <p>Current and past clients include the Regional Municipality of Niagara, the Town of Lincoln, the Town of Niagara-on-the-Lake and Six Nations of the Grand River (reporting under PSAB).</p>	<p>Heather will be responsible for the day to day oversight of the engagement team during all on-site audit timelines.</p> <p>She will be in regular contact with management both during and outside of the audit timeframe.</p> <p>She will take an active role in presentation of audit findings upon the conclusion of our audit, alongside the engagement partner.</p>
Lois Ouellette Technical Resource	<p>Nearly 40 years of experience serving Public Sector clients</p> <p>Provincial PSAB resource within KPMG for the province of Ontario and is a member of KPMG's Public Sector Technical Committee.</p> <p>Authored the PSAB Financial Reporting course for the Institute of Chartered Accountants of Ontario ("ICAO", now CPAO).</p> <p>Instructor for the Institutes of Chartered Accountants of Manitoba, Ontario and Saskatchewan of the PSAB Financial Reporting course</p>	<p>Lois will be available to assist as a technical support resource to support Carlos, Heather and the audit team as a whole.</p> <p>She is available to management to discuss technical PSAS topics as needed in addition to supporting the audit process itself.</p>

Value for fees

The value of our audit services

We recognize that the primary objective of our engagement is the completion of an audit of the financial statements in accordance with professional standards. We also believe that our role as external auditor of the Town and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. We know that you expect this of us.

We want to ensure we understand your expectations. To facilitate a discussion we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive industry experience on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in audits of higher education institutions. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you;
- Appropriate transition to current audit team– we strive to provide continuity of team members in order to achieve audit efficiencies and effectiveness reducing the amount of time your team spends with the audit team, when that is not possible we put a process in place to ensure an effective transition of knowledge;
- Current development update sessions – annually we organize and deliver tailored information session on current developments in financial reporting and other matters that are likely to be significant to the Town and your team. These sessions will assist the Town in proactively responding to financial reporting and regulatory changes. We held sessions guiding municipalities through the Asset Retirement Obligation standard on January 6, 2022.
- Involvement of KPMG specialists – Our audit team is supported by specialists in income and other taxes, information risk management, management consulting, actuarial and advisory when necessary. We expect each of the specialists to provide insights and observations resulting from their audit support processes;
- Data analytics – As Data and Analytics tools become mainstays of business, the use of analytics-based audits is rising. Unlike traditional audits, which rely on relatively small data sets to extrapolate conclusions across the full financial data, analytics-based audits have the capacity to incorporate the totality of an organization's financial information.

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon by management and is provided for in the engagement letter for the December 31, 2021 audit.

Matters that could impact our fee

The proposed fees outlined in the December 31, 2021 engagement letter are based on the assumptions described in the engagement letter. In addition to the above, we will discuss with management an agreed upon fee for additional services with respect to the preparation of the financial statements including note disclosures as well as balancing of the annual Financial Information Return.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the Town beyond those contemplated in our planning processes;
- Identification of any misstatements and quality of the overall books and records subject to audit;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the time of our work;



Appendices

Content

Appendix 1: Required communications

Appendix 2: Use of technology in the audit

Appendix 3: Insights to enhance your business

Appendix 4: Audit and Assurance Insights



Appendix 1: Other required communications

Report	Engagement terms
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.
CPAB Communication Protocol	Representations of management
<p>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:</p> <ul style="list-style-type: none">• <u>Audit Quality Insights Report: 2020 Annual Audit Quality Assessments</u>• <u>CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic</u>• <u>CPAB Audit Quality Insights Report: 2021 Interim Inspections Results</u>	We will obtain from management certain representations at the completion of the audit.
Matters pertaining to independence	Control deficiencies
We confirm we remain independent as required by our professional standards. We will make a letter stating our independence available to management and/or those charged with governance upon request.	On a timely basis, identified significant deficiencies will be communicated to Council in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

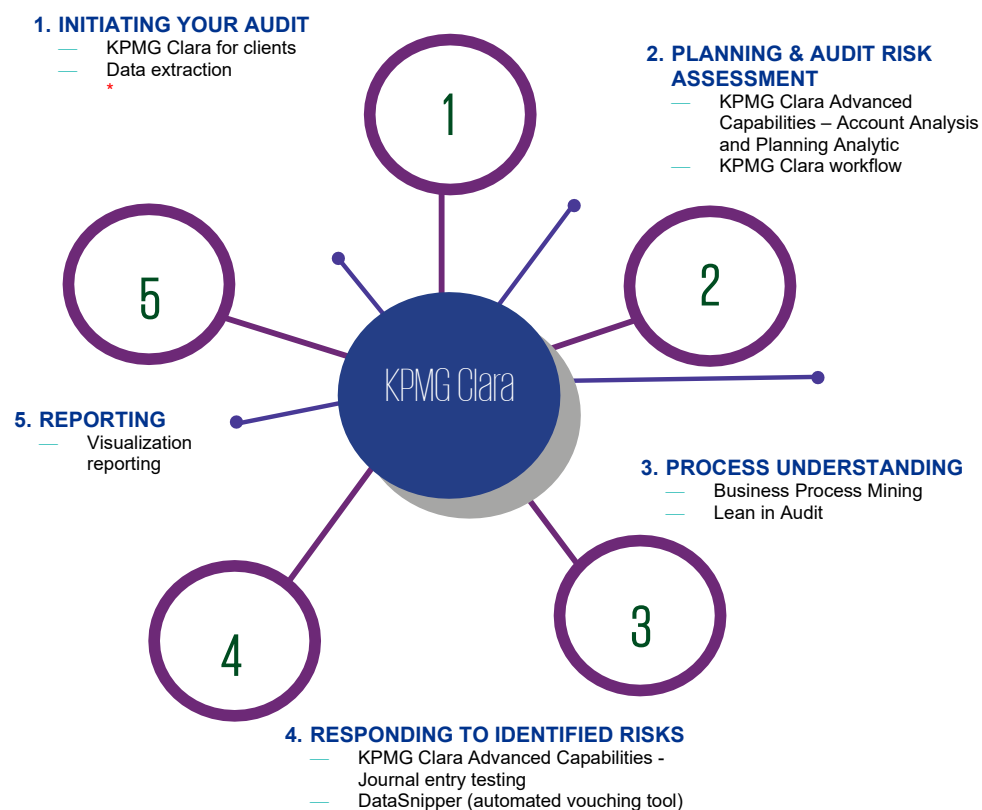
Appendix 2: Use of technology in the audit

KPMG Clara is our integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. KPMG Clara embeds analytics throughout all phases of the audit and allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures. KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence (“AI”) tools which will be used in future audits and identifying areas to embed robotic process automation (“KPMG Bots”).

Our five-phased audit approach



Appendix 3: Insights to enhance your business

During the prior year audit, we identified the following insights and potential opportunities to improve the effectiveness of your processes and controls:

An innovative audit approach to improve quality and value

Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

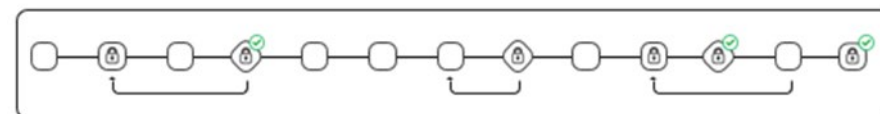
Benefits for you also include more robust documentation which significantly helps with onboarding new Town staff and in reducing and succession risk.

We look forward to discussing this optional service with you this year. Generally one or two processes are selected each year and each individual process does not need to be reviewed each year.

How it works

Standard Audit

Typical process and how it's audited



Lean in Audit™

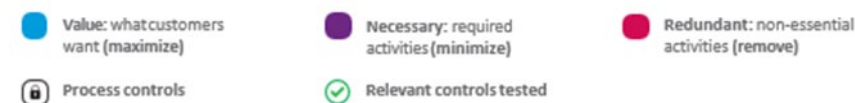
Applying a Lean lens to perform walkthroughs

Typically 95% + is considered redundant through a customer's lens



How Lean in Audit helps businesses improve processes

Make the process more streamlined and efficient for all



Appendix 4: Audit and Assurance Insights

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

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>Board Leadership Centre</u>	Supporting you in your Director role
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>KPMG Climate Change Financial Reporting Resource Centre</u>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<u>You can't go green without blue - The blue economy is critical to all companies' ESG ambitions</u>	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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KPMG member firms around the world have 227,000 professionals in 146 countries.

