The Corporation of the Town of Halton

Audit Planning Report for the year ended December 31, 2022

KPMG LLP

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Kpmg.ca/audit

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Table of contents

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Digital use information

This Audit Planning Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this page.

Click on any item in the table of contents to navigate to that section.

Audit Quality: How do we deliver audit quality?

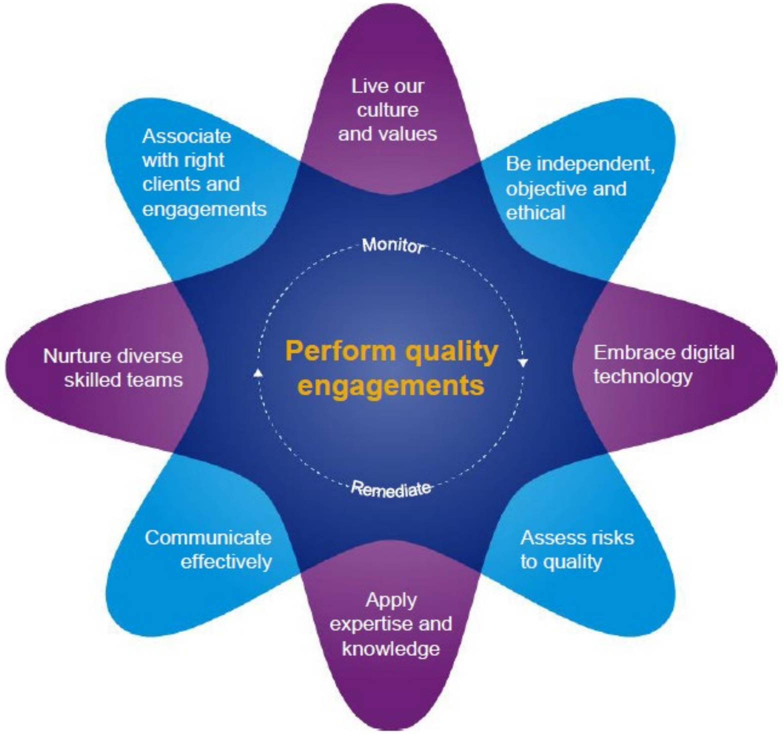
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'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.**

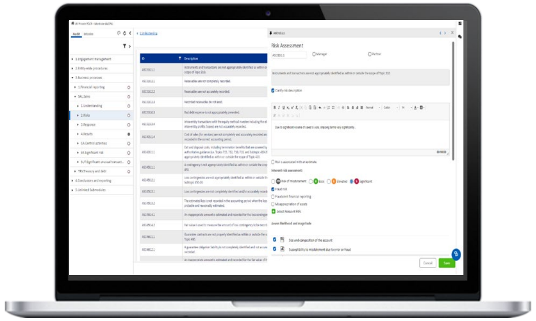


Doing the right thing. Always.

Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

KPMG Clara workflow

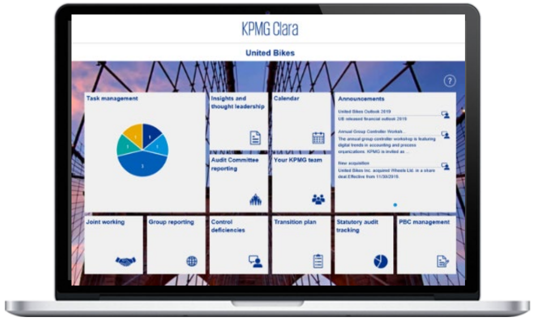


Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

Learn more

KPMG Clara for clients



Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

Learn more

KPMG Clara analytics

Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

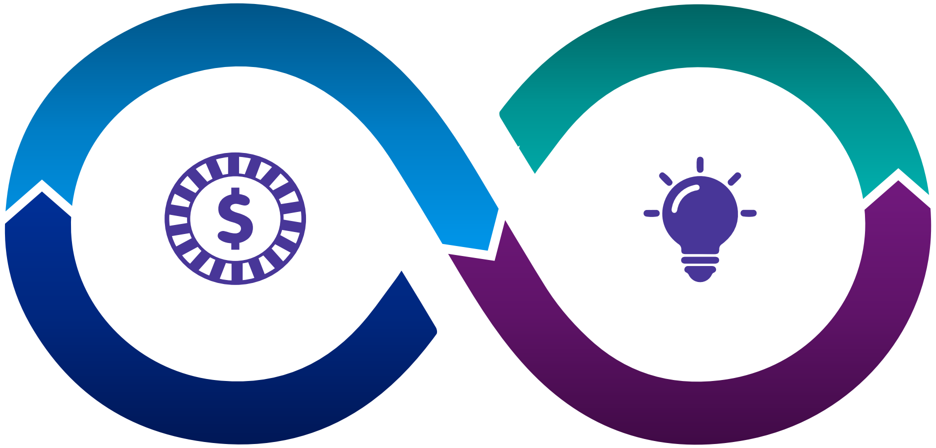
Learn more

Advanced Technologies

To ensure quick and efficient access to data, we use one of our available data extractions tools such as **DataShare.** DataShare is a data extraction tool that enables easy and reliable data extraction from compatible accounting systems to support our audit work by fully automating the extraction process.

Click to learn more

Audit Plan- Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Audit Plan- Materiality

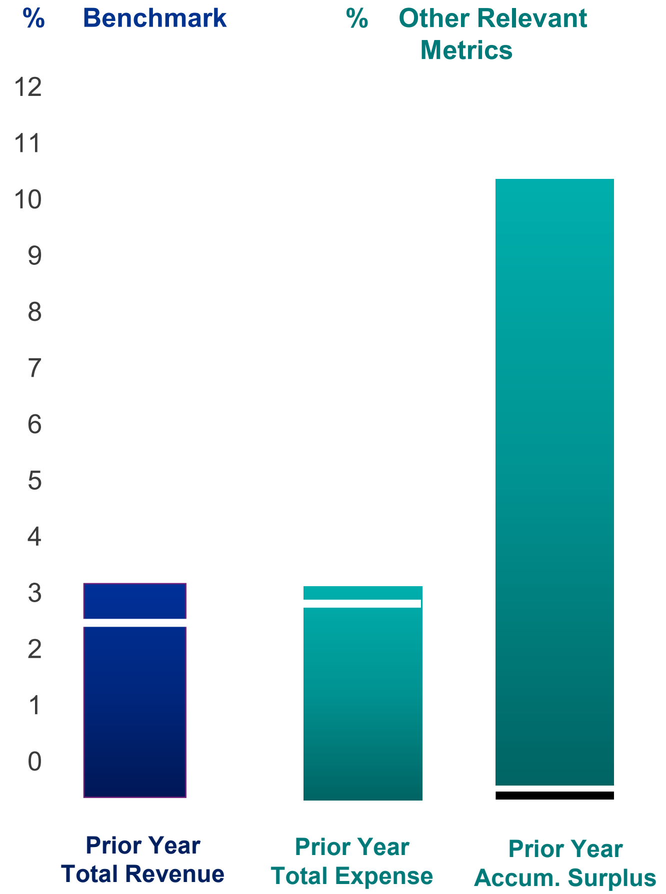
Group Materiality

$2.4 million

(2021: $2.2 million)

Audit misstatement posting threshold of $120,000

Current year



Prior Year Total Revenue

$95,324,246

This benchmark is consistent with the prior year.

Prior Year Total Expense

$82,067,768

This benchmark is consistent with the prior year.

Prior Year Accumulated Surplus

$422,834,137

This benchmark is consistent with the prior year.

Audit Plan- Updates to our prior year audit plan

New significant risks

New significant risks

No new significant risks have been identified in the current year.

Other significant changes

Other significant changes

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.
Going Concern - Based on the nature of the Town, we have not identified going concern as a risk area for the audit.

Newly effective auditing standards

- CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*

Newly effective accounting standards

- **No newly effective accounting standards. See Appendix C for current developments**

Group audit Plan - Scoping : Significant Components

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

Individually financially significant components	Materiality
The Corporation of the Town of Halton Hills - Statutory audit of component financial information for consolidation	$2,260,000
Halton Hills Community Energy Corporation - Statutory audit of component financial statements	$1,780,000
Halton Hills Public Library - Statutory audit of component financial statements	$145,000
Acton BIA - Statutory audit of component financial statements	$10,000
Georgetown BIA - Statutory audit of component financial statements	$10,000

Audit Risks- Significant risks

Presumption of risk of fraud involving improper revenue recognition

RISK OF

ERROR FRAUD

Estimate?	Significant risk	New or changed?
No	Under Canadian Auditing Standards (CAS) there are presumed fraud risks for revenue recognition. 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.	No

Relevant inherent risk factors affecting our risk assessment

Our audit methodology incorporates the required procedures in professional standards to address the risk.

Our audit approach

Fraud risk from revenue recognition is rebutted for financial statement purposes. The majority of revenue is driven directly from levying of taxation dollars and user charges with little judgement over timing of revenue recognition

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- Significant risks (continued)

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

RISK OF
ERROR FRAUD

Estimate?	Significant risk	New or changed?
No	Under Canadian Auditing Standards (CAS) there are presumed fraud risks for management override of controls. 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	No

Relevant inherent risk factors affecting our risk assessment

Our audit methodology incorporates the required procedures in professional standards to address the risk

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:

- Evaluating the design and implementation of relevant controls around the recording of journal entries including those over revenue
- Utilizing KPMG application software (IDEA) to evaluate the completeness of the journal entry populations through a roll-forward of 100% of the accounts
- Utilizing computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high risk journal entries for further testing
- Performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Technologies

Our **KPMG Clara Journal Entry Analysis 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.

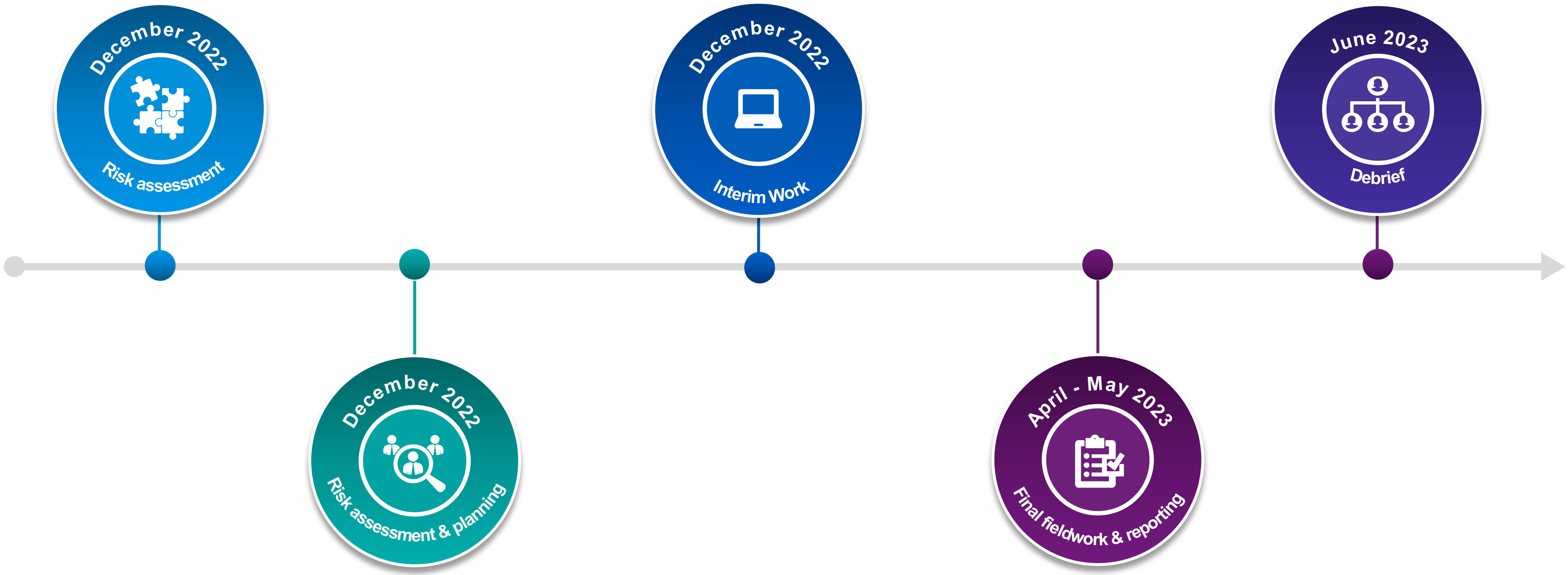
Audit Risks- Other areas of focus

Areas	Risk due to error	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	- We will perform substantive procedures over government grants and development charges to address the relevant assertions and ensure appropriate deferral at December 31, 2022 -
Tangible capital assets	Risk of material misstatements related to the classification, completeness and accuracy of tangible capital assets	- 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.	- We will perform substantive procedures to address the relevant assertions including a review of the actuarial valuation and applicable significant 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.

Audit Risks- Other areas of focus

Areas	Risk due to error	Audit approach
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	- 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 and accuracy of the liability and related expenditures	- 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 investement held	- 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 consolidated financial statements. - We maintain regular contact with the HHCEC engagement team - We will ensure appropriate disclosures are made within the Town's consolidated financial statements

Key milestones and deliverables



Appendices

A Engagement letter

B Other required communications

C Current development

D Audit and assurance insights

Appendix A: Engagement letter

We provide the Town with an engagement letter that includes the standard terms of engagement.

Appendix B: Other required communications

CPAB communication protocol

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 quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2020 Annual Audit Quality Assessments

Appendix C: Current Development

Standard	Summary and implications
Asset Retirement Obligations	• The new standard is effective for fiscal years beginning on or after April 1, 2022 (**the Town's 2023 year end**). • The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. • The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. • As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	• The new standard is effective for fiscal years beginning on or after April 1, 2023 (the Town's 2024 year end). The effective date was deferred by one year due to COVID-19. • The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Appendix C: Current Development (Continued)

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	• The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022 (the Town's 2023 year end). The effective date was deferred by one year due to COVID-19. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. • In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts were released in summer 2020 with a 90-day comment period.

Appendix C: Current Development (Continued)

Standard	Summary and implications
Employee Future Benefit Obligation	• PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. • PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Appendix C: Current Development (Continued)

Standard	Summary and implications
Public Private Partnerships ("P3")	• PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023 (the Town's 2024 year end), and may be applied retroactively or prospectively. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life. • Subsequent measurement of the financial liability would reflect the payments made by the public sector entity to settle the liability as well as the finance charge passed on to the public sector entity through the public private partnership agreement. • Subsequent measurement of the performance obligation: revenues are recognized and the liability reduced in accordance with the substance of the public private partnership agreement.

Appendix C: Current Development (Continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	• PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. • PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. • PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. • In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Appendix C: Current Development (Continued)

Standard	Summary and implications
Purchased Intangibles	• In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. • PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. • The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
2022 – 2027 Strategic Plan	• PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. • The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities • The Strategic Plan emphasizes four key priorities: • Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. • Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. • Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. • Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

Appendix D: Audit and assurance insights

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

KPMG Audit & Assurance Insights

Curated research and insights for Audit Committees and boards.

IFRS Breaking News

A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities.

KPMG Climate Change Financial Reporting Resource Centre

Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Momentum

A quarterly newsletter providing curated insights for management, boards and Audit Committees.

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

Uncertain Times Financial Reporting Resource Centre

Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

KPMG Learning Academy

Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

Environmental, social and governance (ESG)

Building a sustainable, resilient and purpose-led organization

Accelerate 2022

The key issues driving the Audit Committee agenda in 2022 kpmg.ca

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