



The Corporation of the Town of Halton Hills

**Audit Findings Report
for the year ended December 31, 2022**

KPMG LLP

Prepared June 20, 2023
for presentation in July 2023

kpmg.ca/audit



KPMG contacts

Key contacts in connection with this engagement



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Digital use information

This Audit Findings 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 slide.



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The purpose of this report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2022. This report builds on the Audit Plan we presented to Council. This report 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 has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on slide 5 of this report.



Uncorrected audit misstatements

The management representation letter includes the misstatement identified as a result of the audit and communicated to management.



See slide 14 for a summary of individually significant uncorrected audit misstatements.



Accounting policies and practices

No matters to report.



Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.



Other financial reporting matters

Findings related to other financial reporting matters are discussed on slide 16.



Control deficiencies

No matters to report. See slide 14 for certain required communications regarding control deficiencies.

Audit risks and results – going concern assessment

No matters to report.



Audit risks and results – significant risks

Significant findings related to significant risks and areas of focus are discussed on slide 6 to 13.



THE GROUP AUDIT	Summary of Scope by Entity	Significant Component?	Standalone Audit?	New for FY22?
	Halton Hills Community Energy Corporation	Yes	Yes	No
	Halton Hills Public Library	No	Yes	No
	Acton BIA	No	Yes	No
	Georgetown BIA	No	Yes	No
Note: consistent with our audit approach in the prior period, the non-significant components noted above were subject to full-scope standalone audits. These are completed due to the reporting needs of management and the users of the financial statements. We note that there were no changes in the expected scope communicated to you in our Audit Plan.				



Status of the audit

As of the date of this presentation we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completion of final reporting procedures
- Completing our discussions with you and obtaining evidence of Council's approval of the financial statements
- Obtaining the signed management representation letter from management following those discussions
- Receipt of 4 legal letter responses from law firms

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report, a draft of which is provided in Appendix: Draft Auditor's Report, will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)



Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with your team and provide visual insights into the status of the audit!

On your audit we used KCfc to coordinate requests during the audit.

[Learn more](#)



Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.



Presumption of risk of fraud involving improper revenue recognition

Significant risk

Estimate?

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.

Our response

- Fraud risk arising from improper revenue recognition is a presumed risk that must be considered in the planning and risk assessment phase of all audits performed under our professional standards in Canada. Due to the nature of the Town and the fact that a significant portion of its revenue relates to the annual tax levy, we have not identified any specific risks beyond those which are presumed.
- As disclosed in our audit plan, we have rebutted this presumption as we have not identified any specific risk factors and note that the majority of the Town's revenues are supported by third party or independent supporting evidence and do not involve significant complexity.
- Regardless of our rebuttal of the presumption of significant risk, we have performed audit procedures over revenues including substantive procedures over primary revenue streams, vouching to third party documentation for sources originating from developers, funders or other third parties.
- Based on the results of procedures performed, we have no significant issues to bring to your attention.



Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.



Fraud risk arising from management override of control

Significant risk	Estimate?
<p>Consistent with the audit plan presented to you, and all audits performed under Canadian Auditing Standards, the risk of fraud arising from management's ability to override controls is a presumption which cannot be rebutted. This risk is present by default in all audits due to management's access to the financial reporting process and ability to override controls that other financial reporting staff may not be able to due to this high level of access and their role in the control process.</p>	No

Our response

- This is a second presumed fraud risk present in all audits performed under Canadian Auditing Standards. This risk is non-rebuttable and must be addressed in each audit we perform.
- To address this risk and satisfy our professional requirements and standards, we have incorporated the following into our audit:
 - Retrospective review of material estimates which involve management's judgement or estimation
 - Testing of the population of journal entries and specific item testing over those which are deemed to fit certain higher-risk criteria based on the Town's profile
- Based on the results of our audit, we have no instances of management override of controls to bring to your attention.



Other findings and results

We highlight other findings, including such findings in other areas of focus as identified in the Audit Plan as follows:



Tangible capital assets

Other areas of focus

Estimate?

Yes – Amortization expense

Risk of material misstatement related to the completeness, existence and accuracy of tangible capital assets and related amortization expense. Potential risk with respect to valuation of certain assets should indicators of impairment be present.

Our response

- Consistent with our audit plan, and as expected for any municipality or equivalent government entity, tangible capital assets are a material balance within the statement of financial position and requires audit focus.
- Our audit approach involved the following substantive procedures:
 - Recalculation and trend analysis of annual amortization expense
 - Roll forward of the tangible capital asset continuity schedule, including tie-out to the general ledger and financial statements
 - Substantive sampling of material additions and vouching to third party supporting documentation
 - Substantive sampling of changes to work-in-progress assets, vouching to evidence of costs incurred to date
 - Assessment of management's evaluation of indicators of impairment
- Based on the results of our procedures, we did note that approximately \$423,000 in costs were capitalized in 2022 that related to the prior year. As these related to capital items, this had no impact on the 2022 statement of operations. See slide 14 for further details.



Other findings and results



Post-employment benefit liabilities

Other areas of focus

Risk of misstatement related to completeness and accuracy of the liability and of data and assumptions used to create the third party valuation of the liability.

Our response

- A new and full actuarial valuation was performed over the Town's post-employment benefit liabilities with an effective date of December 31, 2021 and extrapolations were provided by the actuary for fiscal 2022. Due to the specialized and complex nature of the liability, which is an estimate of the present value of future benefit obligations for current and former employees, management engages a third party actuary to assist with the computation of this estimate for accounting purposes.
- Professional guidelines suggest that the valuation be formally re-performed every three years. This involves management sending an updated set of census data to the actuary and providing other documentation to assist with their exercise. The third party actuary then applies their own assumptions and modeling techniques to provide management with a valuation report which is used to estimate the liability shown on the financial statements.
- We have tied in the amounts reported by the Town to the actuarial reports and we also evaluate the competence of the actuary to ensure they have adequate professional qualifications to support management's use of their work for accounting purposes.
- We noted no misstatements based on our work performed over the post-employment benefit liabilities.





Other findings and results



Investment in Halton Hills Community Energy Corporation (HHCEC) and short term investments

Other areas of focus

Investment in HHCEC is material given the size of and nature of the investment held. Consistent with the prior year this is a significant component as part of the group audit.

There is a risk of material misstatements related to the classification, completeness and accuracy of portfolio short term investments.

Our response

- With respect to the Town's investment in HHCEC, we obtained the Investment schedules and reconciled the amounts recorded per the Town to the HHCEC audited financial statements. The lead partner for the Town is the same audit partner of HHCEC. We noted no misstatements based on our work performed and are satisfied that the disclosures are complete and accurate.
- With respect to the short term investments, we agreed amounts to confirmations as short term investment amounts are held by the Region of Halton in a combined portfolio.
- No misstatements or reportable findings noted.





Other findings and results



Operating Expenditures, including payroll expenses, accounts payable and accrued liabilities

Other areas of focus

Risk of material misstatement related to the completeness of accounts payable and accrued liabilities and existence and accuracy of expenditures.

Our response

- Our response included substantive testing over a sample of expenses by vouching to supporting documentation, search for unrecorded liabilities to gather audit evidence over completeness of accounts payable and accrued liabilities as at December 31, 2022 as well as procedures over payroll expenses and various accruals.
- We noted no misstatements based on our work performed.





Other findings and results



Contaminated site and asset retirement obligations

Other areas of focus

Risk of material misstatement related to the completeness and accuracy of the liability and related expenses. Based on its nature as an estimate, this is an area of focus that is relevant to the Town's financial reporting on an annual basis.

Our response

- As fiscal 2022 was the last year that Public Sector Accounting Standards allow the existing standard for asset retirement obligations, we have carried out our audit plan in a manner consistent with prior period by substantively evaluating the estimates for contaminated sites which have been identified and recorded by management.
- We noted no significant changes year to year and no issues with the approach that has been applied.
- However, as we have disclosed in our previous audit findings and audit plan, a new standard, PSAS 3280, will take effect for the Town's fiscal year-ended December 31, 2023. This standard did not impact the current period, but is a very significant change which required and continues to require management and Town staff's attention in preparation for implementation in fiscal 2023.
- We have continued to discuss the new standard with management. The effort required to compile the data which will be used to estimate asset retirement obligations under the new standard in fiscal 2023 is significant. This will be an area of focus in fiscal 2023.





Other findings and results



Government grants and user charges and related deferrals (including obligatory)

Other areas of focus

Risk of material misstatement related to the completeness, existence and accuracy of grant and obligatory deferred revenue.

Our response

- We performed substantive testing over the recognition of significant government transfers and other similar inflows received from third parties.
- We obtained the grant revenue and deferred revenue listings and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to.
- Additionally, we also performed procedures over grant related expenses to validate whether expenses applicable to the selected grants were incurred in the period and that funding related to grants was received in the period.
- We noted no misstatements based on our work performed.





Uncorrected audit misstatements

Uncorrected audit misstatements greater than \$113,000 individually:

Description of misstatement	Impact on 2022 Statement of Operatons/surplus \$ (000's)	
	Debit	Credit
<p>Prior year balance sheet entry record additions totalling \$423,472 to work-in-progress made during the 2021 fiscal year.</p> <p>Work-in-progress (tangible capital assets)</p> <p style="padding-left: 20px;">Accounts payable and accrued liabilities</p> <p>This entry has no impact on the statement of financial position as at December 31, 2022 nor on the annual surplus for the year ending December 31, 2022.</p>	nil	nil



Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.



A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.



Significant deficiencies in internal control over financial reporting

A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.





Other financial reporting matters

We also highlight the following:



Financial statement presentation - form, arrangement, and content



No matters to report and the form and presentation are consistent with the prior year.



Concerns regarding application of new accounting pronouncements



As mentioned on slide 12, the upcoming change to PSAS 3280 – Asset Retirement Obligations, is effective for the Town's fiscal year-ending December 31, 2023.

This is a significant change which requires a significant time investment from management and Town staff from various departments in order to compile the data required to implement the standard.



Significant qualitative aspects of financial statement presentation and disclosure



No matters to report.



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 contributes to its delivery.

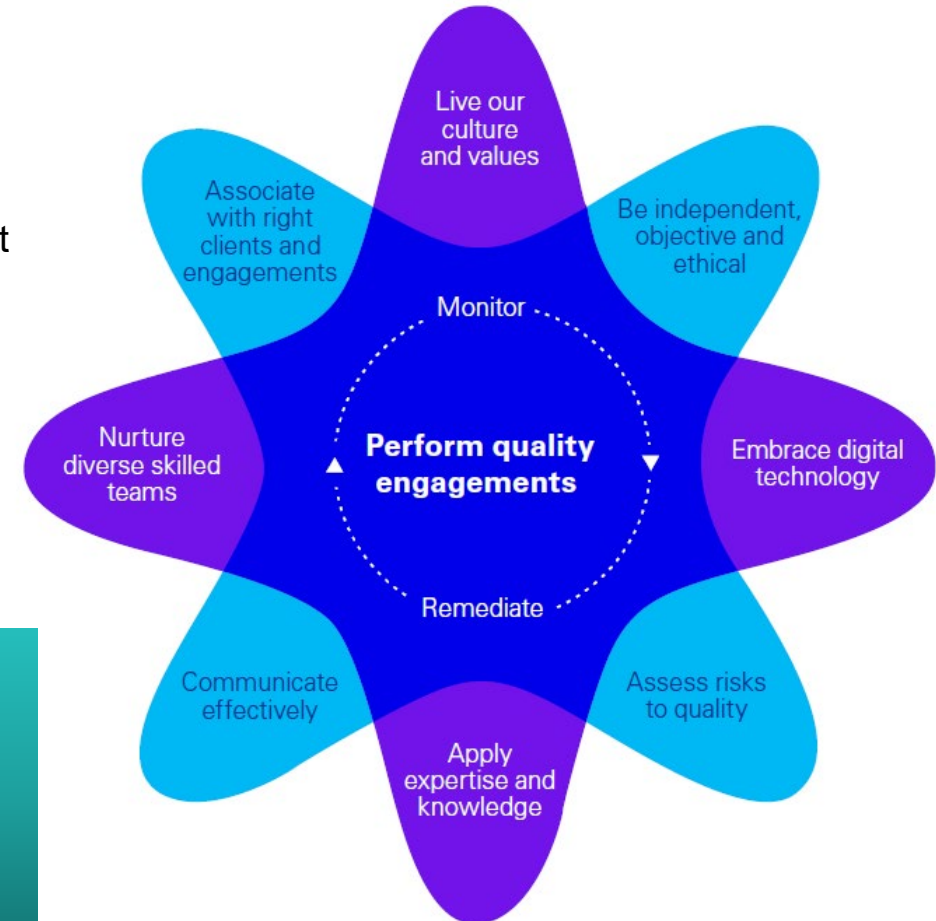
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

 [KPMG 2022 Audit Quality and Transparency Report](#)

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**.



Appendices

A

Draft auditor's report

B

Other required communications

C

Management representation letter(s)

D

Insights to enhance your business

E

Audit and assurance insights

F

Technology

G

Environmental, social and governance (ESG)





Appendix: Draft auditor's report

See draft financial statements for independent auditors' report which is unqualified.



Appendix: Other required communications



Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to the Audit Committee.



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: 2022 Interim Inspections Results](#)
- The 2022 Annual Inspection Results will be available following Q1 of 2023



Appendix: Management representation letter

Management representation letter will be provided to management for signing.



Appendix: Insights to enhance your business

[Learn more](#)

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

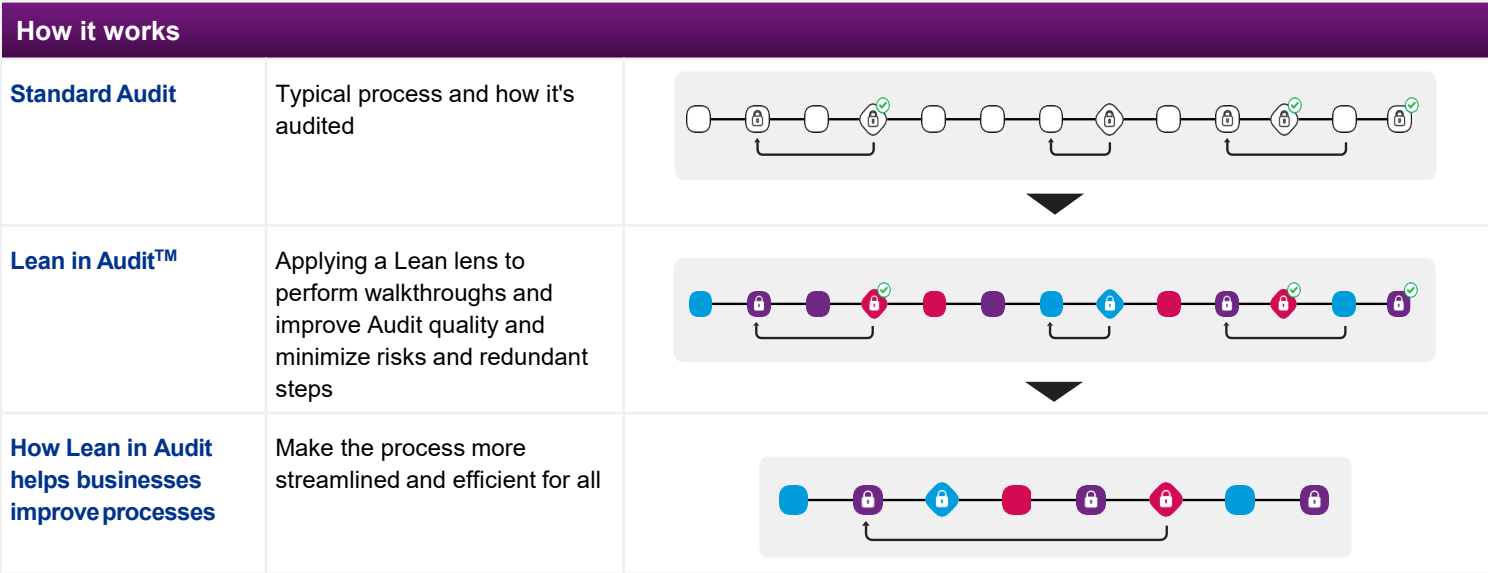
Lean in Audit

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.

We look forward to discussing how we can use this approach for your audit going forward.



- **Value:** what customers want (**maximize**)
- **Necessary:** required activities (**minimize**)
- **Redundant:** non-essential activities (**remove**)

- 🔒 Process controls
- ✔ Key controls tested



Appendix: 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.

[Board Leadership Centre](#)

Leading insights to help board members maximize boardroom opportunities

[Current Developments](#)

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

[Audit Committee Guide – Canadian Edition](#)

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

[Accelerate 2023](#)

The key issues driving the audit committee agenda in 2023.

[Momentum](#)

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

[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.

[IFRS Breaking News](#)

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



Appendix: Technology – Continuous improvement powered by transformation

Our investment: \$5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.





Appendix: Technology - KPMG Clara - Bringing the audit to one place



Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



Secure

A secure client portal provides centralized, efficient coordination with your audit team.



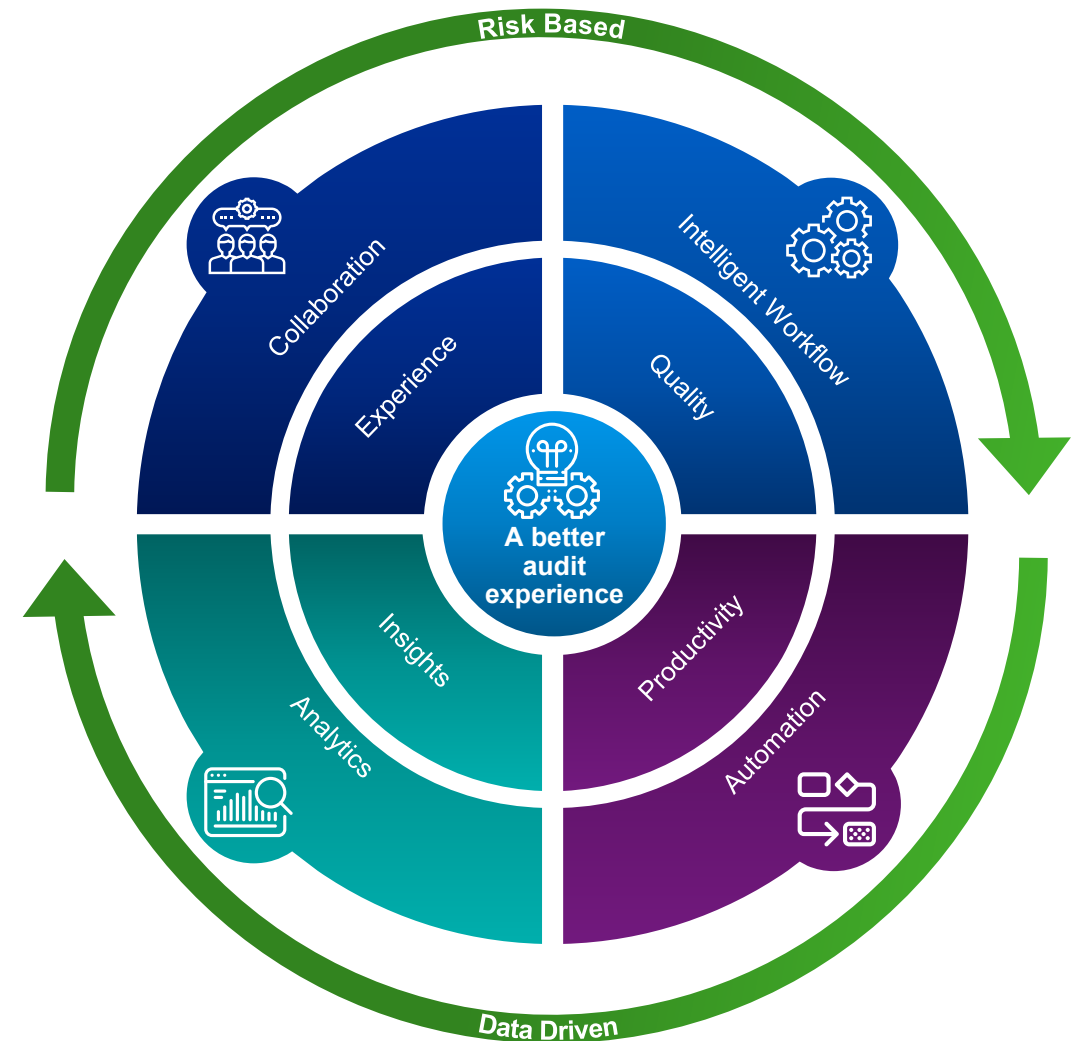
Intelligent workflow

An intelligent workflow guides audit teams through the audit.



Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.





Appendix: Environmental, Social and Governance (ESG)

The Importance of Sustainability Reporting



Sustainability Reporting – Who is impacted?

- **Lenders and underwriters** – increased focus on ESG considerations when making access to capital decisions
- **Investors** – ESG integration has become an investment norm
- **Employees** – ESG has become a key factor in attracting and retaining top talent
- **Consumers** – stakeholders increasingly scrutinize companies' ESG performance and transparency affecting brand acceptance and consumer demand



Importance to the Audit Committee

- **Regulatory developments** – ESG-related compliance costs and disclosure requirements continue to evolve as rules are finalized
- **Material ESG issues** – Audit Committees should understand stakeholder priorities and the company's material ESG risks and opportunities
- **Value creation** – developing a clear ESG strategy, along with a standardized reporting process can set a company apart from its competitors



Governance on ESG Data and Sustainability Reporting

- **Data collecting and reporting** – understand the ESG frameworks and reporting standards most commonly adopted in the industry and jurisdiction (benchmark to others in the industry)
- **ESG assurance** – Audit Committees are best positioned to understand which ESG metrics merit assurance. An assurance readiness assessment on Carbon is a common and often recommended first place to start



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KPMG member firms around the world have 227,000 professionals, in 145 countries.

