



The Corporation of the Town of Halton Hills

Audit Findings Report

For the year ended December 31, 2017



Licensed Public Accountants, Chartered Professional Accountants

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kpmg.ca/audit



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Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the Town of Halton Hills (the “Town”) as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on March 19, 2018.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Audit risks and results

We discussed with you at the start of the audit a number of **financial reporting risks and other matters**. The key areas of focus included:

- Revenue recognition including government grants, development charges and related deferrals;
- Tangible capital assets;
- Post-employment benefit liability;
- Contaminated sites liability;
- Operating expenditures;
- Investment in Halton Hills Community Energy Corporation; and
- Cash handling.

We are satisfied that our audit work has appropriately dealt with the risks.

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Executive summary

Finalizing the audit

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

- Receipt of legal letter replies;
- Receipt of signed management letter;
- Completing our discussions with the audit committee; and
- Obtaining evidence of the Board's approval of the financial statements.

We will update the audit committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates.

Independence

We confirm that we are independent with respect to the Town (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada.

We are independent and have extensive quality control and conflict checking processes in place.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Our response and significant findings
Fraud risk from revenue recognition	<ul style="list-style-type: none"> — Our audit approach remained consistent with the audit plan and no new risks were identified. To reiterate, we had rebutted this risk within our audit plan based on the nature of revenues at the Town.
Fraud risk from management override of controls	<ul style="list-style-type: none"> — As the risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk. — Our audit approach remained consistent with the audit plan and no new risks were identified.

Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Why	Our response and significant findings
Government transfers, user charges, taxation revenue	Risk of material misstatement related to the completeness and accuracy of grant revenue	<ul style="list-style-type: none"> — We performed substantive testing over the revenue recognition. — We performed comparison analysis of user fees and charges and ensured proper recognition as the related services are provided. — We performed comparison analysis of government grant revenue to prior year and reviewed supporting documents ensuring revenue recognition is appropriate. — No audit differences were found
Operating expenditures (including payroll)	Risk surrounding the completeness, existence and accuracy of reported expenses and accruals.	<ul style="list-style-type: none"> — We completed various audit procedures around operating expenditures, including payroll and employee benefits expenditures. — We performed a detailed comparison of operating expenditures to budget and investigated significant variances. — No misstatements related to operating expenses were identified during our testing.
Tangible capital assets ("TCA")	<p>Judgment is involved in determining nature of project as capital versus expense.</p> <p>Risk relating to the classification of expenditures between capital assets and operating expenses.</p>	<ul style="list-style-type: none"> — We obtained the year-end TCA continuity schedule and tested significant additions and disposals during the year. — We tested significant contributed assets and ensured these assets were appropriately recognized and included in TCA at fair value. — We performed substantive testing over depreciation of TCA. — We found no misstatements during our testing of TCA.
Contaminated Sites	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> — The Town has recorded an estimated liability of \$367,500 pertaining to remediation for a property that was a former junk yard as disclosed in the notes to the financial statements. — We have reviewed the methods and procedures in place at the Town and note them to be reasonable so as to identify and evaluate current contaminated sites liabilities. We have also reviewed financial statements for disclosures believe them to be sufficient.

Audit risks and results (continued)

Other areas of focus for our audit, as identified in our discussion with you in the Audit Plan.

Other areas of focus	Why	Our response and significant findings
Employee future benefits	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> — We obtained a copy of the most recent actuarial valuation completed in 2015 with updated projections for 2017 and evaluated management's expert and their work for use as audit evidence. — Management obtained an updated projection for the Town's WSIB liability following a fatal claim award and note no other changes to the original actuarial valuation completed in 2015. — We reviewed the assumptions used by the actuary for reasonableness. — We determined that the work of management's expert and management's assumptions were reasonable and could be used as audit evidence.
Developer charges and developer contribution revenues	Risk of material misstatement related to the existence, accuracy, and completeness of developer charges and developer contribution revenues	<ul style="list-style-type: none"> — We performed substantive testing over the recognition of significant developer contributions and charges earned. — We ensured the charges and contributions were recognized as the eligible expenditures are incurred. — No audit differences were found
Investments and related income	Risk of material misstatement related to the existence and valuation of investments and accuracy of related income.	<ul style="list-style-type: none"> — We confirmed all significant investments held at year end for both cost and fair market value. — We performed a substantive analytical testing over investment income and noted the amount of related income earned in the current year was within expectation and our recalculations. — We received an audit confirmation of balances and income from your custodian and manager, the Regional Municipality of Halton.
Cash handling	At the request of the Committee and management, we have perform audit procedures over the cash handling policies and related control procedures for specified locations.	<ul style="list-style-type: none"> — We have reviewed the cash collection processes for: <ul style="list-style-type: none"> — Gellert Community Centre — Planning and Sustainability — Acton Arena and MoldMaster Sports Plex — Cultural Centre — No process and control issues have been identified.
Investment in Halton Hills Community Energy Corporation	Risk of material misstatement related to the completeness, accuracy, valuation and presentation of the investment.	<ul style="list-style-type: none"> — We have obtained and reviewed the audited financial statements of the Town's utility investment and ensured the results between the two entities reconciled appropriately. — No audit differences were found.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Town's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices. We also highlight the following:

Form, arrangement, and content of the financial statements

The financial statements are, in all material respects, in accordance with the applicable financial accounting framework. The disclosures in the notes to the financial statements are appropriate.

Application of accounting pronouncements issued but not yet effective

There are no concerns at this time regarding future implementation of new and revised standards. New standards with effective dates in the near future are described in Appendix 6.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Appendices

Appendix 1: Required communications

Appendix 2: Value for fees

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

Appendix 5: Data & Analytics in Audit

Appendix 6: Current developments

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report to the draft financial statements
- **Management representation letter** – in accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.
- **CPAB Big Four Firm Public Report (November 2017)** – Please refer to <http://www.cpab-carc.ca/Documents/News%20and%20Publications/2017%20Big%20Four%20Report%20EN.pdf>

Appendix 2: Value for fees

The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of the audit of the financial statements in accordance with professional standards. We also believe that our role as external auditor of the Corporation of the Town of Halton Hills 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 understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced 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 you have experienced, the senior members of our team have extensive experience in audits of the municipalities and related organizations. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you, as we have demonstrated to you by insight we shared;
- Involvement of specialists – Our audit team is supported by KPMG specialists in income and other taxes, information risk management, and others as required. We expect each of the specialists have provided insights and observations as a result of their audit support processes; and

Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

— Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 4: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation 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 internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

Appendix 5: Data & Analytics in Audit

Turning data into value

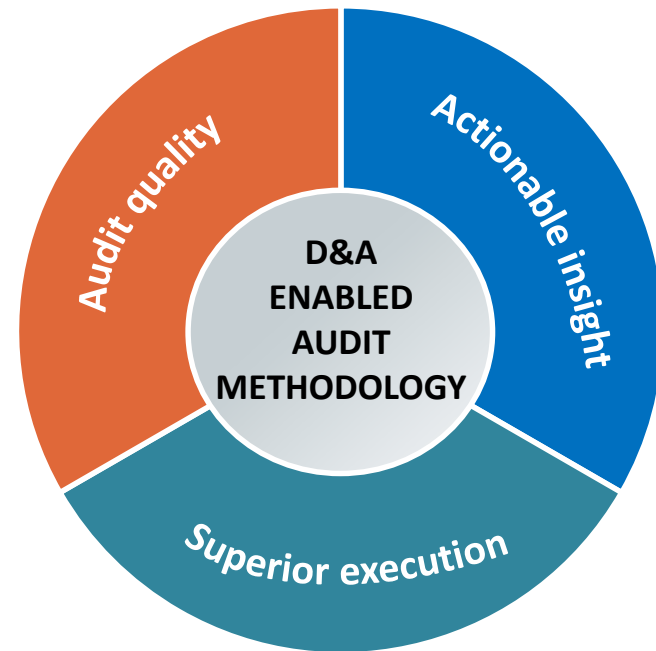
KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.



FOR THE AUDIT

AUDIT QUALITY

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

FOR YOUR BUSINESS

ACTIONABLE INSIGHT

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?

Appendix 6: Current developments

Current developments, created by KPMG Public Sector and Not-for-profit Practice, summarizes regulatory and governance matters impacting Government Organizations. We provide this information to help you understand upcoming changes and challenges they may face in the industry. We attach this summary to every audit plan and findings report (if significant changes occur).

The following is a summary of the current developments that are relevant to the Town

Standard	Summary and implications
<ul style="list-style-type: none"> PS 3380 – Contractual Rights 	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>Examples of a contractual right include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year-end).</p> <p>Implications: Additional disclosures may be required if contractual rights to assets or revenue exist</p>
<ul style="list-style-type: none"> PS 3210, Assets 	<ul style="list-style-type: none"> This Standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows: <ul style="list-style-type: none"> They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows The public sector entity can control the economic resources and access to the future economic benefits. The transaction or event giving rise to the public sector entity's control has already occurred. The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year-end). Implications: Assets such as accrued receivables will have to be reviewed to determine if they meet this definition.

— PS 3320, Contingent Assets	<p>This standard defines contingent assets. They have two basic characteristics:</p> <ul style="list-style-type: none"> — An existing condition or situation that is unresolved at the financial statement date — An expected future event that will resolve the uncertainty as to whether an asset exists <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year-end). Contingent assets include grants receivable where the conditions are met but funding is conditional upon approval of an application for funding</p> <p>Implications: Additional disclosures may be required if contingent assets exist.</p>
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year-end).</p> <p>Implications: Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.</p>
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity.</p> <p>Transactions are recorded at carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> — In the normal course of business – use exchange amount — Fair value consideration – use exchange amount — No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair. — Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Town's December 31, 2019 year-end).</p> <p>Implications: The Town will have to identify these transactions and determine if they have been measured at the carrying amount if required.</p>

PS 3450 Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2021 (the Town's December 31, 2022 year-end).</p> <p>Implications: This standard will require the Town to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Town. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
PS 2601 Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (the Town's December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of re-measurement gains and losses.</p>
PS 3280 Asset Retirement Obligations	<p>This standard provides guidance in accounting for and reporting a liability for asset retirement obligations. The standard applies to legal obligations and defines which asset retirement activities would be included in the cost of a tangible capital asset. This standard is effective for fiscal periods beginning on or after April 1, 2021 (the Town's December 31, 2022 year-end).</p> <p>Implications: A new liability will be recognized on the statement of financial position.</p>

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