The Corporation of the Town of Halton Hills

Audit Planning Report for the year ended December 31, 2019

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

January 27, 2020

kpmg.ca/audit

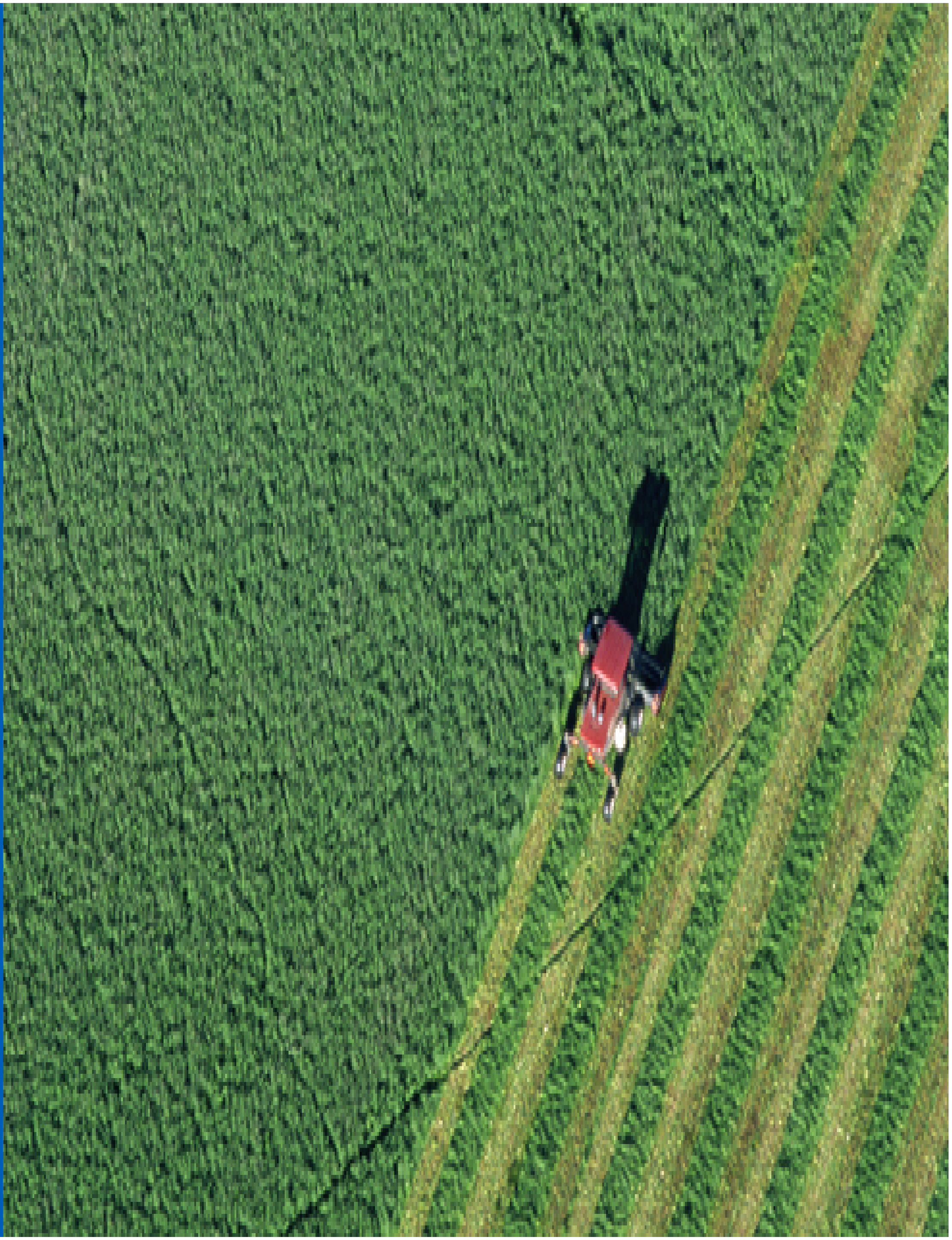


Table of contents

The contacts at KPMG in connection with this report are:

Lois Ouellette, CPA, CA
Lead Audit Engagement Partner
Tel: 905 687 3276
louellette@kpmg.ca

Scott Plugers, CPA, CA
Audit Senior Manager
Tel: 905 687 3286
splugers@kpmg.ca

Purpose of this report*

The purpose of this Audit Planning Report is to assist you, as a member of the Community and Corporate Affairs Committee, in understanding key risk areas, materiality, and other areas of focus for the audit of the consolidated financial statements ("the financial statements") of The Corporation of the Town of Halton Hills ("the Town") as at and for the year ended December 31, 2019.

Audit Materiality, risks and results

Materiality has been determined based on total prior year audited revenues. We have determined materiality to be $1,989,000.

Refer to page 3 for additional information.

Audit and Business Risk

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 5 - 6 for more information.

Executive summary

Significant accounting policies and practices

There are several standards in the next few years that will require significant work on the part of management that we also wish to bring to your attention.

Refer to pages 7, 11 – 13 for additional information.

Independence

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 and any other standards or applicable legislation or regulation.

Materiality

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

The first step is the determination of the amounts used for planning purposes. As the Town is considered a group audit, we first must assess materiality for the group as a whole. We set materiality lower, where appropriate for statutory reporting requirements and to ensure we address aggregation risk.

Materiality determination	Comments	Group Amount
Metrics	Relevant metrics include total revenue, total expenses and net assets.	
Benchmark	Based on prior year total revenues.	**$79,570,137**
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount in the previous year was $1,643,000	**$1,989,000**
% of Benchmark	Range of 1 to 3 percent. The corresponding percentage for 2018 was 2.2%.	**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 $1,232,250	**$1,491,750**
Audit misstatement posting threshold (“AMPT”)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount in the previous year was $81,270.	**$99,450**

As discussed, we have considered materiality with respect to the significant components below in relation to group materiality set above for the financial statements as a whole. Lois Ouellette, as engagement partner for the Town audit, and Scott Plugers, senior manager for the Town audit, is also responsible for overseeing the component audits.

.

Group Audit - Significant Components

Professional standards require that we obtain an understanding of the Town's organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

Group auditors are required to be involved in the component auditors' risk assessment in order to identify significant risks to the group financial statements. If such significant risks are identified, the group auditor is required to evaluate the appropriateness of the audit procedures to be performed to respond to the identified risk.

Significant component	Materiality	Our audit approach
The Corporation of the Town of Halton Hills	$1,890,000	Statutory audit of component financial information for consolidation. Lois Ouellette as engagement partner is responsible for the overall delivery and execution of the group audit engagement.
Halton Hills Community Energy Corporation	$1,500,000	Statutory audit of component financial statements. Same engagement partner as for the Town audit.
Halton Hills Public Library	$144,000	Statutory audit of component financial statements. Same engagement partner and senior manager as for the Town audit.
Acton BIA	$10,000	Statutory audit of component financial statements. Same engagement partner and senior manager as for the Town audit.
Georgetown BIA	$10,000	Statutory audit of component financial statements. Same engagement partner and senior manager as for the Town audit.

Audit risks

The following risks are risks that are required to be addressed in each and every audit under Canadian Auditing Standards. Our approach is summarized below:

Professional requirements

- Fraud risk from management override of control – this is a presumed fraud risk
- We have not identified any specific additional risks of management override

- As this risk 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.
- Data & Analytics tools will be used to perform work in this area including testing of journal entries

Professional requirements

- Fraud risk from revenue recognition – this is a presumed fraud risk

- As permitted under Canadian Auditing Standards, we have rebutted the fraud risk from revenue recognition. We have not identified a fraudulent revenue recognition risk for each significant revenue account at the Town. The Town's revenue recognition is relatively simple and non-complex.
- 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 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	– 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	– 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.
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 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.
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, existence and accuracy of 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 investment held	– As required by the Ontario Energy Board, an audit is completed over Halton Hills Hydro Inc. ("HHHI"), for which Lois Ouellette 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

Asset Retirement Obligations - Are you ready?

PS 3280, Asset Retirement Obligations

Asset Retirement Obligations will be effective for the Town's December 31, 2022 year-end. This standard will replace the previous standard in place of PS3270 on Solid waste landfill closure and post-closure liability. This standard will now encompass a broad spectrum of potential retirements of tangible capital assets, both in productive use and not in productive use.

Why is this important?

- This standard will require a comprehensive review of tangible capital assets both in use and under lease to assess whether there is any requirement for the Town to retire that asset.
- It is key that this exercise is not only a finance requirement. The requirement to implement this standard will involve all departments across the Town (including building, legal, engineering, etc.).
- As this standard explicitly includes asbestos, it is increasingly important to start the process of identifying relevant assets early to begin to refine the approach in preparation for 2022.
- We have held information sessions for local municipalities in the fall of 2019 on requirements. Implementation guidelines have been developed by Bailey Church, a partner in our National Accounting Advisory practice. These guidelines include recommend project plans and items to consider and have been delivered through the Municipal Finance Officers' Association
- We would be happy to discuss how we can assist management in this transition.

Technology in the audit

We will utilize technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Journal Entry Testing	We will utilize our proprietary D&A tool, IDEA, to evaluate the completeness of the journal entry population through a roll-forward of all accounts, analyze journal entries and determine sub-populations for more focused and risk-based testing, and apply certain criteria to sub-populations to identify potential high-risk journal entries for further testing.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process. We will discuss with Town management to determine if any relevant visualizations are appropriate to be included in the Audit Findings Report presentation to you at the conclusion of the audit.

Highly talented and experienced team

	Team member	Background / experience	Discussion of Role
	**Lois Ouellette, CPA, CA** Lead Audit Engagement Partner louellette@kpmg.ca 905-687-3276	– Over 35 years of experience serving Public Sector clients – PSAB resource within KPMG for the province of Ontario and is a member of the Global Public Sector Accounting Standards Team. – Authored the PSAB Financial Reporting course for the Institute of Chartered Accountants of Ontario ("ICAO", now CPAO). – Instructor for the Institutes of Chartered Accountants of Manitoba, Ontario and Saskatchewan of the PSAB Financial Reporting course – Taught the Chartered Professional Accountants of Ontario PSAB 101 course.	– Lois will lead our audit for Town and be responsible for the quality and timeliness of everything we do. – She will often be onsite with the team and will always be available and accessible to you.
	**Scott Plugers, CPA, CA** Audit Senior Manager splugers@kpmg.ca 905-687-3286	– Over 8 years of experience providing financial statement assurance and advisory services to a variety of clients, focusing on public sector and not-for-profits – Focus on municipal and public sector clients including participating in internal PSAB discussion groups – Presentation to Councils on financial literacy in the Public Sector on financial statements	– Scott will work very closely with Lois on all aspects of our audit for the Town. – He will be on site and directly oversee and manage our audit field team and work closely your management team.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

- To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

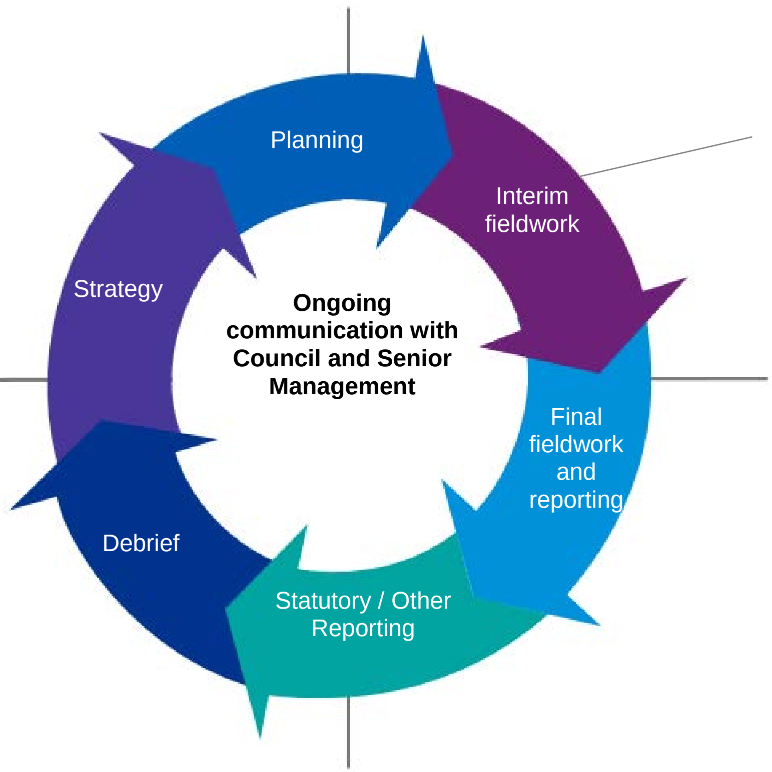
Our timeline is consistent with prior year and is designed with management's desired reporting schedule.

Planning meetings with management **November 2019**

October/November 2019

Presentation of the Audit Planning Report to Community and Corporate Affairs Committee – January 27, 2020

October 2019



October 2019

Audit strategy discussions based on debrief of audit **October 2019**

March / April 2020

Year-end fieldwork: **March / April 2020**

Closing meetings: **May 2020**

Audit findings discussion **May 2020**

Recommend approval of consolidated financial statements **To be Determined**

Current developments and audit trends

Public Sector Accounting Standards

The following are upcoming changes that will be effective in future periods. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

<table>
<tr><th>Standard</th><th>Summary and implications</th></tr>
<tr><td>Asset Retirement Obligations</td><td>
– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021 (for the Town's 2022 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 would 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 would 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 would 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 would 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.
</td></tr>
<tr><td>Revenue</td><td>
– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (for the Town's 2023 year end).
– 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, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
</td></tr>
</table>

	– 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.
Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021 *(for the Town's 2022 year end)*. – 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 government'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. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The SOP proposes 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 SOP proposes the public sector entity recognize 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, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. – An exposure draft was released in the fall of 2019 with comments due in early 2020.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.

Appendices

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 attached to the draft financial statements.

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to management. Management can provide you with a copy of the representation letter for the audit of the financial statements.

Appendix 2: 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 summarizes the six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality Report.

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

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 3: 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 or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses 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.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

kpmg.ca/audit

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”).

KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.