

The Corporation of the Town of Oakville

Audit Planning Report
for the year ended
December 31, 2021

KPMG LLP

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kpmg.ca/audit



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Our refreshed Values

What we believe



Executive summary

Updates to our audit plan

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

Audit quality

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

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenues, total expenses and total assets. We have determined group materiality to be \$12,300,000.

See page 4 for additional details.

Audit risks and areas of focus

Our audit is risk-focused. In planning our audit, we have identified areas of financial reporting where significant risks of material misstatement may arise. These include:

- Revenue recognition and deferred revenue, including those related to developer charges and non-tax levy sources.
- Tangible capital assets, including transfers from work-in-progress
- Presumption of the risk of fraud resulting from management override of controls
- Material estimates, including post-employment benefit liabilities

Other areas of focus include:

- Contaminated sites
- Presentation and accounting of components

See pages 6 and onwards for an outline of our audit plan as it pertains to these areas of focus.

Group audit scope

We have identified the consolidated entity that is the Town of Oakville as the “Group”. The components of the group are as follows:

Significant Components

- Oakville Enterprises Corporation (Hydro)

Non-Significant Components

- Oakville Public Library
- Oakville Business Improvement Areas
- Municipal Development Corporation

See page 5.

This report to the audit committee is intended solely for the information and use of management, the audit committee, the board of directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the audit committee has to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Updates to our audit plan

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

Audit Quality: How do we deliver audit quality?

Transparency report



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

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

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define **‘audit quality’** as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



Doing the right thing. Always.

Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality or, in the case of a group audit, component materiality).

Materiality determination	Comments	Amount
Materiality	The corresponding amount for the prior year's audit was \$11,773,000.	\$12,300,000
Audit Misstatement Posting Threshold	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$588,000.	\$615,000
Benchmark	Based on prior year total revenues. This selected benchmark is consistent with the prior year.	\$411,071,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%. There has been no change to this percentage from the prior period's audit.	3%

We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

Group audit – scope



Entity	Significant Component?	Standalone Audit?	New for FY21?
Corporation of the Town of Oakville	Yes	Yes	No
Oakville Enterprises Corporation	Yes	Yes	No
Oakville Public Library Board	No	Yes	No
Oakville Business Improvement Areas	No	Yes	No
Oakville Municipal Development Corporation	No	Yes	No

Note: consistent with our audit approach in the prior period, the non-significant components noted above will be subject to full standalone audits. These are completed due to the reporting needs of management and the users of the financial statements, rather than requirements based on significance to the group audit of the Town.

Audit risks and areas of focus

Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



Significant risk - professional requirements

Presumption of the risk of fraud involving improper revenue recognition

Why significant?

Our professional requirements demand that we assess the presumed risk of fraud relating to improper revenue recognition. Based on the nature of the Town and its revenue sources, we have not identified any risk of material misstatement resulting from fraudulent revenue recognition and have rebutted this presumed risk.

Presumption of the risk of fraud involving management override of controls

This is a non-rebuttable and presumed risk of fraud that must be addressed in all audits performed under Canadian Auditing Standards. As is the case with any organization, management override of controls presents a risk by default. We have not identified any additional risks in this area beyond those which are presumed.

Our audit approach

Our audit approach is designed to address the presumed risk of management override of controls. We will perform several procedures on a substantive basis which focus on areas of management's judgement, including significant or material estimates and accruals.

Our audit is risk-based, and as such we will use analytical tools to identify manual transactions subject to heightened risk based on the nature of the Town. We will use these tools to select and test the resulting population of journal entries to ensure adequate controls are in place regarding approval, appropriate business rational and adequate authorization.

Consistent with our professional guidelines, we have designed our fiscal 2021 audit plan with elements of unpredictability in mind. We will perform substantive and analytical procedures that are unique to the current audit period in order to ensure our audit provides sufficient coverage, including in areas which may not be expected in order to mitigate the risk of fraud from management override of controls.

Audit risks and areas of focus (continued)

Areas of focus	Why are we focusing here?
Revenue – Development Charges	Risk of material misstatement related to completeness and accuracy of amounts earned (particularly on timing of recognition)
Revenue – Government Grants	Risk of material misstatement related to existence and accuracy of amounts received (particularly regarding potential criteria which must be met upon recognition)

Our audit approach

We will perform substantive procedures to address the relevant assertions. Given the materiality of this segment of revenue, we will test a sample of material amounts received from developers during the year. We will consider the status of the project related to any amounts recognized into revenue during the fiscal year, and ensure that amounts are deferred into future periods where appropriate to do so.

We will review amounts previously deferred which are recognized as revenue in the current period, working with management's team to obtain assurance that the projects have reached a sufficient stage of completion to support the recognition of revenue.

Based on our understanding and the results of our prior year audit, we do not expect the impact of process changes made in response to COVID-19 to comprise a material amount of developer charges, and do not expect this will be a significant area of focus relative to the total population of developer charges.

Due to the potential for the Town to receive grants or subsidies from other levels of government in response to the COVID-19 pandemic's continued impact, we will perform substantive procedures over any material amounts received during fiscal 2021. We will obtain the related agreements and ensure that any amounts recognized have been earned within the fiscal period based on any criteria or stipulations within the agreements, if any.

Our procedures in this area will extend to non-COVID-19 related grants and external-sourced revenue, as applicable.

Audit risks and areas of focus (continued)

Areas of focus	Why are we focusing here?
Tangible Capital Assets	Risk of material misstatement related to the completeness and accuracy of tangible capital assets and related amortization expense. Risk with respect to valuation of contributed tangible capital assets, if applicable.
Post-Employment benefit liability	Risk of material misstatement related to completeness and accuracy of data and assumptions used to create the third party valuation of the liability. Risk with respect to valuation of the liability itself.

Our audit approach

We will complete substantive procedures to address the relevant assertions. Our procedures will include sampling material capital asset additions, including transfers from work-in-progress. We will ensure all additions to tangible capital assets are capital in nature, and presented fairly based on their nature. We will recalculate any material gains or losses on the sale or disposal of capital assets to ensure accuracy, if applicable.

Should the Town receive contributed assets during the year, our audit approach will include procedures which assess the completeness, existence and valuation of such assets. Should the valuation of contributed assets involve management's estimation, we will consider the applicability of Canadian Auditing Standard 540 – Auditing Accounting Estimates, and assess the assumptions and inputs used to arrive at the estimate.

We will complete substantive procedures to address the relevant assertions including a review of the actuarial valuation and applicable assumptions.

A new valuation was completed in fiscal 2019. As part of our audit procedures during that year, we assessed the completeness and accuracy of the census data sent to the third party expert of management's choosing and concluded that there were no material issues with the data file used to prepare the valuation. We will work with management's third party expert to obtain the new version of their valuation, which will continue to be based on the data audited in the previous period.

We will benchmark the key assumptions in the actuary's report against relevant comparators within the industry in order to determine if they are reasonable and appropriate for use in valuing the liability. We will consider period to period changes in the assumptions used and benchmark them against relevant comparables in order to determine if they are reasonable for use in the estimation of the liabilities.

Consistent with our professional standards and the prior period approach, we will comply with the requirements of CAS 540, Auditing Accounting Estimates when performing our procedures over this area of focus, as we have determined that this estimate is significant based on its materiality to the financial statements.

Audit risks and areas of focus (continued)

Areas of focus	Why are we focusing here?
Contaminated sites and asset retirement obligations	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
Presentation and disclosure of components	Due to the nature of the Town's accounting treatment of its interest in Oakville Enterprises Corporation and the Municipal Development Corporation, certain disclosures are required in the financial statements.

Our audit approach

We will work with management to obtain an understanding of any changes to previously identified sites, as well as any which have been newly identified as of the current fiscal period. Should a change in the previous estimate be present, we will work with management's specialists to determine if the underlying assumptions and rationale are appropriate based on the information available at the time of estimation.

We also highlight the upcoming change to PSAS 3280 – Asset Retirement Obligations. Though not taking effect until the Town's fiscal 2022 year-end, we are available to support management in their discussions and analysis of the impact of adoption, which will be relevant to all municipal entities in the coming fiscal year. The standard provides more specific guidance for obligations a public sector entity may have which are predictable and unavoidable, clarifying the previous guidance which was focused on contaminated sites specifically. The new standard provides guidance regarding four criteria which must be met in order to recognize an ARO, and which variables to consider when recording.

KPMG has several subject matter experts available to assist management in their adoption of the new standard, and will be pleased to support management as desired as the Town considers the potential impacts of the new standard.

The Town's interest in Oakville Enterprises Corporation and Oakville Municipal Development Corporation are accounted for using the modified equity method. As such, we will review management's accounting for their annual interest in the operations of these entities, regardless of materiality. We will also ensure that the disclosure of the Town's interest in both entities accounted for in this manner are adequate based on the relevant reporting requirements.

Our approach, and management's accounting treatment, with respect to this area of focus is consistent with the prior period.

Highly talented and experienced team

Team member	Background experience	Discussion of the role
Carlos Alvarez Lead Audit Engagement Partner carlosalvarez@kpmg.ca	<ul style="list-style-type: none"> Over 20 years of experience with KPMG Hamilton and Calgary Continuity as the lead audit engagement partner, having overseen the audit of the Town in the prior period Diverse client portfolio in both the public and private sectors including several municipalities, past and present including: Town of Milton, City of Hamilton, City of St. Catharines, Town of Halton Hills, Town of Banff, Town of Niagara-on-the-Lake, Wheatland County 	<p>Carlos will take an active role in the audit leading the team, directly being involved with the completion of the audit and the issuance of the audit report.</p> <p>He will serve as a key contact for management and will present our audit report and findings to Council alongside the team.</p>
Matthew Ciardelli Audit Senior Manager mciardelli@kpmg.ca	<ul style="list-style-type: none"> 7 years of public accounting experience, including serving public sector clients on an on-going basis each year Continuity as the lead-manager of the Town's audit for several periods in succession (beginning in 2018) Matt has also served on past audits of the Regional Municipality of Halton, the City of Hamilton and Six Nations of the Grand River (reporting under PSAB). Active role in the deployment of the LEAN In-Audit initiative, having facilitated many process reviews with a lens rooted in Six Sigma principles 	<p>Matthew will be responsible for the day to day oversight of the engagement team during all on-site audit timelines.</p> <p>He will be in regular contact with management both during and outside of the audit timeframe.</p> <p>He will take an active role in presentation of audit findings upon the conclusion of our audit, alongside the engagement partner.</p>
Lois Ouellette Technical Resource Partner loisouellette@kpmg.ca	<ul style="list-style-type: none"> Nearly 40 years of experience serving Public Sector clients Provincial PSAB resource within KPMG for the province of Ontario and is a member of KPMG's Public Sector Technical Committee. 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 	<p>Lois will be available to assist as a technical support resource to support Carlos, Matthew and the audit team as a whole.</p> <p>She is available to management to discuss technical PSAS topics as needed in addition to supporting the audit process itself.</p>

Value for fees

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

We want to ensure we understand your expectations. To facilitate a discussion (either in an upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive municipal experience of our audit team – as outlined in our team summary, the senior members of our team have extensive experience auditing municipalities. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you;
- Involvement of KPMG specialists – Our audit team is supported by specialists in information risk management, contaminated sites, and management consulting (strategy and operations) as required. We expect these specialists to provide insights and observations resulting from their audit support processes; and
- Technology – As Data and Analytics tools become mainstays of business, the use of analytics-based audits is rising. Unlike traditional audits, which rely on relatively small data sets to extrapolate conclusions across the full financial data, analytics-based audits have the capacity to incorporate the totality of an organization's financial information.

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fees for the year are set out in the engagement letter signed on October 16th, 2017 based on our most recent proposal.

Please see appendix 3 for a valuable service that is optional for our clients.

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter. The critical assumptions, and factors that cause a change in our fees, include:

- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Unforeseen changes in the scope and timing of our work
- No audit misstatements exist and books and records are appropriately prepared as in prior periods
- Delays or potential scope limitations as a result of the ongoing COVID-19 pandemic

Appendices

Content

Appendix 1: Required communications

Appendix 2: Use of technology in the audit

Appendix 3: Insights to enhance your business

Appendix 4: Audit and Assurance Insights



Appendix 1: Other required communications

Matters pertaining to independence

We confirm we remain independent as required by our professional standards. We will make a letter stating our independence available to management and/or those charged with governance upon request.

Engagement terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the most recently signed engagement letter and any subsequent amendments.

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 recent quality inspections in Canada:

- [Audit Quality Insights Report: 2020 Annual Audit Quality Assessments](#)
- [CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic](#)
- [CPAB Audit Quality Insights Report: 2020 Interim Inspection Results](#)

Representations of management

We will obtain from management certain representations at the completion of the audit.

Control deficiencies

On a timely basis, identified significant deficiencies will be communicated to the audit committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

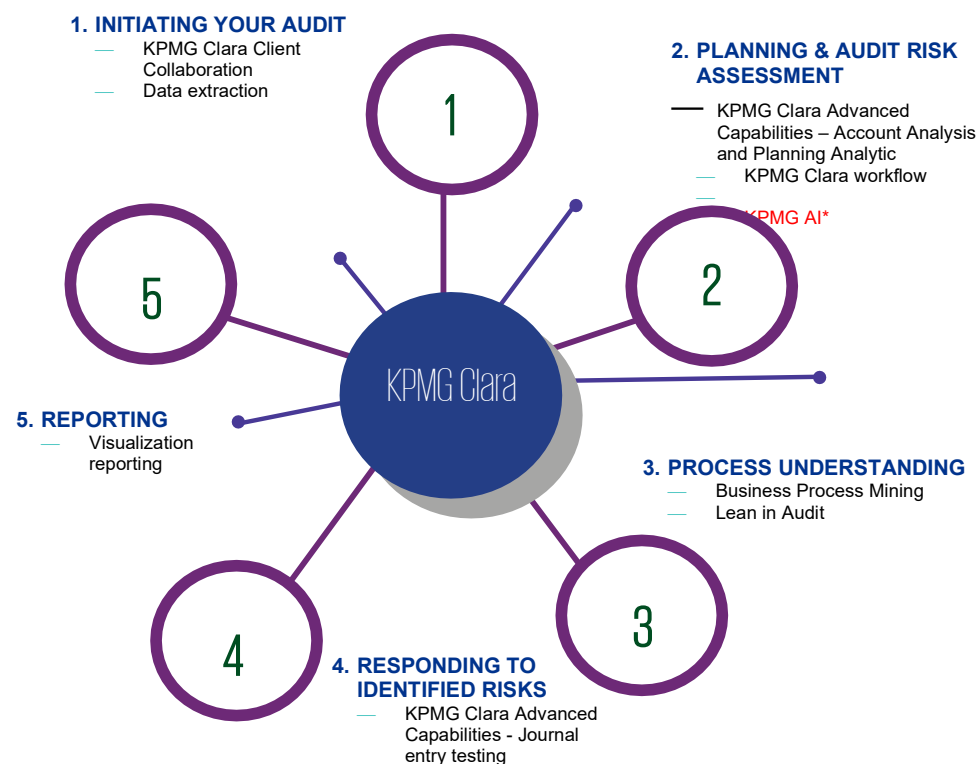
Appendix 2: Use of technology in the audit

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

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

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

Our five-phased audit approach



Appendix 3: Insights to enhance your business

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.

An innovative audit approach to improve quality and value

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

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

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

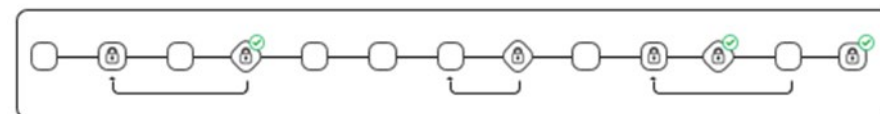
Benefits for you also include more robust documentation which significantly helps with onboarding new Town staff and in reducing and succession risk.

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

How it works

Standard Audit

Typical process and how it's audited



Lean in Audit™

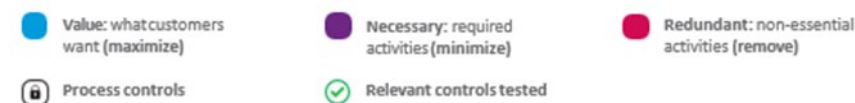
Applying a Lean lens to perform walkthroughs

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



How Lean in Audit helps businesses improve processes

Make the process more streamlined and efficient for all



Appendix 4: Audit and Assurance Insights

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

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>Accelerate</u>	The key issues driving the audit committee agenda in the time of COVID-19
<u>Board Leadership Centre</u>	Supporting you in your Director role
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>KPMG Global IFRS Institute</u>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
<u>KPMG Climate Change Financial Reporting Resource Centre</u>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<u>You can't go green without blue - The blue economy is critical to all companies' ESG ambitions</u>	In this report, we consider how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.



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KPMG member firms around the world have 227,000 professionals in 146 countries.

