



REPORT

Council

Meeting Date: May 27, 2024

FROM: Finance Department

DATE: May 14, 2024

SUBJECT: 2023 Audit Findings Report

LOCATION:

WARD: Town-wide

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RECOMMENDATION:

That the 2023 Audit Findings Report issued by KPMG, the town's external auditor, be received for information.

KEY FACTS:

The following are key points for consideration with respect to this report:

- There is a requirement for the town's external auditor to issue an "Audit Findings Report" at the conclusion of the annual audit to assist members of Council with their review of the financial statements;
- There were no audit adjustments made during the audit process;
- There were no Management Letter Points issued;
- There were no significant deficiencies in internal control over financial reporting identified;
- KPMG is prepared to issue an unqualified (or "clean") opinion on the 2023 financial statements.

BACKGROUND:

Audit process

Over the past few months, town staff worked diligently to close the town and local boards' accounting records for 2023 and prepare the entities' financial statements. Once this was completed, the town's external auditor (KPMG) examined the financial records to ensure the financial statements were accurate and reasonably reflected the town's financial position and results of operations.

Upon completion of the annual audit, the external auditor is required to issue an Audit Findings Report, which is intended to assist Council, who serves as the town's audit committee, in their review of the town's financial statements. This report also serves as a means for the auditor to update Council on any significant matters arising from the audit. The report in Appendix A outlines the audit risks and results, any adjustments or issues, any financial statement comments, and any other matters that the auditor feels necessary to bring to the attention of Council.

COMMENT/OPTIONS:Materiality

KPMG's materiality was reduced from the initial figure presented to Council during planning of \$14.1M to \$13.3M. For audit planning purposes, KPMG based materiality on the 2022 financial statements. Once the draft 2023 financial statements were prepared, KPMG reassessed materiality with 2023 figures and reduced the amount, as revenues from developer contributions of tangible capital assets were significantly lower than in 2022. Developer contributions of tangible capital assets fluctuate from year to year when subdivisions are registered, the timing of which is outside of the town's control.

Audit risks and results

Key audit risks identified by KPMG, their audit work performed to address the risks, and their findings are provided in this section. In 2023, these included:

- Fraud risk from management override of controls – looking at unusual transactions and estimates to ensure they were appropriate;
- Tangible capital assets – ensuring that the tangible capital assets and contributed assets were appropriately recorded;
- Asset retirement obligations – performing completeness testing to ensure that the entire asset listing was evaluated when identifying potential obligations. Vouching key inputs to supporting documentation and verifying that the current and prior periods were adjusted correctly;
- Investments – confirming the town's balances and that the investments are not impaired in value;
- Accounts payable, accrued liabilities, and operating expenses – performing substantive and cut-off testing over the town's balances and ensuring that the town's estimates were reasonable;
- Investment in Oakville Enterprises Corporation (OEC) – confirming the appropriate accounting treatment of the conversion of equity to the convertible promissory note based on review of the agreements;

- Subsequent events – reviewing incoming and outgoing monies to determine if the accounting year was appropriate.

Accounting estimates

KPMG examined the critical accounting estimates made by management to ensure they are appropriate. In 2023, this includes examining the estimate prepared for the remediation of contaminated sites, asset retirement obligations, and the estimate prepared for post-employment liabilities.

Significant accounting policies

The town's financial statements are prepared and presented as per the public sector accounting standards ("PSAS").

Accounting policy changes

Effective January 1, 2023 the Town adopted the Public Sector Account Board's (PSAB) new standard for the recognition, measurement, and disclosures of a liability for asset retirement under PS 3280 Asset Retirement Obligations. The new standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings. This change was applied retroactively using the modified retrospective method and prior periods have been restated to reflect liabilities outstanding as of January 1, 2022.

Effective January 1, 2023 the Town has also elected to treat the Building Enterprise Reserve and the Bonus Zoning Reserve as externally restricted assets under PS 3100. These funds have always been used for the correct purposes; however, this change helps align the funds with the Provincial reporting requirements, as well as clearly identifying that these funds are restricted and cannot be used for purposes other than their specified use governed by the *Building Code Act, 1992* (Building Enterprise Reserve) and the former Section 37 of the *Planning Act* (Bonus Zoning Reserve). This change in accounting treatment also reduces the administrative work of tracking the stages of building permits and recognizing revenue as progress is made on each permit. With restricted assets, any cash inflow is shown in the reserve until resources are used for the purposes specified. The Building Department will need to continue tracking all the permits for their requirements; however, they no longer need to track the status for the purposes of accounting, resulting in a more streamlined process. This change was also applied retroactively and prior periods have been restated to reflect opening balances as of January 1, 2022.

CONSIDERATIONS:

(A) PUBLIC

The audit findings report assists Council and interested citizens in understanding the town's financial statements. It confirms that the town has accurate reporting and that key internal controls are in place and working.

(B) FINANCIAL

N/A

(C) IMPACT ON OTHER DEPARTMENTS & USERS

N/A

(D) COUNCIL STRATEGIC PRIORITIES

An unqualified audit opinion supports the strategic plan of being accountable and fiscally responsible.

(E) CLIMATE CHANGE/ACTION

N/A

APPENDICES:

Appendix A – KPMG's 2023 Audit Findings Report

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Recommended by:

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Deputy Treasurer and Director of Finance

Submitted by:

Nancy Sully

Commissioner, Corporate Services and Treasurer