Appendix A

KPMG

# The Corporation of the Town of Oakville

## Audit Findings Report for the year ended December 31, 2023


KPMG LLP

Prepared as of April 23, 2024 for presentation on May 27,2024

kpmg.ca/audit

# KPMG contacts

**Key contacts in connection with this engagement**


**Carlos Alvarez**

Lead Audit Engagement Partner

Tel: 905 523-2238

carlosalvarez@kpmg.ca



**Matthew Ciardelli**

Audit Senior Manager

Tel: 905 972-2111

mciardelli@kpmg.ca


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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 financial statements. 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.

# 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.

Click on any item in the table of contents to navigate to that section.

# Audit highlights

No matters to report

Matters to report – see link for details

## Status

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

## Significant changes

Significant changes since our audit plan

- Initial materiality was based on prior year figures. Based on current year-end figures, we have conducted our audit with a materiality of $13.3m (Initial - $14.1m).

## Risks and results

Significant risks

- Management override of controls (see page 7)

Other risks of material misstatement

- Tangible capital assets (see page 9)
- Asset retirement obligation (see page 10)

Going concern matters (none to report)

## Uncorrected misstatements

Uncorrected misstatements

- We have not identified any audit misstatements which remain uncorrected within the financial statements.

## Corrected misstatements

Corrected misstatements

- We have not identified any corrected audit misstatements which required adjustment within the financial statements.

## Control deficiencies

Control deficiencies

- We have not identified any significant issues with respect to processes or controls which arise to the level of control deficiencies.

## Policies and practices & Specific topics

Significant unusual transactions

Accounting policies and practices

Other financial reporting matters

- The Town was required to implement PS 3280 – Asset Retirement Obligations. This was a significant accounting standard change which the Town has adopted via the modified retrospective method, resulting in the restatement of prior period. All public sector entities were required to adopt this standard as of December 31, 2023 year-end.
- The Town also made an accounting policy change with respect to Building Reserves and PS 3100. This was also applied retroactively and impacts the restatement of prior period.

# Status

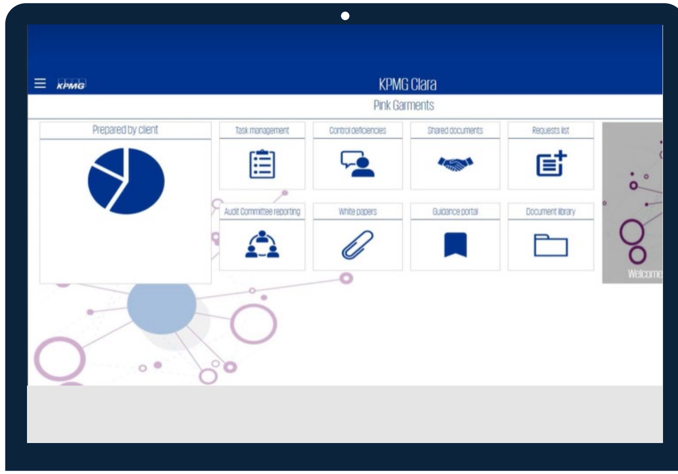
As of the date of this report and presentation, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with Council
- Receipt of legal letter and updated response from internal legal counsel
- Obtaining evidence of Council's approval of the financial statements
- Obtaining signed representation letter from management

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

A draft of our auditor's report 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 management and provide visual insights into the status of the audit!

On our audit we used KCfc to coordinate requests from management.

Learn more

# Significant changes

We have made the following significant changes related to our audit strategy since our audit plan:

## Audit strategy

**Initial vs. Final Materiality**

In our audit plan communicated to you in fall 2023, we calculated initial materiality of $14.1m based on prior year benchmarks.

Based on our comparison to current year actual benchmarks as at year-end, we determined that a final materiality of $13.3m was most appropriate, as total revenues were lower in the current period vs. fiscal 2022.

# Significant risks and results

We highlight our significant findings in respect of **significant risk.**

## Fraud Risk arising from management override of controls

RISK OF FRAUD

| Significant risk | Estimate? |
|---|---|
| Consistent with 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.<br>Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.<br>Irrespective of our assessment of risks of management override of controls, we as auditors need to design and perform audit procedures to address the risk in each audit we perform. | No |

### Our response

To address this risk, we have incorporated procedures into our audit that specifically focus on areas subject to management's judgement and estimate. We have substantively tested material accrued liabilities subject to estimation, reperforming the calculations where applicable and ensuring that the rationale and method of estimations are appropriate based on the underlying transactions. One such area that involves these items are payroll related accruals, amongst others.

We also perform our audit with an element of unpredictability, which is a mandatory consideration that we must factor into our audits to further respond to this presumed fraud risk. In adding this element of unpredictability, we do not consider the dollar value of the accounts, which reduces management's ability to predict which will be subject to testing during the audit.

Our procedures also included a risk-focused substantive procedure over the entire population of journal entries posted during the year. This procedure resulted in a sample of transactions deemed higher risk based on the nature of the Town. We used computer assisted auditing techniques to choose this sample, further adding an element of unpredictability.

### Significant findings

We noted no issues and have no matters to bring to your attention on this topic.

# Significant risks and results

We highlight our significant findings in respect of **significant risk.**

## Presumption of risk of fraud involving improper revenue recognition

RISK OF FRAUD

| Significant risk | Estimate? |
| --- | --- |
| Under Canadian Auditing Standards (CAS) there are presumed fraud risks for revenue recognition. This is a presumed risk of material misstatement due to fraud to be considered in each audit in Canada.<br><br>Consistent with our planned approach, we have rebutted the presumption that there is a significant fraud risk related to revenue recognition. This is based on the nature of the Town and its primary revenue streams, the majority of which are third party in nature which can be tied to third party evidence in a straightforward manner. | No |

**Our response**

- Regardless of this risk being rebutted, we have substantively tested all material revenue accounts as part of our planned approach to ensure we have obtained adequate audit evidence over the assertions relevant to revenue and related accounts.
- We have taken a fully substantive approach to the audit of revenues, involving procedures over primary revenue streams and vouching to third party support and vouching of deposits to the bank account when funding is received and recognition criteria are met.
- We have performed additional procedures related to deferred revenue, however we do not consider this to represent a fraud risk with respect to revenue recognition. These procedures are discussed further in this section of the report.

**Significant findings**

We did not identify any issues with respect to revenue recognition and have no reportable findings.

# Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

## Tangible capital assets

| Other risk of material misstatement | Estimate? |
|---|---|
| Tangible capital assets are a material balance and as such is an area of audit focus. | No |

### Our response

Our procedures included:

- Substantive testing of contributed and donated assets in the year, including corroborating the recorded fair values, in accordance with PS 3150 *Tangible Capital Assets*, to external third party invoices, contracts and agreements,
- Substantive testing of non-contributed assets, including the vouching of additions to invoices to ensure items are capital in nature, assessing the reasonableness of the useful life and the residual value assigned to the asset, and examining whether the depreciation commenced on the date that the asset was available for use, testing of disposals and vouching to supporting documentation.
- Substantive sampling of changes to work-in-progress assets, vouching to evidence of costs incurred to date, as well as verifying internal transfers out of WIP.

### Significant findings

- We noted no significant issues with respect to procedures over tangible capital assets.
- As mentioned previously in this report, the Town was required to implement PS 3280 – Asset Retirement Obligations during the fiscal year. This relates to retirement obligations expected to be made in the future with respect to the capital asset portfolio and is profiled on slide 9.

# Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

## Asset retirement obligation

| Other risk of material misstatement | Estimate? |
|---|---|
| During the year, the Town was required to adopt PSAS 3280 – Asset Retirement Obligations. This was a change to the existing accounting standard which required an examination of the Town's portfolio of tangible capital assets and assessment on an asset by asset basis to identify any potential future retirement obligations. | Yes |

### Our response

This standard requires the Town to consider the possibility of obligations upon the retirement of any and all capital assets within its portfolio. When retirement obligations such as environmental remediation, asbestos removal or similar costs required when assets are retired are identified, an estimate must be made for accounting purposes.

Due to the wide-scope of this standard, many departments within the Town were involved in the process of identifying potential obligations and estimating their future cost. It was determined that the most common obligations for the Town relate to asbestos removal, fuel tank removal and contaminated sites.

We performed audit procedures to ensure the entire asset listing was considered as part of the implementation, that assumptions on expected cost and timing were appropriate, and that the resulting accounting adjustments to the current and prior period were accurately recorded. Procedures included vouching key inputs to supporting documentation, assessing the competency of the experts involved in the evaluations, recalculations of the supporting schedules and review of disclosures for accuracy and completeness.

It is noted that the financial statements include disclosure regarding the new accounting policy for ARO's that will be used moving forward, and disclose the impact of the adoption of the accounting standard.

### Significant findings

We note that the Town's approach to implementation of PS 3280 was appropriate and in-line with the requirements of the handbook. There was valid rationale with respect to key assumptions on timing and cost which were supported by internal reports and studies on specific assets, as well as external benchmarking. The accounting adjustments and disclosures were accurate and address the requirements of the new standard as well.

# Other Matter

We highlight the following **other matter**.

| | Description of other matter | Impact to Town | Results |
|---|---|---|---|
| OEC – Conversion of Equity to Convertible Promissory Note | • During the year, Oakville Enterprises Corporation (OEC) completed a transaction with its third party and minority shareholder which resulted in the conversion of a portion of the third-party's equity stake into a convertible promissory note.<br><br>• This was accounted for based on the requirements of IFRS by OEC and represents an unusual transaction given its one-time nature and complexity. | • The Town appropriately accounts for its interest in OEC using the modified-equity method under PSAS, resulting in the "Investment in OEC" line item on the statement of financial position and an annual pickup of its share in OEC's net income.<br><br>• Due to the conversion of the third-party's equity, the Town's ownership position increased from 90% to 95%.<br><br>• However, as the transaction has terms which allow the third-party to regain its 5% share on demand, consideration was given as to whether or not the Town's existing treatment of its interest in OEC required change. | • We audited and concur with the Town's accounting of its interest in OEC remaining appropriate after considering the impact of this change due to OEC's transaction.<br><br>• It was determined that, due to the on demand conversion features attached to the promissory note resulting from the transaction, that no change was needed and the Town's interest in OEC had not changed based on the transaction in substance undertaken within OEC.<br><br>• As such, no adjustment was required and the Town's current practice and accounting for its interest in OEC remains unchanged compared to 2022. |

# Corrected and uncorrected misstatements

Corrected and uncorrected misstatements include financial presentation and disclosure omissions.

**Impact of corrected and uncorrected misstatements – Not material to the financial statements**

Had we identified any misstatements, individually or in aggregate, which exceeded our audit misstatement posting threshold, we are required to profile them to you in this report.

We did not identify any corrected nor uncorrected audit misstatements which exceeded the audit misstatement posting threshold of $665,000.

# Control deficiencies

## Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Town'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 deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

We received the full cooperation of the management team throughout the audit.

# Control deficiencies – Significant deficiencies

## Significant deficiencies in internal control over financial reporting

Our audit was performed on a substantive basis and did not involve relying on the operating effectiveness of controls. However, we are required to evaluate entity level controls and obtain an understanding of key processes and controls regardless.

Based on the results of our audit, we have not identified any issues which represent control deficiencies, and thus have no matters to bring to your attention in this regard.

# Other financial reporting matters

We also highlight the following:

**Adoption of PS 3280 – required accounting standard change**

No significant matters to report other than new disclosures related to asset retirement obligation, which has been previously profiled in this report.

The impact of the adoption of this standard is disclosed in Note 2 to the financial statements in full detail, as required by the accounting standard.

**Accounting policy change regarding Building Reserves**

During the year the Town determined that, based on PS 3100 – Restricted Assets and Revenues, paragraphs 10 and 11a, an accounting policy change was necessary to best align with the intent of the existing standard and the needs of the users of the financial statements.

- At any given time, there are thousands of building and zoning permits that have been paid in cash prior to the closing of the permit. As such, recognizing revenue and alignment with the closing of permits is challenging on a permit to permit basis.
- Under previous policy, Building Reserves were treated as internally restricted with revenue flowing through the income statement based on a four year allocation with any surplus flowing to the reserve within equity at year-end.
- Under the new policy, Building Reserves will be treated as an externally restricted obligatory reserve based on existing legislation. This treatment lessens administrative time required to account for revenue recognition and will group the reserves within liabilities, thus aligning with Ministry reporting requirements and alleviating risk of imprecision with respect to recognizing revenue too early under the previous policy.
- The standard is scheduled to change in future years, removing alternative treatments.
- The impact of this change and its retrospective application is disclosed in Note 2 to the financial statements in full detail, including its impact on opening accumulated surplus.

# Specific topics

We have highlighted the following that we would like to bring to your attention:

| Matter | Implication |
|---|---|
| Investment in Halton Digital Access Service Corporation (new for fiscal 2023) | Halton Digital Access Services Corporation ("HDASC") is owned equally by The Regional Municipality of Halton, The Corporation of the Town of Oakville, The Corporation of the City of Burlington, The Corporation of the Town of Milton, and The Corporation of the Town of Halton Hills. During the year, the town invested in 20% of the equity of HDASC.<br><br>Consistent with Investments in other Government business entities, the Town's investment in Halton Digital Access Municipal Services Corporation ("HDASC") is accounted for on a modified equity basis as recommended by PSAS, consistent with treatment of its investment in OEC and MDC.<br><br>HDASC has incurred a loss of $127k as per draft financials for the year ended 2023, which results in a negative investment position for the Town as at that time. |
| Investment in Oakville Municipal Development Corporation | Oakville Municipal Development Corporation ("MDC") is owned and controlled by the Town and as a government business enterprise and continues to be accounted for as it has been in the past under modified equity method.<br><br>During the year, MDC has incurred a loss of $600k as per draft financials for the year ended 2023, resulting in the same result as HDASC noted above.<br><br>We considered potential impairment indicators for MDC, however the MDC has the expressed support of the Town and is expected to have transactions which will alleviate the risk of impairment in future periods. As such, no impairment has been taken at this time. |

# Independence

As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet or exceed those of the IESBA Code[1] and CPA Code. We as a firm remain independent of the Town. The following are the actions or safeguards applied to reduce or eliminate threats to an acceptable level:

- Dedicated ethics & independence partners
- Ethics, independence and integrity training for all staff
- Operating polices, procedures and guidance contained in our quality & risk management manual
- Restricted investments and relationships
- Process for reporting breaches of professional standards and policy, and documented disciplinary policy
- International proprietary system used to evaluate and document threats to independence and those arising from conflicts of interest
- Mandated procedures for evaluating independence of prospective audit clients
- Annual ethics and independence confirmation for staff

*1 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)*

# Appendices

# Appendix: Draft auditor’s report

Appendix I

# 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
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

# Appendix: Management representation letter(s)

Appendix II

# Appendix: Audit quality - How do we deliver audit quality?

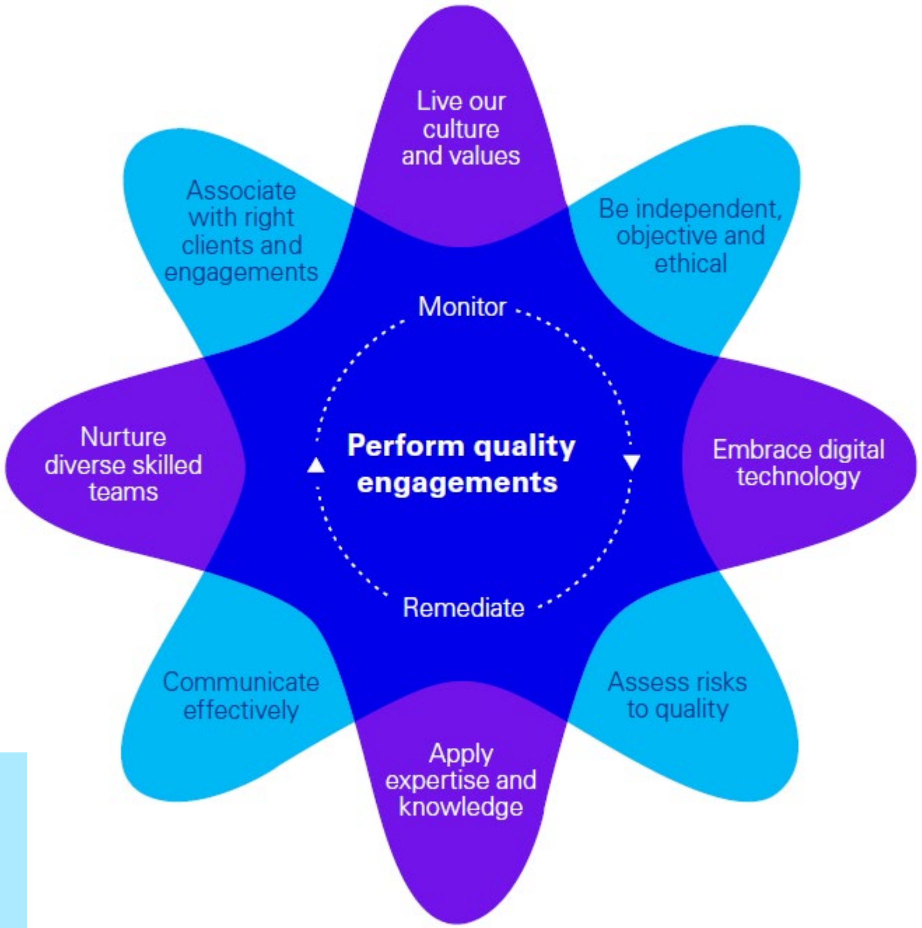
**Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.**

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

KPMG 2023 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 management;** 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.**

# Appendix: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards – see Current Developments

## Effective for periods beginning on or after December 15, 2022

### ISA/CAS 220

(Revised) Quality management for an audit of financial statements

### ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

### ISQM2/CSQM2

Engagement quality reviews

## Effective for periods beginning on or after December 15, 2023

### ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

# Appendix: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, board of directors, Councils and management. Current hot topics in which we are helping organizations include: cyber strategy and penetration testing, fraud prevention and defence, adoption of generative AI, ESG materiality assessments and other ESG-related projects. We are happy to share our insights to Council.

**KPMG Audit & Assurance Insights**

Curated research and insights for audit committees and boards.

**Board Leadership Centre**

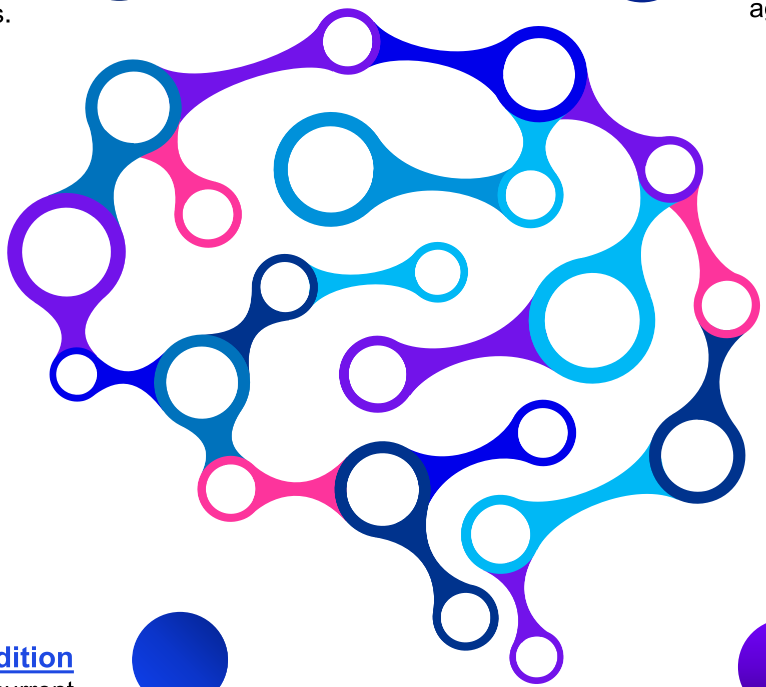
Leading insights to help board members maximize boardroom opportunities

**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 center 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: ESG - Global regulatory reporting standards

Recent Activity

## ISSB[1] and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

## Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

## US (SEC[2,3] and California[4])

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

## EU[5,6]

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies.
- There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our ISSB Resource Centre for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our Defining Issues publication for more information on the SEC's final climate rule
3. Refer to our Defining Issues publication for more information on the SEC's cybersecurity rules
4. Refer to our publication on California's introduction of climate disclosures and assurance requirements
5. Refer to our ESRS Resource Centre for resources on implementing the ESRSs
6. Refer to our publication on the impact of EU ESG reporting on non-EU companies

# Appendix: Continuous evolution

## 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.

Standardization

+

Automation

+

Centralization

**Methodology and Approach**

Data and tech enablement + Center for Audit Solutions + Next-gen auditor

**Quality Management System**

Enhanced audit quality

+

Increased efficiency

+

Exceptional experiences

https://kpmg.com/ca/en/home.html