

APPENDIX A



The Corporation of the Town of Oakville

**Audit Planning Report
For the year ending December 31, 2018**

December 11th, 2018

kpmg.ca/audit



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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

The contacts at KPMG in connection with this report are:

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Executive summary

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 include:

- Revenue recognition and deferral policies relating to grants
- Tangible capital assets
- Post-employment benefit liability
- Investments
- Related party income
- Operating expenditures
- Municipal Development Corporation
- Deerfield Golf Course acquisition

See page 7

KPMG team

The KPMG team will be led by Lois Ouellette. As applicable, subject matter experts will be involved to ensure our approach is appropriate and robust.

Effective communication

We are committed to transparent and thorough reporting of issues to senior management and the Administrative Services Committee. We have planned our work to work closely with your management team.

See Appendix 3

This Audit Planning Report should not be used for any other purpose or by anyone other than the Administrative Services Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning 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.

Audit materiality

Materiality has been determined based on prior year total revenues. We have reviewed the scope of work across the municipality. We have determined group materiality to be \$11,757,000 for the year ending December 31, 2018.

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Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Administrative Services Committee approved protocols.

Current developments

Please refer to Appendix 5 and 6 for relevant accounting and auditing changes relevant to the Town.

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. Materiality is determined at the consolidated group level as well as for the individual components.

The first step is the determination of the amounts used for planning purposes as follows:

Materiality determination	Comments	Amount
Metrics	Relevant metrics included revenue, expenses and net assets.	
Benchmark	Based on prior year total revenues. This benchmark is consistent with the prior year.	\$391,900,000
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 for the prior year's audit was \$10,750,000.	\$11,757,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$8,062,000.	\$8,817,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$537,000.	\$587,000

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate. Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

Audit scope

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.

We have identified the consolidated entity that is the Town of Oakville as the “Group”. The components over which we plan to perform audit procedures are as follows:

Components	Why	Our audit approach
Oakville Enterprises Corporation (Hydro) Component Auditor: KPMG	Individually financially significant	Statutory audit of component financial statements. Same KPMG audit partner.
Oakville Public Library, Oakville Business Improvement Areas, Oakville Galleries Component Auditor: KPMG	Non-significant components: however necessary to issue group audit opinion	Statutory audit of component financial statements. Same KPMG audit partner.
Municipal Development Corporation	Non-significant component: however necessary to issue group audit opinion	Substantive audit procedures completed over the component. Refer to other areas of focus under Audit Approach.

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies. The risk of fraudulent revenue recognition can be rebutted, but the risk of management override of control cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk under Canadian Auditing Standards. We have identified the following areas where there is a presumed fraud risk: <ul style="list-style-type: none"> - Government grants - Development charges Fraud could include: <ul style="list-style-type: none"> — Misapplying expenditures to incorrect grant funded programs in order to retain returnable funding. — Recognizing grant or development charge revenue before it is earned 	Our audit approach will consist of evaluating the design and implementation of selected relevant controls. It will also consist of performing substantive procedures to address the relevant assertions associated with the significant risk.
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit	As the 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.

Audit approach (continued)

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Other areas of focus	Why	Our audit approach
Government grants	Risk of material misstatement related to the completeness and accuracy of grant 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 complete substantive procedures to address the relevant assertions.
Post-employment benefit liability	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	We will complete substantive procedures to address the relevant assertions including a review of the actuarial valuation and applicable assumptions
Investments	Risk of material misstatement related to the existence and valuation of investments	We will complete substantive procedures to address the relevant assertions
Related party income	Risk over accuracy of related income	We will complete substantive procedures to address the relevant assertions
Operating expenditures including payroll	Risk of material misstatement related to the completeness, existence and accuracy of expenditures	We will test the design and implementation of selected relevant controls over payroll and non-payroll expenditures and perform substantive procedures to address the relevant assertions
Municipal Development Corporation	Unusual transactions requiring potential incorporation transactions and transfer of assets.	We will complete substantive procedures to address the relevant assertions and determine that the appropriate disclosures for the Entity are included in the financial statements
Contaminated sites	Estimate can fluctuate based on facts and circumstances that occur during the year	We will review the estimated liability at year end and ensure that any new acquisitions, land sales or remediation are taken into consideration
Acquisition of lands from the Province	Newly acquired lands that include a golf course being operated by a private company	We will ensure that the transactions related to this newly acquired land are appropriately accounted for and the disclosure in the financial statements is in accordance with PSAB

Data & analytics in the audit



We will be integrating Data & Analytics (D&A) procedures into our planned audit approach. Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

We believe that D&A will improve both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks.

Area(s) of focus	Planned D&A routines
Journal entry testing	<ul style="list-style-type: none"> <li data-bbox="653 594 1953 659">– Utilizing KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts <li data-bbox="653 683 1953 769">– Utilizing computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing such as entries that adjust the cash accounts while impacting a revenue or expense account or entries that move costs between funded programs

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

Highly talented and experienced team

	Team member	Background / experience	Discussion of role
	<p>Lois Ouellette, CPA, CA Lead Audit Engagement Partner louellette@kpmg.ca 905-687-3276</p>	<ul style="list-style-type: none"> – 37 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 – Teaches the Chartered Professional Accountants of Ontario PSAB 101 course. 	<ul style="list-style-type: none"> – Lois will lead our audit for The Town of Oakville 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.
	<p>Paul Ciapanna, CPA, CA Audit Senior Manager ppciapanna@kpmg.ca 905-523-2228</p>	<ul style="list-style-type: none"> – 9 years of public account experience serving several clients reporting in the public sector. – Municipal audit experience with the Town of Oakville, City of Hamilton, Region of Niagara and Town of Milton. – Previously interim acting treasurer of the Township of Wainfleet. 	<ul style="list-style-type: none"> – Paul 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.

Value for fees

The value of our audit services

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 on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in 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

Data analytics – 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.

Value for fees (continued)

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.

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:

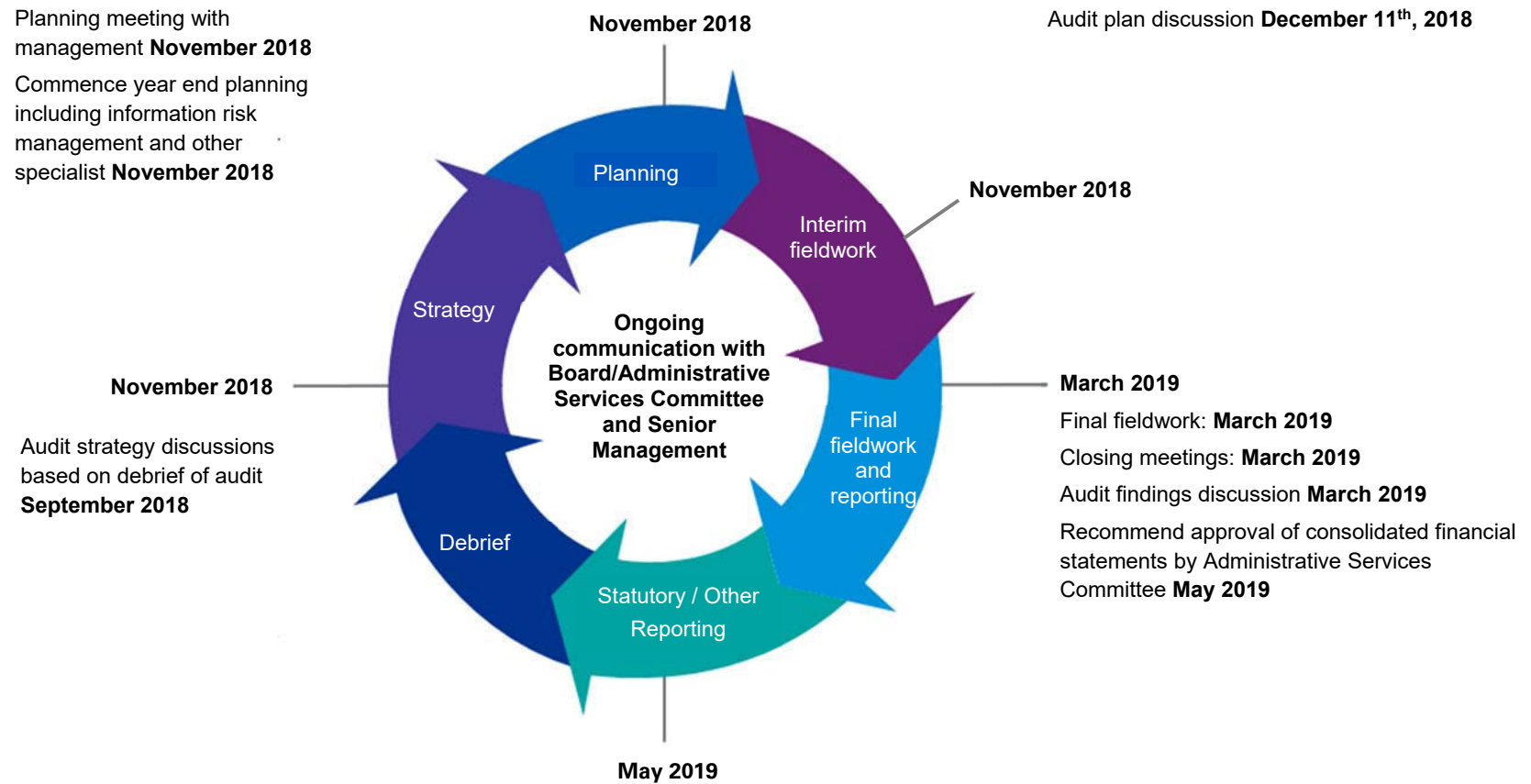
- Significant changes in the nature or size of the operations of the Town beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the time of our work.

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 in line with prior year.



How we deliver audit quality



Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Data & analytics in audit

Appendix 5: New auditor reporting

Appendix 6: Current developments

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

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

- Other controls include:
 - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



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

Appendix 2: KPMG's audit approach and methodology

Technology-enabled audit workflow (eAudit)

Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Administrative Services Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

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

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter and any subsequent amendment letters.
- Audit planning report – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Management representation letter** – we will obtain from management certain representations at the completion of each interim reviews and the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Administrative Services Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Administrative Services Committee
- **Annual independence letter** – at the completion of our audit, we will provide a letter to the Administrative Services Committee

Appendix 4: Data & analytics in audit

Turning data into value

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

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

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

KPMG is enhancing the audit

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

For the audit

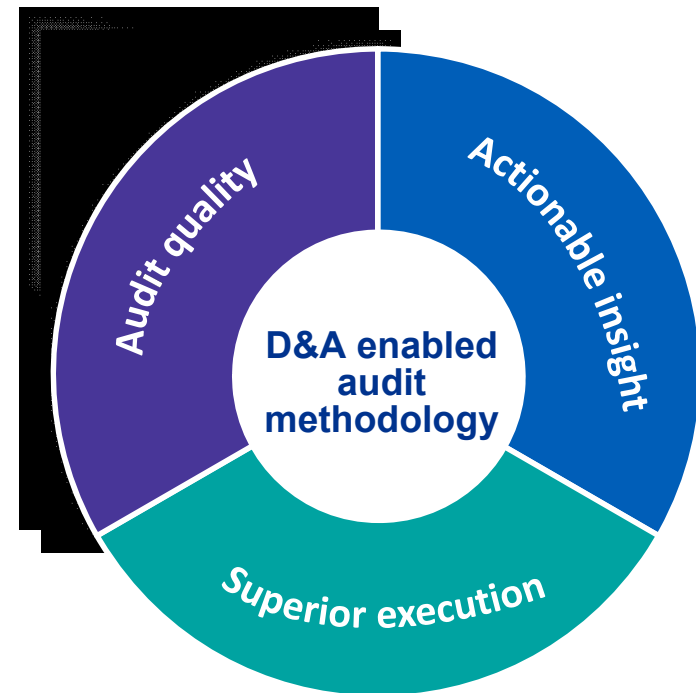
Audit quality

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

For your municipality

Actionable insight

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



Appendix 5: New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

Appendix 6: Current developments

Please visit the Audit Committee Institute / [Current Developments](#) page for current developments in IFRS, Canadian securities matters, Canadian auditing other professional standards and US accounting, auditing and regulatory matters.

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

Standard	Summary and implications
Cyber Security Risks	<p>With the constant changing cyber threat landscape, companies are changing their risks-protection strategies, identifying core assets and qualifying threats.</p> <p>Reference: KPMG: Cyber security FrontPage Video</p>
Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the Town's December 31, 2020 yearend)</p> <p>Implications: This standard will require the Town to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Town. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
Asset retirement obligations	<p>New standard released in April 2018 which provides guidance on recognition, measurement, presentation and disclosure of obligations associated with the retirement of tangible capital assets.</p> <p>Applies to TCA in or no longer in productive used.</p> <ul style="list-style-type: none"> - If asset is in use, the carrying value of the TCA is increased by the asset retirement cost, which is then expensed in a rational and systematic manner - If asset is not in use, asset retirement costs are expensed <p>Standard includes the removal of asbestos</p> <p>Liability incurred on acquisitions, construction, development or use of TCA and is measured using net present value.</p> <p>This new Section PS 3280 is proposed to apply to fiscal years beginning on or after April 1, 2021 (the Town's December 31, 2022 year end) with early adoption permitted.</p>

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