



The Corporation of the Town of Oakville

**Audit Planning Report
For the year ending December 31, 2016**

December 5, 2016

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**.

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
- Contaminated sites liability
- Investment and related income
- Operating expenditures
- Municipal Development Corporation

See pages 4-6

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.

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 \$10,900,000 for the year ending December 31, 2016.

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A collective audit approach

We have planned the audit to leverage the internal assurance work performed, if applicable, to reduce overlap in audit procedures. We will continue to liaise regularly and extensively with internal audit.

Independence

We are independent and have extensive quality control and conflict checking processes in place.

Current developments

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

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 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	<p>This is a presumed fraud risk under Canadian Auditing Standards. We have identified the following areas where there is a presumed fraud risk:</p> <ul style="list-style-type: none"> - Government grants - Development charges <p>Fraud could include:</p> <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	<p>This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit</p>	<p>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.</p> <p>Data & Analytics tools will be used to perform work in this area.</p>

Audit approach (continued)

We have not identified any risks that we deem to be significant financial reporting risks.

Other areas of focus include the following:

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
Contaminated sites liability	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	We will complete discussions with Town personnel in various departments to determine if a potential liability could exist and if so how it should be properly treated.
Investments and related income	Risk of material misstatement related to the existence and valuation of investments and 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

Audit approach (continued)

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) Auditor: KPMG	Individually financially significant.	Statutory audit of component financial statements. Same KPMG audit partner and manager.
Oakville Public Library, Oakville Business Improvement Areas, Oakville Galleries Auditor: KPMG	Non-significant components; however, necessary to issue group audit opinion	Statutory Audit of component financial statements Same KPMG audit partner.

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"> Utilizing KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts 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

Materiality

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.

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

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.

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.	\$363,582,000
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 \$9,190,000	\$10,900,000
% 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 \$6,892,000.	\$8,175,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$460,000.	\$545,000

Highly talented team

	Team member	Background / experience	Discussion of role
	Lois Ouellette, CPA, CA Lead Audit Engagement Partner louellette@kpmg.ca 905-687-3276	<ul style="list-style-type: none"> 35 years of experience serving Public Sector clients PSAB resource within KPMG for the province of Ontario and is a member of the Global Public Sector Accounting Standards Team. Authored the PSAB Financial Reporting course for the Institute of Chartered Accountants of Ontario ("ICAO", now CPAO). Instructor for the Institutes of Chartered Accountants of Manitoba, Ontario and Saskatchewan of the PSAB Financial Reporting course 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.
	Heather Willems, CPA, CA Audit Manager hwillems@kpmg.ca 905-687-3283	<ul style="list-style-type: none"> Regularly works with PSAB Standards Responsible for the audit of 3 municipal clients and one First Nation Over 10 years of experience providing financial statement audit services to a variety of clients, focusing on public sector and not-for-profits Former Deputy Treasurer for the Town of Fort Erie 	<ul style="list-style-type: none"> Heather will work very closely with Lois on all aspects of our audit for the Town. She 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;
- Consistent audit team from one year to the next – we strive to provide continuity of team members in order to achieve audit efficiencies and effectiveness reducing the amount of time your team spends with the audit team;
- Current development update sessions – we have organized and delivered tailored information sessions on current developments in financial reporting and other matters that are likely to be significant to the Town such as the liability for contaminated sites standard recently and tangible capital assets in the past. These sessions will assist the Town in proactively responding to financial reporting and regulatory changes and assist the area municipalities as well;
- 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 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; and/or
- 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:

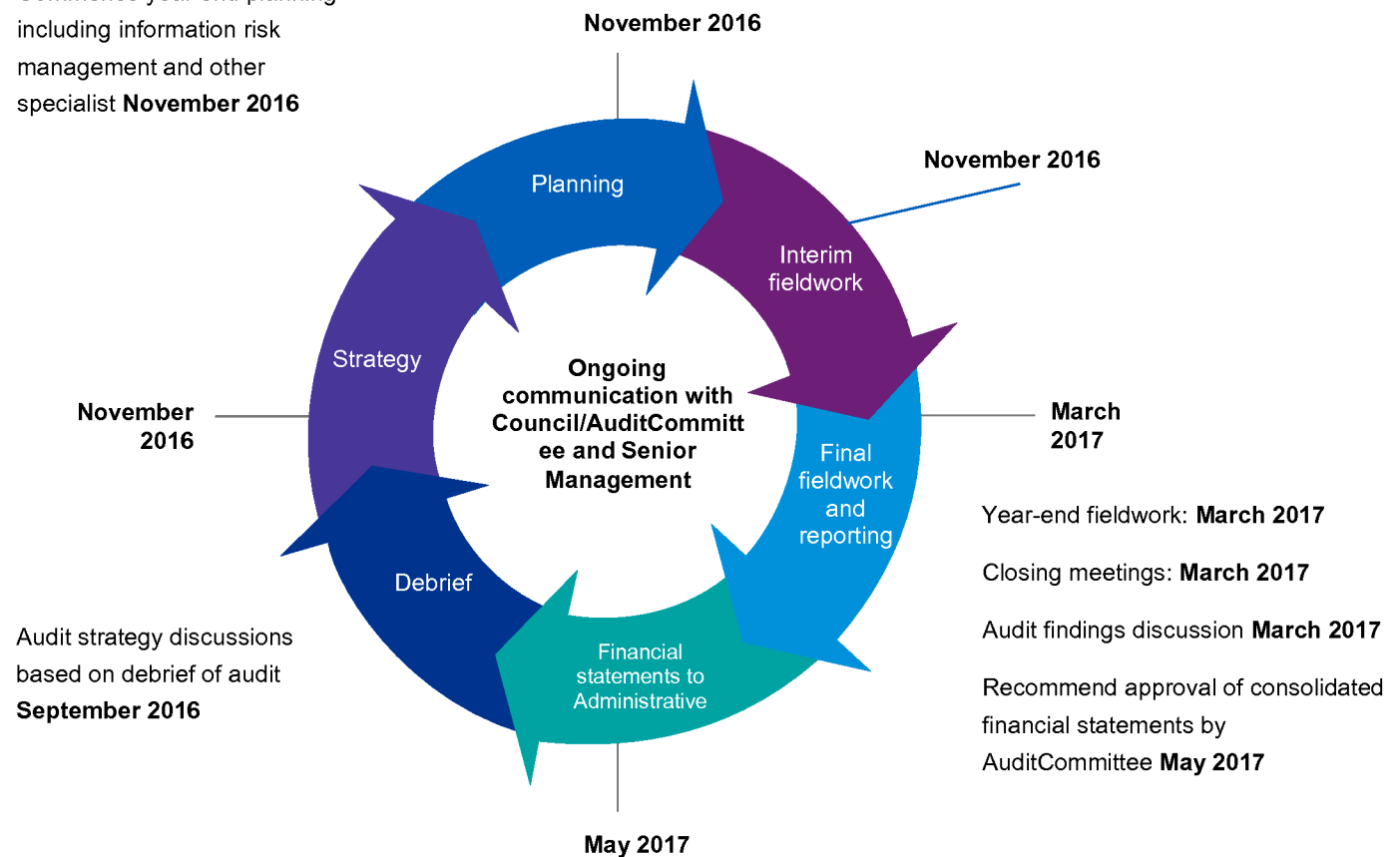
To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Our timeline is in line with prior year.

Planning meeting with management **November 2016**

Commence year end planning including information risk management and other specialist **November 2016**

Audit plan discussion **November 3rd, 2016**



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: Audit trends

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 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

Appendix 4: Data & analytics in audit

Turning data into value

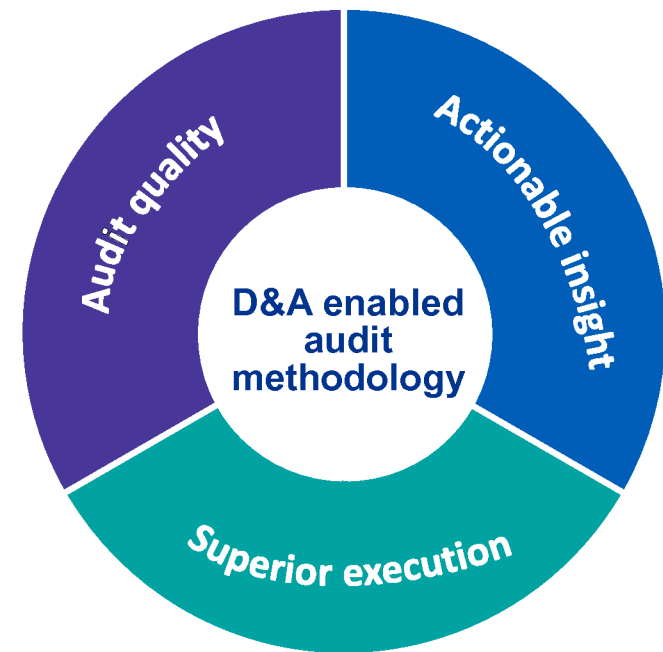
KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that entities hold.

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 a 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: Audit trends

KPMG understands the wide range of challenges and evolving trends that you face as an Administrative Services Committee of the Town. We also understand that sometimes keeping up with critical issues as they emerge can be difficult.

As your auditors, it is incumbent upon us to provide you with any information that will help you further strengthen corporate governance, enhance your oversight and add greater value within your organization.

As such, KPMG's Audit Committee Institute ([ACI](#)) provides information, resources and opportunities for you to share knowledge with your peers. First, you are welcome to attend our Audit Committee Roundtable sessions, which are

held in major cities across the country. In addition, you will also benefit from our monthly article series ([Audit Point of View](#)) and quarterly videos ([FrontPage Video Series](#)) that focus on the most pressing audit committee agenda items.

More information on all of these can easily be found at www.kpmg.ca/audit.

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to the Town. We would, of course, be happy to further discuss this information with you at your convenience.

Appendix 6: Current developments

Current developments, created by KPMG Public Sector and Not-for-profit Practice, summarizes regulatory and governance matters impacting Government Organizations. We provide this information to help you understand upcoming changes and challenges they may face in the industry. We attach this summary to every audit plan and findings report (if significant changes occur).

A new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use is under development by PSAB. A Statement of Principles that addresses the accounting and reporting of retirement obligations associated with tangible capital assets controlled by a public sector entity was issued in 2014. PSAB has had regular updates on this project. An exposure draft is under development and is expected to be approved by PSAB at its December 2016 meeting. Implementation of this standard will require a review of the legal obligations associated with the retirement of long-lived tangible capital assets. An effective date for this standard has not yet been proposed.

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

Standard	Summary and implications
PS 3380 – Contractual Rights	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>Examples of a contractual right include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contractual rights to assets or revenue exist</p>

PS 3210, Assets	<p>This Standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows:</p> <ul style="list-style-type: none"> – They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows – The public sector entity can control the economic resources and access to the future economic benefits. – The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year end).</p> <p>Implications: Assets such as accrued receivables will have to be reviewed to determine if they meet this definition.</p>
PS 3320, Contingent Assets	<p>This standard defines contingent assets.</p> <p>They have two basic characteristics:</p> <ul style="list-style-type: none"> – An existing condition or situation that is unresolved at the financial statement date – An expected future event that will resolve the uncertainty as to whether an asset exists <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year end).</p> <p>Contingent assets include grants receivable where the conditions are met but funding is conditional upon approval of an application for funding</p> <p>Implications: Additional disclosures may be required if contingent assets exist.</p>
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Town's December 31, 2018 year end).</p> <p>Implications: Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.</p>

PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity.</p> <p>Transactions are recorded at carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> – In the normal course of business – use exchange amount – Fair value consideration – use exchange amount – No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair. – Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Town's December 31, 2019 year end).</p> <p>Implications: The Town will have to identify these transactions and determine if they have been measured at the carrying amount if required.</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 deterred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the Town's December 31, 2020 year-end).</p> <p>Implications: This standard will require the Town to identify any contracts that have embedded derivatives and recognize these on the consolidated 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>
Revised Standard on Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (the Town's December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of re-measurement gains and losses.</p>

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