

The Corporation of the Town of Milton

Audit Findings Report
for the year ended
December 31, 2019

KPMG LLP

Licensed Public Accountants

August 24, 2020

kpmg.ca/audit

KPMG

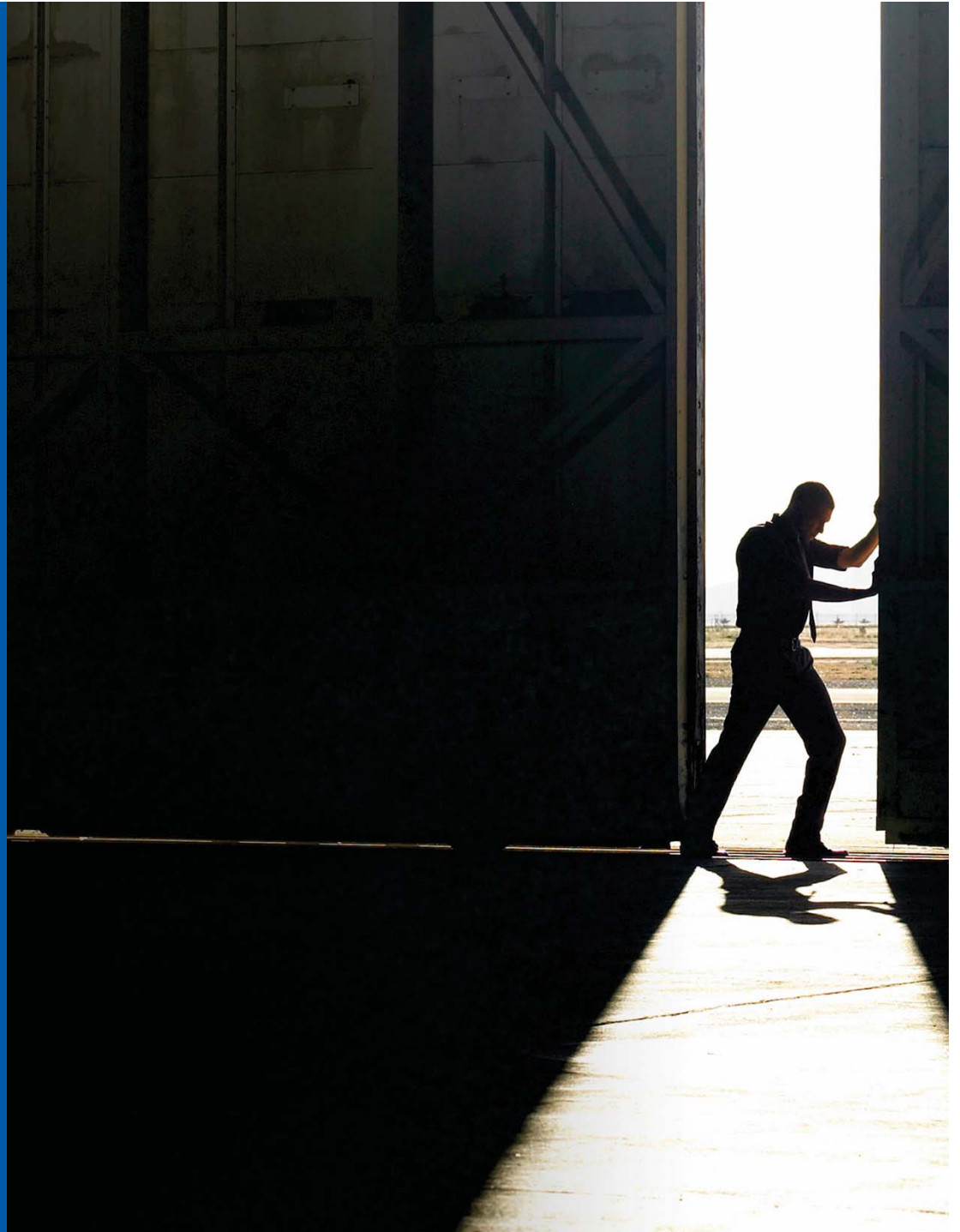


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Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of The Corporation of the Town of Milton as at and for year ended December 31, 2019.

Finalizing the Audit

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

- Receipt of final legal letter response
- Receipt of signed management representation letter
- Completing our discussions with the Council
- Obtaining evidence of Council's approval of the financial statements

We will update Council, and not solely the Mayor, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Independence

In accordance with professional standards, we have confirmed our independence. We are independent with respect to the Town and its related entities within the relevant rules and have extensive quality control and conflict checking processes in place.

Impact of COVID-19

The COVID-19 pandemic has had a tremendous impact across many sectors. As a result of the pandemic, our audit approach and plan was adjusted to incorporate additional elements, testing and discussions with management, as well as the way in which we conduct our audit. Our findings are summarized on pages 3 - 4.

Significant accounting policies and practices

The Town has adopted a new standard, PS3430, Restructuring Transactions, effective January 1, 2019. There are no transitional impacts or adjustments to report.

Control deficiencies and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Uncorrected differences

Our summary of adjustments has been provided on page 9. The adjustments, both corrected and uncorrected do not have an impact on our auditors' report.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings 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 risks and results

Relevant factors affecting our risk assessment

Complexity



Estimate



We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

1 Significant Risk Fraud Risks

Significant financial reporting risk

Fraud risk from revenue recognition

Fraud risk from management override of controls

Why is it significant?

Required risks to be addressed in every audit under Canadian Auditing Standards

As permitted under Canadian Auditing Standards, we have rebutted the fraud risk from revenue recognition

Our response and significant findings

Fraud risk from revenue recognition

- We performed substantive procedures over revenue recognition related to significant developer contributions and charges, as well as over the recognition of prior year deferrals and government transfers.
- We did not identify any significant audit findings as a result of our testing.

Fraud risk from management override of controls

- We performed procedures consistent with professional standards including testing of journal entries, performing a retrospective review of estimates, evaluating the business rationale of any significant transactions and carrying out audit procedures with an element of unpredictability.
- We did not identify any issues or concerns regarding management override of controls.

Audit Response to COVID-19 Pandemic

COVID-19 IMPACT ON AREAS OF AUDIT FOCUS

Subsequent Events	Our audit approach
<p>Subsequent Events</p>	<p>Subsequent to the Town's year-end the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social distancing impact. As such, enhanced subsequent events procedures are warranted.</p> <p>There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows:</p> <ul style="list-style-type: none"> — Events that provide evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures. Because the Pandemic was declared by the World Health Organization subsequent to December 31, 2019, the impact of COVID-19 is not required to be included in the operating results and balances of the Town at December 31, 2019 since the pandemic is not indicative of a condition that existed at December 31, 2019. — Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made. <p>Audit response:</p> <ul style="list-style-type: none"> — Management worked with the audit team to customize language for a subsequent event note disclosure in the financial statements. — An assessment for any permanent impairment in investments, or other financial implications, was undertaken. — Disclosure of a list of any financial implications and actions undertaken by the entity are to be disclosed in the notes, such as: <ul style="list-style-type: none"> — Experienced temporary declines in the fair value of investments and investment income — Closure of facilities to the date of the auditors' report based on public health recommendations to slow the transmission — Mandatory working from home requirements for those able to do so — As a result of the review of the pandemic on the Town's financial statements and discussion with management, no adjustments were made to amounts in the Town's December 31, 2019 year-end financial statements. The Town has appropriately disclosed the related impacts of the pandemic and considerations necessary for a user to understand the pandemic's impact to date.

Audit Response to COVID-19 Pandemic (continued)

OVERALL IMPACT OF COVID-19

The COVID-19 crisis has had, and continues to have, a significant impact on the auditing and financial reporting close processes of the Town. We have described in the table below, the audit response with respect to the impact of COVID-19. In light of the unprecedented events related to the COVID-19 pandemic, we have separately identified incremental analysis undertaken by management and procedures performed by the audit team. For additional resources and insights to assist you in your role as Those Charged with Governance can be found further in this document.



Observations	Audit Considerations	Audit Response
Timing regarding the year-end audit	<ul style="list-style-type: none"> – The ability for the financial statement audit to be undertaken in this COVID-19 environment was highly fluid and dependent on management’s ability to physically or digitally access underlying documents in a safe and healthy manner, including access to IT systems, and human resource/payroll records. 	<ul style="list-style-type: none"> – Management was able to obtain and provide support for all audit samples selected during the course of our remote audit fieldwork. – Our audit was completed almost entirely through remote arrangements through the support of our team and management.
Financial Reporting	<ul style="list-style-type: none"> – The Town has required, out of necessity, to amend certain processes as a result of remote work arrangements. This will present an increased audit risk associated with transactions processed during the period of interruption or transition to a new control environments increased compared to normal operations. – The impact of COVID-19 occurred after the end of the current fiscal year and while impacts are not currently known with any certainty, management will be required to continue to monitor these impacts. – Subsequent event disclosures have been included in the financial statements. 	<ul style="list-style-type: none"> – Our teams are in regular communication and will continue to monitor events. – The audit team worked through a questionnaire to evaluate the impact of the COVID-19 on the Town and the December 31, 2019 financial statements.
COVID-19 Government Assistance	<ul style="list-style-type: none"> – It is generally anticipated that the provincial and federal governments may provide municipalities with infrastructure stimulus funding because of the COVID-19 crisis. 	<ul style="list-style-type: none"> – We will continuously monitor COVID-19 funding announcements and regulations issued by the federal and Ontario governments relating to Municipalities. – We will regularly communicate with Town management on these matters.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Group amount
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 \$4,270,000.	\$5,000,000
Benchmark	Based on prior year total revenues. This benchmark is consistent with the prior year.	\$187,240,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%	3.0%
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 \$3,200,000	\$3,750,000
Audit Misstatement Posting Threshold ("AMPT")	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$210,000	\$250,000

We report to Council:

Component	Materiality	
The Corporation of the Town of Milton	\$4,500,000	 Corrected audit misstatements
Milton Hydro Holdings Inc.	\$3,500,000	 Uncorrected audit misstatements

Audit risks and results - estimates

Under Public Sector Accounting standards, management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.” We have not determined the estimates to be critical estimates by definition however these estimates require judgement on the part of management including assumptions. We have summarized our assessment of the subjective areas. We believe management’s process for identifying estimates with significant risk is considered adequate.

Asset / liability	Carrying Amount (\$'000s)
Employee Future Benefits	\$3,168 (2018 - \$2,859)
Contaminated Sites Liability	\$nil (2018 - \$nil)

KPMG comment

Employee Future Benefit Liability

- The Town provides certain employee benefits which will require funding in future periods. These benefits include benefits under the Workplace Safety and Insurance Board (“WSIB”) Act and extended health and dental benefits for a closed group of early retirees.
- Management used an external expert (actuary) to estimate these liabilities. Projected liabilities were used for retiree benefits and WSIB. We obtained a copy of the most recent actuarial valuation and determined that the work of management’s expert was reasonable. We obtained sensitivity analysis for changes in the discount rate and determined the difference to be immaterial.
- We reviewed assumptions used in the projection for appropriateness and ensured disclosures were appropriate.

Contaminated Sites

- We reviewed management’s listing of identified contaminated sites and the analysis against applicable criteria to determine if a liability should be recorded.
- We have concluded that management’s approach to identifying, evaluating and determining any potential liability in accordance with the standard is appropriate. As all sites remain in active use, management has appropriately not recorded any liability for contaminated sites.

Audit areas of focus

Significant financial reporting risk	Why is it significant?
Government grants and development charges, including related deferrals Operating expenditures, including payroll	Risk of material misstatement related to the completeness, existence and accuracy of amounts recorded in the financial statements.

Our response and significant findings
<ul style="list-style-type: none">- We completed substantive procedures over testing of Government grants and related deferrals as well as any related operating expenditures.- We completed appropriate cut-off procedures at year-end to ensure completeness of transactions recorded in the financial statements.- We substantively tested development charges including receipts of development charges in accordance with the Town's by-law and gained an understanding of the methods used in recognizing revenue from development charges.- We have no significant findings to report.

Significant financial reporting risk	Why is it significant?
<ul style="list-style-type: none">- Tangible capital assets	Risk of material misstatement related to the completeness and accuracy of amounts recorded in the financial statements Risk of material misstatement related to the classification of tangible capital assets.

Our response and significant findings
<ul style="list-style-type: none">- We completed substantive procedures over tangible capital assets including testing of significant additions and disposals as well as testing of amortization expense.- We have no significant findings to report.

Technology in the audit

KPMG as a firm continues to invest heavily in technology to support our engagement teams and our clients. We have utilized technology to enhance the quality and effectiveness of the audit.



Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Journal Entry Analysis	<p>Utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts</p> <p>Utilized 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</p> <p>There are no significant findings to report as a result of our routines.</p>
Town SharePoint site	<p>We utilized the Town's Share Point site to facilitate the transfer of information securely in a remote environment.</p> <p>We have invested heavily in KPMG's Clara Client Collaboration site ("KCCC") which permits a full remote/virtual audit which is available to the Town for use moving forward.</p>
Union Groups – Firefighters and Operations – Data & Analytics ("D&A")	<p>As part of our annual audit, we look for areas to dive deep into your financial reporting. In unionized environments, the associated financial transactions are often prescribed and detailed with little to no room for judgement. As part of our audit, we obtained the payroll detail for the Town's Firefighters and those employees under IBEW. We develop expectations of annual salary based on level and position within the union grid and compare to actual payroll reported annually to the CRA.</p> <p>We identified 8 exceptions in our testing that required further investigation. In all instances, the difference from our expectation was supported by independent evidence and appropriately accounted for.</p>

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and Council that all identified differences be corrected. We have already made this request of management.

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences —individually and in the aggregate—are, in their judgment, not material to the financial statements.

As at and year ended December 31, 2019	Income effect	Financial position		
Description of differences greater than \$250,000 individually	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Consistent with 2018 statements - To remove developer recoveries accrued in prior years with respect to the development of the Velodrome and surrounding lands until such time that the Town has control over the ultimate levy and collection of these charges	(608,000)	(608,000)	-	-
Total differences	(608,000)	(608,000)	-	-

COVID-19 Response and Resources

The rapid advancement of COVID-19 has left many institutions assessing cash flow requirements, resource capacity, staffing levels, and business continuity plans while adapting to new ways of work and managing customer and ratepayers expectations. This is no doubt an unprecedented and challenging time. We are here to help. Should you require any further information do not hesitate to reach out.

Please visit [KPMG's COVID-19 Insights](#) for up-to-date information.

Thought Leadership	Overview	Links
COVID-19 Podcasts	KPMG is releasing a series of podcasts aimed at discussing relevant and important topics as COVID-19 continues to evolve on matters ranging from tax (HST), cash flow strategy and insurance considerations.	Please reach out to us and we would be happy to share the podcasts with you as they become available
Returning to the workplace	A return to the workplace will require thoughtful and careful consideration as well as a detailed plan and approach that is customized to you. Safely opening up and managing workplaces at this crucial juncture requires a people-centric rollout strategy focusing on a COVID-19 task force, governance and risk; workplace preparation and management; and employee/worker and visitors' health and safety. Notably, employees – and the public at large – need to feel confident that employers are properly following government guidelines and best practice to successfully re-open and transition life back to a sense of normalcy.	Link to report
Business Continuity Guide	For many businesses, a continuity plan to minimize disruption is just simply not available or adequate. KPMG has compiled a series of business continuity insights to help businesses across all sectors stay on course.	Link to report
Legal considerations	For everything employee, HR, contracts and credit discussions, KPMG's in-house legal counsel have summarized key information to consider in your decision making.	Link to report
The Board's perspective	COVID-19 response and assessment does not stop at management. Council must be involved in assessing risks, impacts, and future operations. Council must understand current implications while balancing long-term strategic goals and become more adaptive than ever.	Link to report

Current developments and audit trends

Public Sector Accounting Standards

The following are upcoming changes that will be effective in future periods. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations (“ARO”)	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 <i>(for the Town’s 2023 year-end)</i>. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: <ul style="list-style-type: none"> • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2023 <i>(for the Town’s 2024 year-end)</i>. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.

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- The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Employee Future Benefit Obligations

- PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits.
- Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans.
- The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Public Private Partnerships (“P3”)

- A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets.
- A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership.
- The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
- The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.
- The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.

International Strategy

- PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada.
 - Two consultation papers were released for comment in May 2018 and March 2019 both of which have closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. A final decision was expected at the March 2020 meeting. As of the date of this report, nothing has been released from PSAB.
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Appendices

Content

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management



Appendix 1: Required Communications

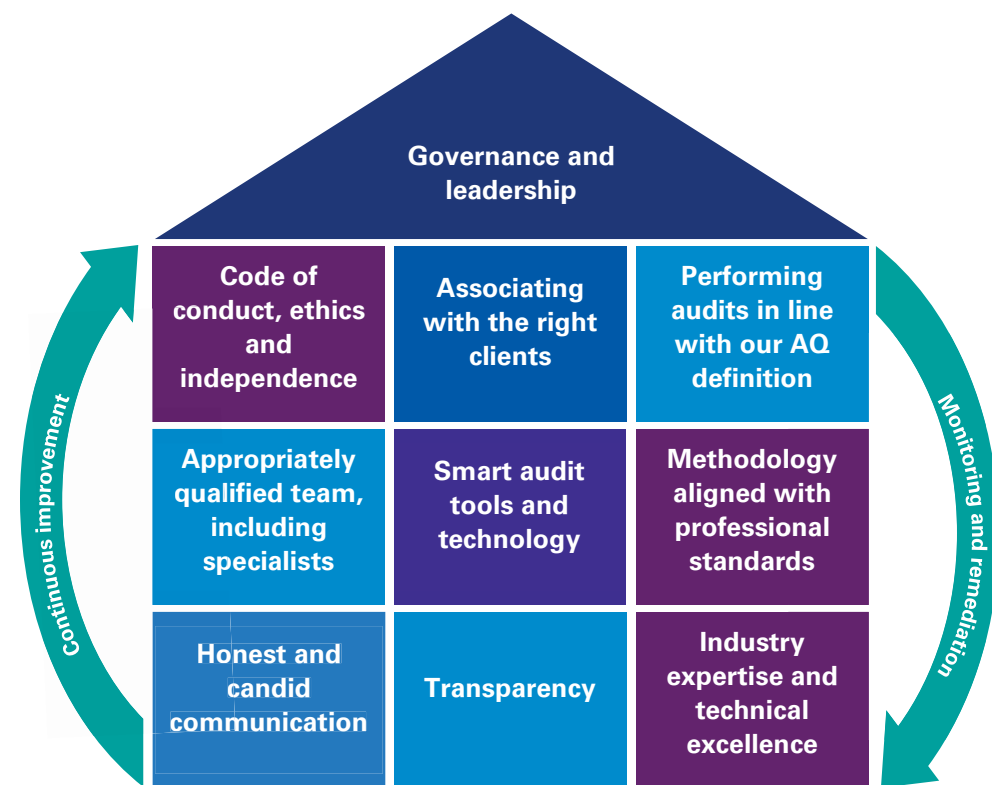
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
<p>The conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements.</p>	<p>In accordance with professional standards, a copy of the management representation letter is provided to management who will provide you with a copy for your records.</p>
Audit quality	
<p>Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.</p> <p>The following links are external audit quality reports for referral by the audit committee:</p> <ul style="list-style-type: none"><li data-bbox="163 933 945 966">• CPAB Audit Quality Insights Report: 2019 Annual Inspections Results<li data-bbox="163 990 898 1023">• CPAB Audit Quality Insights Report: 2019 Fall Inspection Results	

Appendix 2: 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 summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

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

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

