KPMG

Corporation of the Town of Greater Napanee

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Prepared on January 15, 2024 for the Council meeting on January 30, 2024

kpmg.ca/audit

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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.

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 as at and for the period ended December 31, 2022. 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.

Audit highlights

Status of the audit

We have completed the audit of the financial statements ("financial statements") of the Corporation of the Town of Greater Napanee (the "Town"), with the exception of certain remaining outstanding procedures, which are highlighted on page 5 of this report.

Significant changes to our audit plan

There were no significant changes to our audit plan.

Audit risks and results – significant risks

We did not identify any significant financial reporting risks other than the presumed risk of management override of controls.

Audit risks and results – going concern assessment

We performed an assessment to support the appropriateness of the going concern assumption. We have no findings to report.

Audit misstatements

During our audit, we did not identify differences which remain uncorrected.

The management representation letter includes all misstatements identified as a result of the audit, communicated to management, and subsequently corrected in the audited financial statements.

Newly effective auditing standards

A new auditing standard, CAS 315 *Identifying and Assessing the Risks of Material Misstatements*, was effective for the fiscal 2022 audit. We performed the required procedures to comply with this new auditing standard and have no findings to report.

External auditor transition

We have worked closely with the Town's management to ensure a seamless transition of the external audit relationship including audit processes and methodology.

Significant unusual transactions

We did not identify any significant unusual transactions to bring to your attention.

Control deficiencies

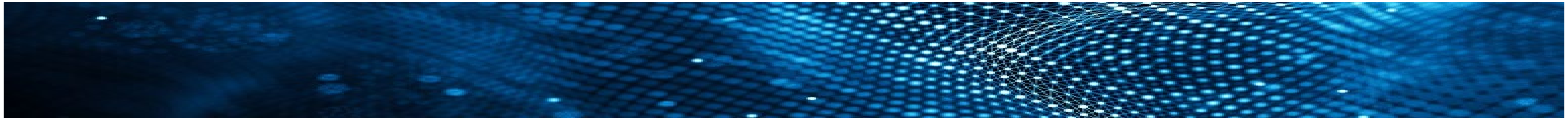
We identified a control deficiency that we determined to be a significant deficiency in internal control over financial reporting. We also identified various other control deficiencies. See page 14.

Accounting policies and practices

There have been no changes to, or initial selections of, significant accounting policies and practices to bring to your attention.

Other financial reporting matters

The financial statement presentation complies with the financial reporting framework.



Status of the audit

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

- Obtaining evidence of Council's approval of the financial statements;
- Receipt of the signed management representation letter;
- Completion of our subsequent event review procedures; and

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 auditor's report, a draft of which is provided in Appendix 1a: Draft Auditor's Report, will be dated upon the completion of any remaining procedures.

Financial statement highlights

CORPORATION OF THE TOWN OF GREATER NAPANEE

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Financial assets:		
Cash	$ 14,246,158	$ 21,203,873
Taxes receivable	2,366,535	2,861,831
Accounts receivable	914,325	674,961
User charges receivable	941,268	856,928
Long-term receivable	6,377	4,967
Investments (note 2)	3,452,740	4,279,317
	21,927,403	29,881,877
Financial liabilities:		
Accounts payable and accrued liabilities	4,762,185	4,427,463
Landfill closure and post-closure obligation (note 5(a))	731,158	119,631
Employee benefits payable (note 5(b))	428,535	398,172
Deferred revenue (note 6)	9,079,245	7,439,378
Long-term debt (note 7)	3,075,679	4,019,042
	21,927,403	16,403,686
Net financial assets	3,850,601	13,478,191
Non-financial assets:		
Tangible capital assets (note 3)	127,193,466	117,271,334
Prepaid expenses	747,098	648,520
	127,940,564	117,919,854
Contingent liabilities (note 8)		
Commitments (note 9)		
Accumulated surplus (note 11)	$ 131,791,165	$ 131,398,045

Financial Assets:

- Reduced cash and investments position from fiscal 2021, mainly due to investment in tangible capital assets
- Decrease in taxes receivable as collections improve from pandemic
- Slight increase in accounts receivable and user charges receivable as a result of timing of government grants received and increased programming in fiscal 2022 vs. 2021 as a result of less COVID-19 impact.

Financial Liabilities:

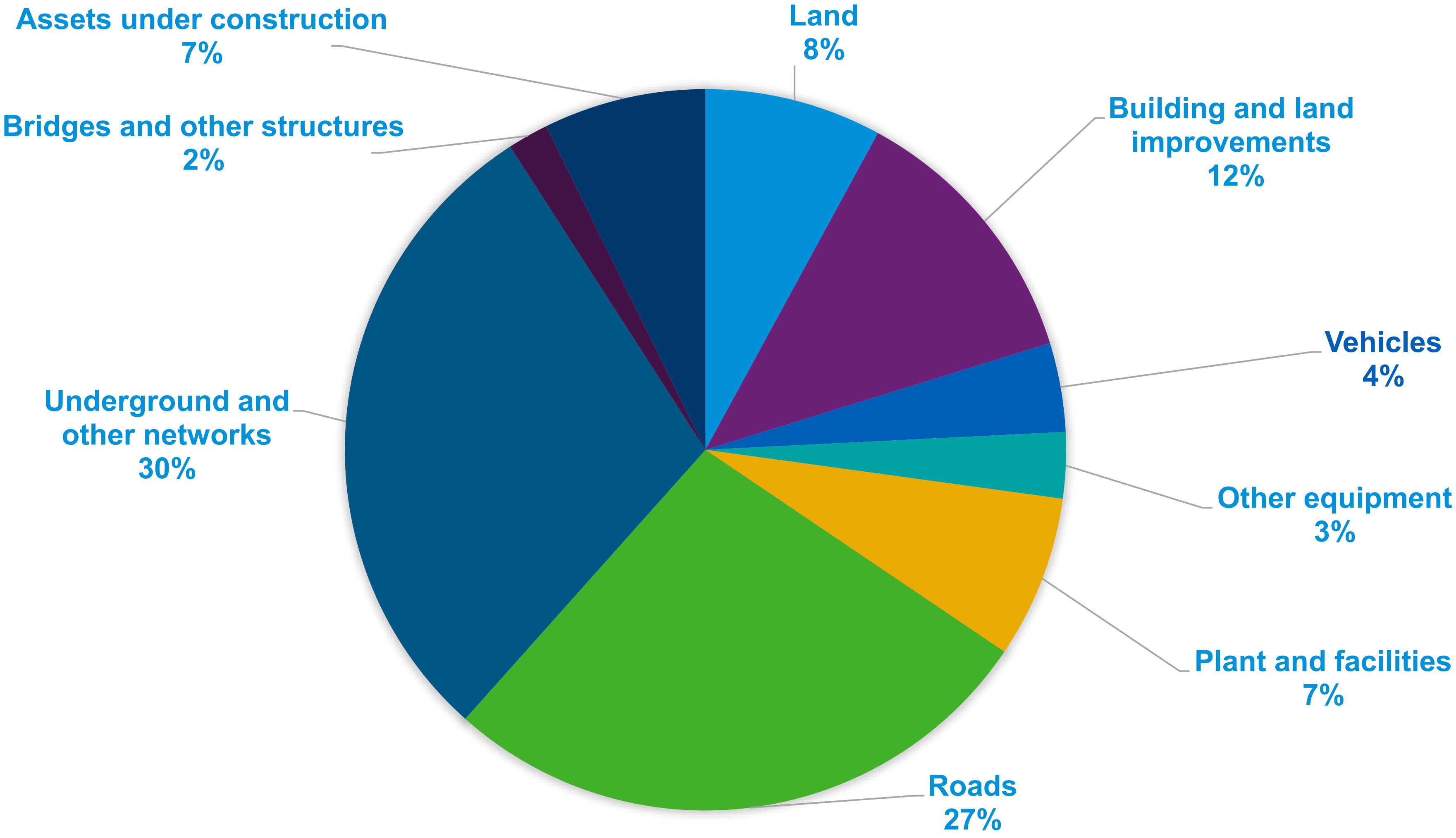
- Liabilities increased as a result of $600k increase in landfill closure and post-closure costs due to updated information and inflationary cost increases.
- Deferred revenue increased as additional development charges were received in year as well as water/wastewater impost fees collected.
- Municipal debt decrease in line with scheduled repayments.

Non-Financial Assets:

- Increase in tangible capital assets driven by net additions of $15M, offset by amortization of $5M.

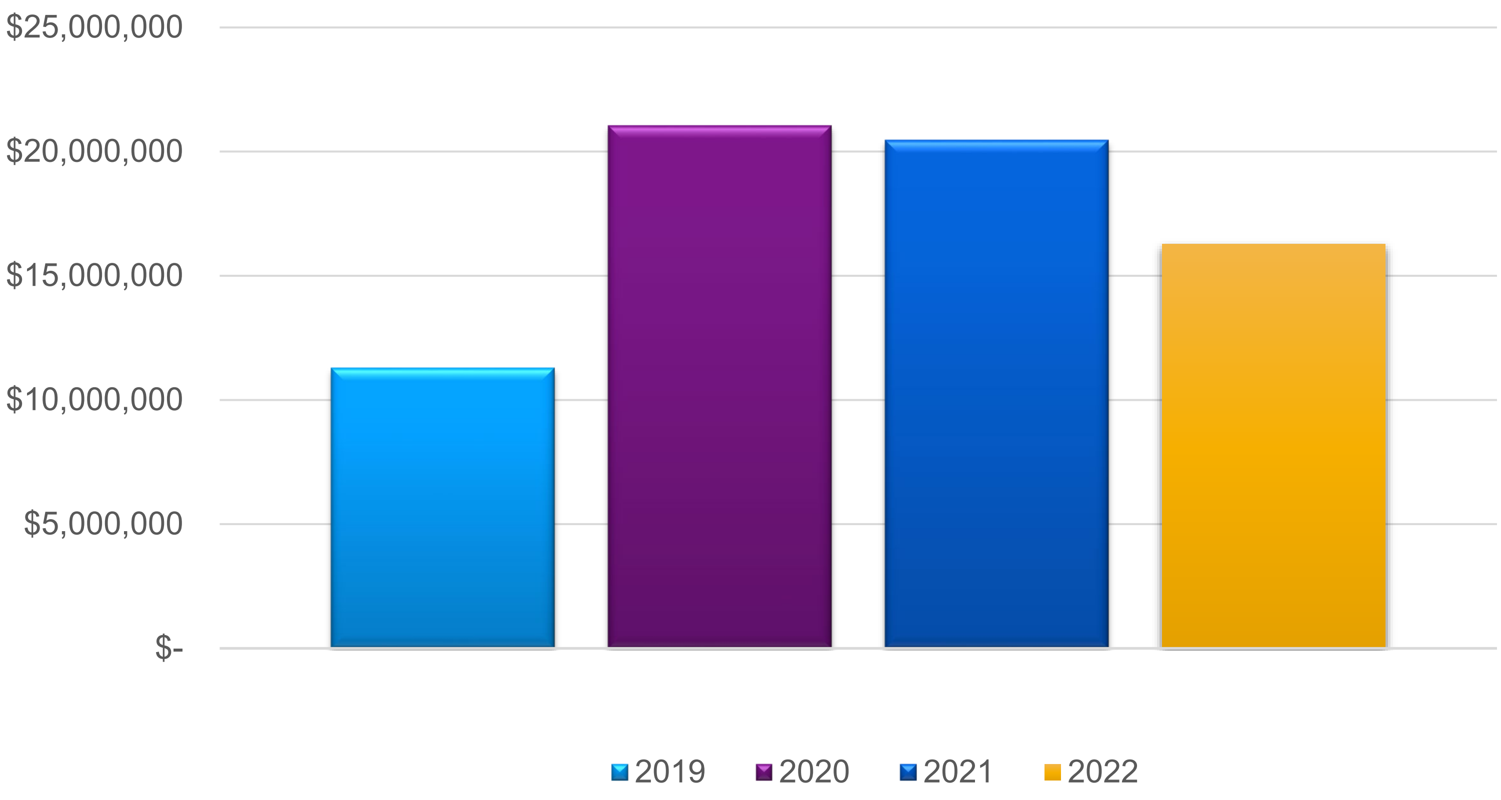
Financial statement highlights (continued)

Tangible capital assets



Financial statement highlights (continued)

Reserves and reserve funds



Revenue:

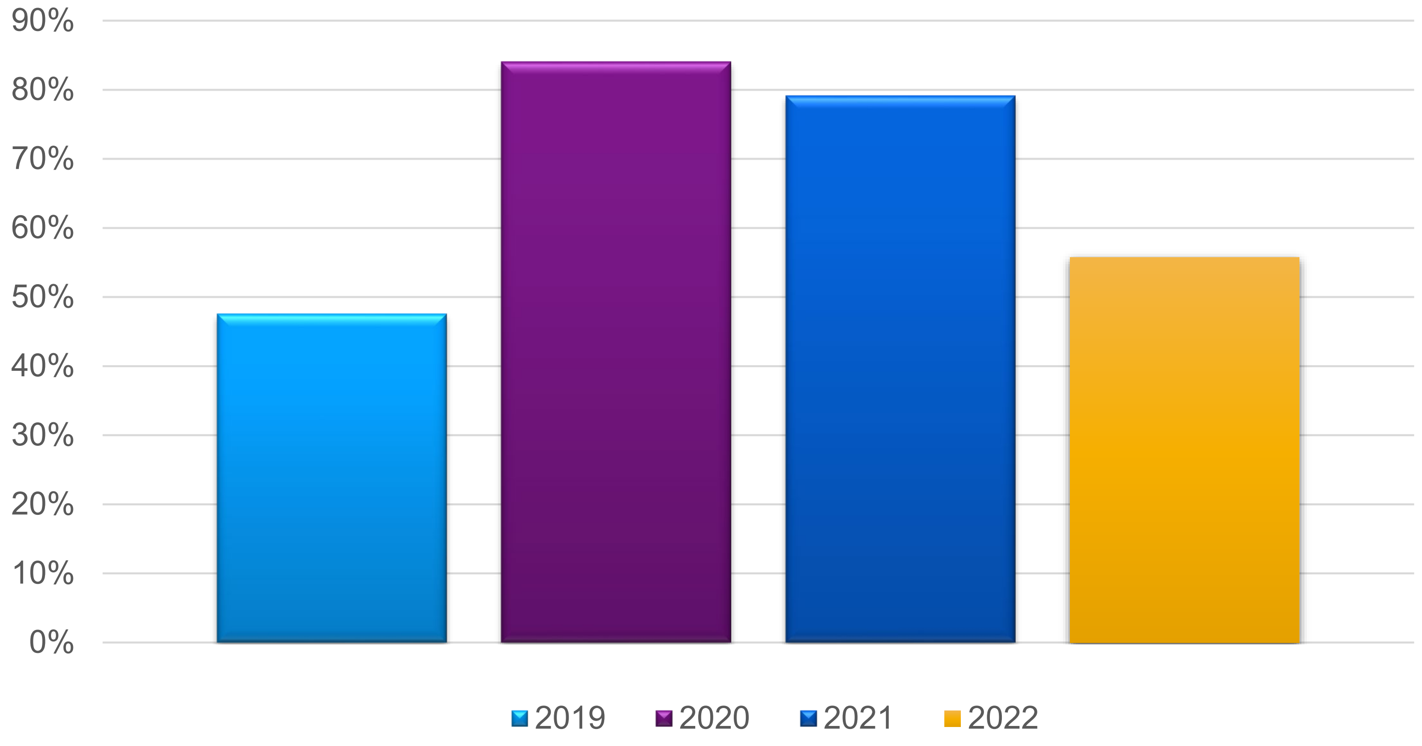
- Overall, reserve and reserve funds decreased $4M from 2021; mainly due to purchase of capital
- Unfinanced capital also increased to $9.1M

Future consideration:

- Unfinanced expended capital alongside reserve balances should be considered when analyzing financing options for future capital projects
- We recommend a formal long-term financial plan be undertaken.

Financial statement highlights (continued)

Reserves and reserve fund as a percentage of operating expenses



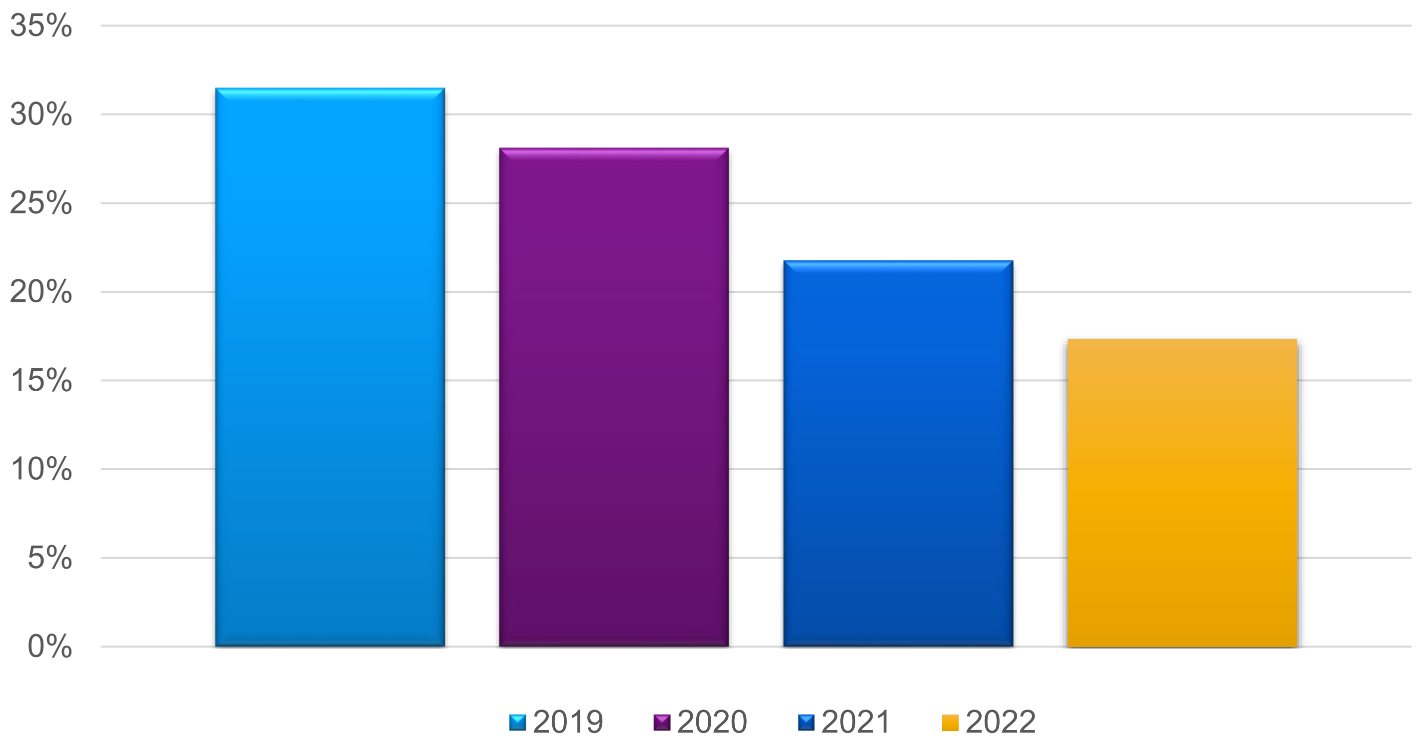
Benchmark: greater than 20%

NOTE:

- This balances exclude unfinanced capital

Financial statement highlights (continued)

Tax arrears as a percentage of current levy



Benchmark: less than 10%

Financial statement highlights (continued)

CORPORATION OF THE TOWN OF GREATER NAPANEE

Statement of Operations and Accumulated Surplus

Year ended December 31, 2023, with comparative information for 2022

	Budget 2022 (note 16)	Actual 2022	Actual 2021
Revenue:			
Taxation:			
Municipal	$ 13,014,819	$ 12,978,730	$ 12,749,458
Other governments	–	159,568	191,866
User charges	9,426,153	10,278,810	9,222,840
Government transfers:			
Government of Canada	–	6,728	4,000
Province of Ontario	334,349	1,912,815	2,317,799
Other municipalities	1,011,006	1,004,400	980,493
Development charges	76,000	–	28,009
Investment income	230,000	281,509	126,978
Interest and penalties on taxes	450,000	394,669	491,300
Donations	24,787	13,787	7,675
Miscellaneous	46,259	3,870	119,068
	24,613,373	27,034,886	26,239,486
Expenses (note 12):			
General government	3,130,997	3,545,823	2,842,222
Protection to persons and property	6,088,318	7,519,250	7,345,826
Transportation services	3,795,214	6,842,017	6,188,598
Environmental services	4,432,940	6,812,000	5,550,085
Recreation and cultural services	1,909,353	3,444,112	3,039,189
Planning and development	363,286	689,459	634,815
Health services	181,102	322,079	255,791
	19,901,210	29,174,740	25,856,526
Annual surplus (deficit) from operations	4,712,163	(2,139,854)	382,960
Revenue (expense) related to capital:			
Municipal taxation	684,771	681,170	400,478
Taxation from other governments	–	2,903	1,873
Government transfers:			
Government of Canada	716,351	539,738	1,016,857
Government of Ontario	504,017	1,309,726	676,414
Development charges	115,000	381,199	157,007
Donations and miscellaneous	–	35,670	264,419
Loss on sale of tangible capital assets	–	(417,432)	(135,537)
	2,020,139	2,532,974	2,381,511
Annual surplus	6,732,302	393,120	2,764,471

Revenue:

- Taxation in line with expectations
- Government grants fairly consistent, 2021 had COVID funding which did not reoccur in 2022; impact was offset by Stewardship Ontario grants, among others.
- Investment income increased as a result of increased interest rates
- Interest and penalties decrease as collections on taxes receivable increase

Expenses:

- Refer to segmented disclosure (note 12) in financial statements for breakdown of expense by category
- Materials cost increased due to increased activity as well as increased costs due to inflation and fuel prices
- Salaries and wages mainly due to increase in headcount vs. 2021

Audit misstatements

Materiality for fiscal 2022 was set at $500,000, which translated into an audit misstatement posting threshold of $25,000. As such, all misstatements identified during the audit greater than $25,000 have been recorded on our summary of adjustments and differences.

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and Council that all identified adjustments or differences be corrected, if any.

Uncorrected differences

We did not identify misstatements that remain uncorrected.

Corrected adjustments

We identified misstatements which were communicated to management and subsequently corrected in the financial statements.

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 significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance. **We identified a significant deficiency in internal control over financial reporting. We were able to adapt our audit approach and increase substantive testing to mitigate this risk to an acceptable level to complete the audit, in all material respects. Our management letter with respect to the significant control deficiency identified has been provided in** **Appendix 1b****.**

Other observations

We identified certain other observations related to processes in place at the Town. Please refer to Appendix 1b.

Significant risks and results

We highlight our significant findings in respect of **significant risks**, as well as any additional significant risks identified.

Management Override of Controls

RISK OF **FRAUD**

Significant risk	Estimate?	Key audit matter?
Management is 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. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.	No	No

Our response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Assessed the design and implementation of controls surrounding the journal entry process;
- Determined the criteria to identify high-risk journal entries and other adjustments; and
- Tested high-risk journal entries and other adjustments.

Findings

We did not uncover any issues during the performance of the procedures described above.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

There were no new significant accounting policies and practices that were selected and applied during the period.

Description of new or revised significant accounting policies and practices

There were no changes to significant accounting policies and practices. As a result, there was no impact on the financial statements.

Significant qualitative aspects of the Town's accounting policies and practices

There are no items to report.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content	No matters to report.
Concerns regarding application of new accounting pronouncements	The most significant pronouncement in the near term relates to Asset Retirement Obligations ("AROs") that will be applicable for fiscal 2023. We will be available to provide Town the assistance they may require to properly implement this new accounting standard.
Significant qualitative aspects of financial statement presentation and disclosure	No matters to report.

Appendices

1. Other required communications
2. Audit quality
3. Future accounting pronouncements
4. Audit and assurance insights

Appendix 1: Other required communications

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: 2022 Interim Inspection Results
- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2020 Annual Audit Quality Assessments

Matters pertaining to independence and confidentiality

We are independent of the Town and we have a robust and consistent system of quality control.

Confidentiality of our clients' information is an on-going professional and business requirement of both KPMG and our overall profession. In addition to our internal confirmation of independence of team members, we request confirmation and acknowledgement of our policies regarding confidentiality of Town's information.

Auditors' Report

The conclusion of our audit is set out in our draft auditors' report as attached.

Representations of management

In accordance with professional standards, we will obtain certain representations from management upon approval of the financial statements.

Appendix 1a: Draft auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Greater Napanee:

Opinion

We have audited the financial statements of The Corporation of the Town of Greater Napanee (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Other Matter – Comparative Information

The financial statements of the Entity as at and for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on November 8, 2022.

Appendix 1a: Draft auditor's report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Appendix 1b: Management letter

KPMG

KPMG LLP
22 Wilson Street, West
Perth ON K7H 2M9
Canada
Telephone 613-267-6580
Fax 613-267-7563

Council
The Corporation of the Town of Greater Napanee
124 John St.
Napanee, ON K7R 1R3

January 30, 2024

Dear Council:

In planning and performing our audit of the financial statements of the Corporation of the Town of Greater Napanee ("the Entity") for the period ended December 31, 2022, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies or other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit. 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.

Refer to Appendix A for the definitions of various control deficiencies.

Significant Deficiencies

We identified one control deficiency that we determined to be a significant control deficiency in ICFR that, in our professional judgment, is of sufficient importance to merit management's attention. Refer to Appendix B.

Other control deficiencies

We identified control deficiencies that we determined to be other control deficiencies in ICFR that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention. Refer to Appendix C.

Use of letter

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or by anyone other than management and those charged with governance.

KPMG

KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

KPMG

Appendix A – Definitions of Various Control Deficiencies

Terminology	Definition
Deficiency in Internal Control **("Control Deficiency")**	A deficiency in internal control 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 and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to prevent, or detect and correct, misstatements in the financial statements is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control is unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant Deficiency in Internal Control **("Significant Deficiency")**	A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix 1b: Management letter (continued)

Appendix B – Significant Control Deficiency

Observation	Recommendation
During the audit, there was a significant control observation noted relating to the tracking of tangible capital assets. The Town is in the process of implementing a new asset management planning software tool, as required by legislation in fiscal 2022. Currently, the assets are tracked manually in an excel spreadsheet. Upon audit, we noted that the 2022 additions and disposals had not yet been added to the spreadsheet. Further, in review of the asset listings and in discussion with management, it was noted that discrepancies in the existence and accuracy of the manual tracking spreadsheets have been identified through the process of moving towards the asset management planning software. KPMG notes that the financial statements represent the best available information as of the audit report date. However, due to the inherent nature of a manual tracking system and the recent turnover in the Town, we also note that the controls around asset management are deficient.	KPMG recommends completing a thorough review of all the assets on the manual tracking lists before they are entered into the asset management software to verify completeness, existence, and accuracy of this report. Due to the magnitude of the tangible capital assets, and the importance of asset management planning and long-term financial planning, it is critical to have an asset register that is accurate. KPMG will continue to monitor this item for fiscal 2023.

Appendix 1b: Management letter (continued)

Appendix C – Other Control Deficiencies

Prior year observations:

Observation	2022 Update
Capital Fund Balances The Capital Fund includes both "Unexpended Capital Financing" and "Unfinanced Capital Outlay" balances. Unexpended Capital Financing represents situations where revenue is budgeted and approved for a project and transferred from operations or reserves to the Capital Fund, but the project has not commenced or has not been completed. We recommend that these projects be brought forward in the subsequent year's budget process and confirmed by Council for carry forward. Unfinanced Capital Outlay represents situations where project costs exceed revenue from all sources (debt, donations, grants, allocations from reserves and operations and so on). At the moment in the consolidated financial statement there is approximately \$3.3 million in unfinanced capital outlays. From discussions with management there was a plan to debt finance some of these projects, but those plans did not proceed. During 2021, included in the budget there was some funding allocated to some of the unfinanced capital outlays. For all capital projects, project surplus or deficit should be identified on a timely basis after project completion to determine whether further allocations to/from reserves or operations funds are required or debt to be issued, with Council approval, to close the projects.	During 2022, with the purchase of Advance St. and the rise in inflationary costs related to the closure and post-closure landfill costs, the unfinanced capital increased to \$9.1 million. In addition, reserve and reserve funds decreased \$4 million, to a total balance of \$16 million. Staff have recognized this importance and have been taking quarterly updates to Council on capital project costs and intend to do a final update for year end. The 2023 budget did not list out the carry forward projects specifically, however, it is included on the 2024 budget and will require a separate resolution. KPMG recommends taking a strategic look at the Town's long-term financial plan, including financing of capital projects. KPMG will continue to monitor this in 2023.
TCA and Related Issues The Corporation has been utilizing Municipal DataWorks (MOW), a web-based repository that allows municipalities to store tangible capital asset data. Our understanding is that this web-based repository has been shut down and is no longer assessable. The Corporation was already looking at other software options for its capital asset management. It would be beneficial for any new software selected to be potentially integrate with the Corporation's existing financial software Vadim. The data from the old MOW system will need to migrate to the new software. During 2021 the municipality tried migrating the data to new software but the amortization and reports from the new software was nonsensical. As a result, the Finance Department used the 2020 spreadsheets from the MOW and updated them for 2021 activity and calculated amortization. Therefore resources will have to be made available to finance department to ensure that the new software is up a running correctly, delays could impact on 2022 financial reporting. Resources will also have to be made available to the finance department to ensure that the Town is ready to adopt a new accounting standard covering asset retirement obligations which will be effective for the December 31, 2023, year end. Common asset retirement obligation under the new standard that have not previously been recognized by municipalities, such as obligations to retire buildings with asbestos or underground fuel storage tanks.	Currently the asset information is housed in CityWorks, however, it is not integrated with any financial software which includes VADIM. Annual updates to the TCA schedules are completed manually through previously created Excel files. KPMG has raised a significant deficiency related to TCA tracking and we will continue to monitor this in 2023. KPMG has begun discussion with staff around the required adoption of new accounting standard, Asset Retirement Obligations for fiscal year 2023. We will continue to monitor this in 2023.
Accounting for Reserves, Reserve Funds and Capital Fund Account Activity The Corporation's accounting records all the activities for the reserves and reserve funds through a single general ledger account. The accounting records for Capital Fund account activity are recorded through a separate capital fund code in the accounting software. The Town's finance staff require significant time to prepare summaries for the reserve and Capital funds. These summaries are then used by the finance staff to assist in the determination of the year end capital fund balance, the finalization of the capital projects and year end transfers to/from operating or reserve funds. These summaries are also used by Welch LLP in preparation of the consolidated financial statements balancing the inter fund transfers, capital revenues and schedule of continuity of reserves and reserve funds. Delays in preparation of these summaries have had an impact on the finalization of the year end audit. In order to meet the expected June year-end reporting deadline, we would require these summaries by the middle of March.	Staff have reconfigured the makeup of the Reserves and Reserve Funds to simplify the process of capital funding. The updated policy was brought forward in 2023 and was approved by Council. Staff will continue to use this approach moving forward as reserves are created, removed or funds are used. KPMG notes that a new building reserve has been added in fiscal 2023, as the building department has begun to generate surpluses with the rise in permitting volume over the past few years. These surpluses are required through legislation to be tracked separately and reported as an obligatory reserve fund on the financial statements. KPMG will continue to monitor this in 2023.

Appendix 1b: Management letter (continued)

Landfill Site Liability The Town operates two solid waste landfill sites and is required to accrue anticipated closure and post-closure costs for existing and closed landfill sites in accordance with the Ontario Environmental Protections Act and PS 3270. The liability is the estimated cost to date, based on a volumetric basis, of the expenditures relating to those activities required when the site stops accepting waste. Determination of this liability is dependent upon significant management estimates including expected and remaining capacity of the landfill, expected closing costs and estimated time needed for post-closure care. An estimate of remaining site capacity and site life were completed in 2022 and forms the basis for the estimated liability reported in the 2021 financial statements. The cost estimates used for the closure liability were updated by AECOM in a report dated April 2017. The estimate of closure and post closure cost estimates are several years old now. Our recommendation would be that a consultant should be engaged to prepare an updated cost estimate for the closure and post-closure costs for the South Fredricksburgh waste disposal site.	KPMG corresponded with the engineering consultant to receive updated inputs for the landfill obligation for fiscal 2022, however these figures were still based on the 2017 data. KPMG recommends that a third-party consultant be engaged to perform a formal report for 2023.
Book King Recreation Management Software The Book King system is used by recreation and other departments. The accounts receivable balance in the Book King system as at December 31, 2021, is $210,774 (2020 - $131,310) with $135,273 (2020 - $108,000) over 120 days. A significant portion of these receivables have been provided in the allowance for doubtful accounts. The Town should determine the collectability of these receivables and determine whether any of these accounts should be written off. We recommend that staff review the listing on a regular basis and follow up on collection of balances or determine that accounts should be written off. We recommend the Town adopt a formal credit policy for user charges for recreation services including credit limits, mandatory credit checks for credit exceeding certain threshold and proper credit approval by and appropriate authority such as the CAO's office.	Staff are currently working to create internal policies for these matters. KPMG will continue to monitor this in 2023.

Current Year Observations

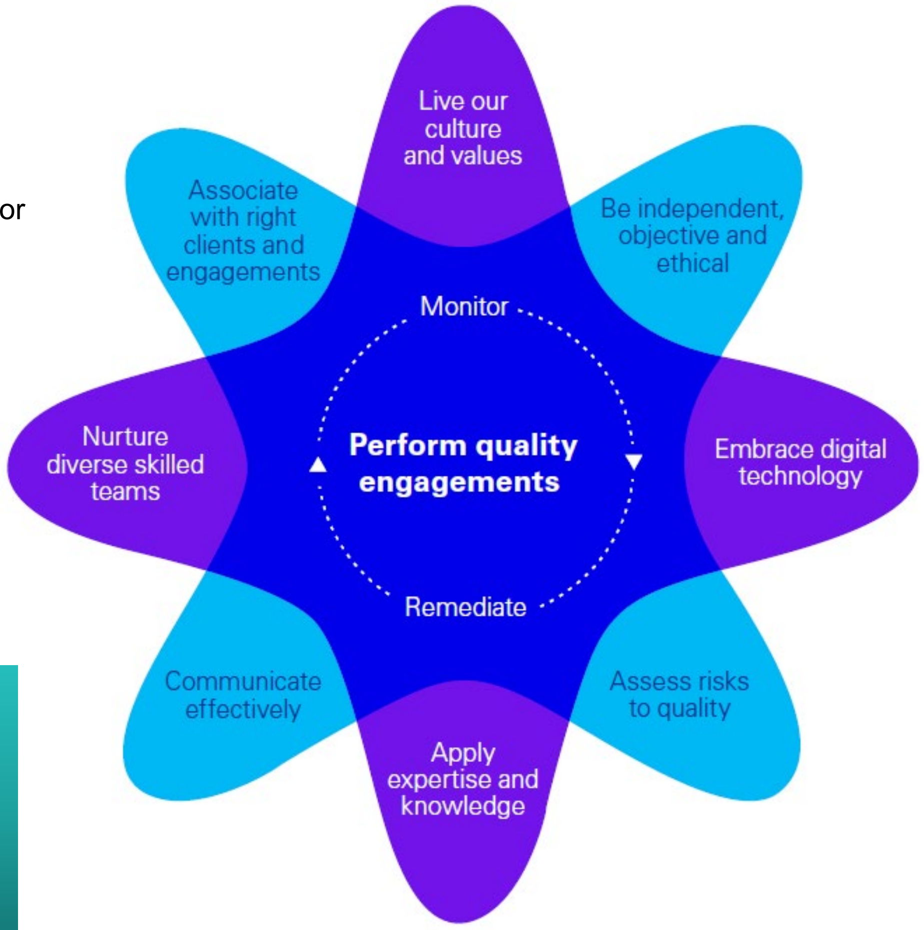
Observation	Recommendation
Bank reconciliations and journal entry review KPMG noted a lack of evidence of review on the bank reconciliations and journal entries. This was a result of significant turnover in the finance department, which prevented a secondary review. Secondary review is a critical control to ensure accuracy, completeness and existence of the bank accounts and related activity.	KPMG notes that in January 2024, a Treasurer was hired who will be completing the review of the bank reconciliations and journal entries to ensure adequate segregation of duties and secondary review. We will continue to monitor this in 2023.
Procurement During the audit, it was noted through discussion with management that the Town received invoices subsequent to year end, which requested payment be sent to new banking information. These invoices were then paid. The Town was then alerted by the vendor and the error was discovered.	KPMG notes that a new control in 2023 has been implemented where all vendor or employee requests to update banking information is verified and confirmed directly with the vendor or employee before updates are processed. KPMG will continue to monitor this in 2023.
Vacation Balances During the audit, KPMG noted that some vacation balances were higher than the maximum allotted vacation entitlement. KPMG also noted within the vacation reports that vacation earned, and vacation carried forward were grouped together for reporting purposes.	KPMG recommends that the vacation balances be monitored with an increased effort to bring balances in line with the stated policy maximums. KPMG recommends that there are separate lines for amounts earned and amounts carried forward for reporting purposes, as this will allow staff to better track carry-forwards throughout the year. KPMG will continue to monitor this in 2023.

Appendix 2: 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.

Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.



[KPMG 2022 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 controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**

Appendix 3: Future accounting pronouncements

Asset retirement obligations ("AROs")

Effective date	Summary and implications

December 31, 2023	• 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 will be recognized as an integral cost of owning and operating tangible capital assets.
	• The ARO standard will 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"). As a result of the new standard, the public sector entity will:
	  ◦ Consider how the additional liability will impact net financial assets.
	  ◦ 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.

Financial instruments & foreign currency translation

Effective date	Summary and implications
December 31, 2023	• Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. • PS 3450 *Financial Instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Appendix 3: Future accounting pronouncements (continued)

Revenue

Effective date	Summary and implications
December 31, 2024	• 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 transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises 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.

Public Private Partnerships (“P3s”)

Effective date	Summary and implications
December 31, 2024	• PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard may be applied retroactively or prospectively. • The standard notes 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 public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.

Purchased intangibles

Effective date	Summary and implications
December 31, 2024	• The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to *PS 1000 Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to *PS 1201 Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix 3: Future accounting pronouncements (continued)

Asset Retirement Obligations (ARO's): key audit risks

1. Do you have **completeness** of ARO's on your financial statements, particularly in terms of assets identified as in-scope?

2. Have you determined **measurement** of ARO's based on reliable data and costing models?

3. Have you correctly applied an appropriate **transition method**?

4. Do you have adequate **documentation** of your process and audit working papers enabling auditability?

Appendix 3: Future accounting pronouncements (continued)

Asset retirement obligations: implementation project

Project planning

- Project team is cross-functional and includes Finance and non-Finance personnel.
- Sufficient personnel resources are available for the implementation project.
- Where required, external experts have been engaged.
- The project plan identifies who is responsible for each project task.
- Project timelines are reasonable.
- Auditor involvement has been scheduled at each significant project milestone.
- Asset retirement obligations policy has been drafted.
- Recurring project updates are provided to the Audit Committee or other governance body to engage them in the implementation process.

Scoping

- The tangible capital assets listing reconciles to the audited financial statements.
- Agreements (e.g. leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- Productive and non-productive assets have been included in the scoping analysis.
- Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- All relevant legal acts, regulations, guidelines, etc. have been identified.
- Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- Cost information is relevant and reliable.
- Only costs directly attributable to legally required retirement activities have been included in the liability.
- If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- Asset retirement obligations have been linked to specific tangible capital assets.
- The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- The transition method selected is appropriate based on the measurement information available.
- Calculations are mathematically accurate.

Financial reporting

- Financial statements have been mocked up to include asset retirement obligations.
- Note disclosures, including significant accounting policies, have been drafted.
- Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.

Appendix 3: Future accounting pronouncements (continued)

Asset retirement obligations: implementation milestones

PHASE 1
Step 1: Development of a PS3280 compliant policy. Include a definition for in-scope assets, productive and non-productive assets, and document known sources of legal obligations (such as regulations and contracts) as well as key roles and responsibilities for retirement obligation identification, measurement and reporting.
Step 2: Identification of TCA/sites inventory. Develop an inventory of potential in-scope assets or sites based on existing TCA listings, and inventories used for PS3260 contaminated sites. Reconcile the listing of TCA items to the audited financial statements. Assess in-scope assets against PS3280 recognition criteria.
Milestone – KPMG Audit Team review of PS3280 policy, asset listings, and in-scope assets
PHASE 2
Step 3: Measure the estimated liability. Assess available information, and consider the need for additional environmental assessment of any sites. Document key assumptions and variables, and selection of transition method. Determine if discounting will be applied for any assets. Consider impacts on useful life assumptions for in-scope assets. Document measurement methodology and range of estimate for in-scope assets.
Milestone – KPMG Audit Team review of measurement methodology and range of estimates
Step 4: Reporting. Prepare a library of documentation and assumptions supporting each retirement obligation for audit purposes, and comprehensive documentation of the process followed for implementation. Prepare template financial statements and related note disclosure for 2023 year end.
Milestone – KPMG Audit Team review of working papers and template financial statements

Appendix 4: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, Councils, Boards of Directors and Management.

Accelerate
The key issues driving the audit committee agenda in 2023.

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.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Momentum
A quarterly newsletter providing curated insights for management, boards and Audit Committees.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

Uncertain Times Financial Reporting Resource Centre
Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

KPMG Learning Academy
Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

Environmental, social and governance (ESG)
Building a sustainable, resilient and purpose-led organization

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Other Insights

kpmg.ca

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