

The Corporation of the County of Wellington

Audit Findings Report
for the year ended
December 31, 2021

KPMG LLP

Prepared May 10, 2022, for the
Audit Committee Meeting May 17,
2022

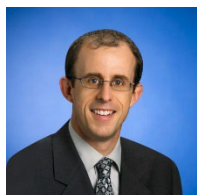


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KPMG contacts

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Our refreshed Values

What we believe



Integrity

We do what is right.



Excellence

We never stop learning
and improving.



Courage

We think and act boldly.



Together

We respect each other
and draw strength from
our differences.



For Better

We do what matters.

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 engagements’ 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.

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**.



Doing the right thing. Always.

Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of Audit Committee, and staff of the County of Wellington in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2021. This Audit Findings Report builds on the Audit Plan we presented to the Committee.

Finalizing the audit

As of May 9, 2021, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

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

We will update Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report, a draft of which is provided in Appendix 4, will be dated upon the completion of any remaining procedures.

Changes from the audit plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Significant accounting policies and practices

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

Control deficiencies

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

Independence

We are independent of the County in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

¹ This Audit Findings Report is intended solely for the information and use of Management, Committee, and staff of the County 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 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

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 financial reporting risks identified.

Significant financial reporting risk	Why is it significant?
Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	<p>This is a presumed risk of material misstatement due to fraud under Canadian auditing standards.</p> <p>However, the audit team has rebutted this presumption due to the following reasons:</p> <ul style="list-style-type: none">— The presumed fraud risk is ordinarily associated with for-profit enterprises— The majority of revenue is calculated based on MPAC data, approved property tax rates, user fees, as well as funding agreements with senior levels of governments, and is not subject to complexity or judgement at the reporting level;— KPMG does not believe that the use of inappropriate cut-off would be utilized to perpetuate fraud.
Our response	
Not applicable.	

Significant financial reporting risk.	Why is it significant?
Risk of material misstatement due to fraud resulting from management override of controls	<p>This is a presumed risk of material misstatement due to fraud under Canadian auditing standards. We have not identified any specific additional risks of management override relating to this audit.</p>
Our response	
<p>As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures included testing of journal entries and other adjustments, performing a retrospective review of estimates, and evaluating the business rationale of significant unusual transactions.</p> <ul style="list-style-type: none">— KPMG performed various substantive based procedures examining journal entries that were being posted to the general ledger.— Journal entries were selected using various criteria to identify journal entries that could possibly be related to override activities. <p>No findings were identified in our testing performed.</p>	

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Payroll expenses	No	No

Our response & significant findings

Our procedures included:

- Performance of control testing
- Substantive analytical procedures over 2021 payroll expenses, incorporating changes to FTEs and salary and wage rates from the prior year
- Substantive testing over accruals as at year-end

KPMG did not find any issues identified through our audit procedures.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
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Obligatory reserve funds revenue and deferred revenue

No

No

Our response and significant findings

Our procedures included:

- Obtained management's continuity schedule for deferred development charges and ensured the spreadsheet was accurate
- Confirmed development charges (DCs) collected by the lower tiers on behalf of the County; approximately \$5M of DCs were collected and recognized as revenue in Fiscal 2021.
- Performed substantive testing over amounts being recognized as revenue by ensuring the expenditure meets the criteria as a "growth-related" project.

KPMG did not find any issues identified through our audit procedures.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Tangible capital assets (TCA)	No	Yes The useful lives used to calculate the net book value of the County's assets are estimated ranges, based on historical data. Risk of error in inappropriately recognizing costs as either capital or operating.

Our response and significant findings

Our procedures included:

- Discussion over capitalization policies and their application with management
- Substantive test of details approach, agreeing samples of additions and disposals in fiscal 2021 to supporting documentation.
- Examination of expense accounts to ensure that items related to tangible capital assets were not inappropriately expensed in 2021.
- Testing of the reasonableness of amortization expense.

KPMG did not find any issues identified through our audit procedures.

Audit risks and results (continued)

Other areas of focus	Our audit approach and findings
Investments and related income	<ul style="list-style-type: none">— Confirmation of details with investment managers— KPMG maintained direct custody over the submission and receipt of confirmations with the various investment managers
Taxation Revenue	<ul style="list-style-type: none">— KPMG confirmed directly with each of the lower tier municipalities the amount of taxes remitted to the County for 2021 and confirmed any year end payable/receivable balances.— KPMG maintained direct custody over the confirmation process.
Expenses	<ul style="list-style-type: none">— Analytical procedures comparing current year's expenses on a disaggregated basis to the prior year, adjusting for known changes in assumptions— Substantive procedures to test the existence and accuracy of expenses— Testing the completeness, existence, and accuracy of year-end accruals, including the performance of a search for unrecorded liabilities.
Government Transfers	<ul style="list-style-type: none">— Review agreements to ensure proper revenue recognition criteria is followed. To ensure transfers are authorized and all eligibility criteria and any stipulations were met.— Perform test of details on significant transfers

KPMG did not find any issues through our audit procedures on the above noted areas of focus.

Significant accounting policies and practices



Changes

There have been no changes to significant accounting policies and practices during the year.



Future Implementation

There are no accounting standards or pronouncements that are issued but not yet effective that are applicable to the Entity in the next year.

Financial statement presentation and disclosure

Misstatements, including omissions, if any, related to financial statement presentation and disclosure items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements

The form, arrangement, and content of the financial statements are appropriate for the size, scope, and industry of the organization.

Significant qualitative aspects of financial statement presentation and disclosure

There are no concerns with respect to the presentation or disclosure of the financial statements; the financial statement presentation and disclosure is considered appropriate for the organization.

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

Uncorrected & Corrected differences

We did not identify any adjustments during the performance of the audit.

Control deficiencies

In accordance with professional standards, we are required to communicate to the Council significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements.

Our audit included consideration of ICFR 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 ICFR.

The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the Council and to meet professional standards.

Significant deficiencies

We have not identified any significant deficiencies in internal controls.

Other observations

We did not identify any control deficiencies that we consider to be other internal control deficiencies.

Appendices

Content

Appendix 1: Other Required communications

Appendix 2: Audit and Assurance Insights

Appendix 3: Management Representation letter



Appendix 1: Other Required Communications

Report	Engagement terms
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	Our engagement letter dated January 15, 2019 is in effect for the fiscal 2021 audit.
Reports to the Council	Representations of management
We have provided our Audit Findings Report to the Committee in May of 2022.	A copy of the management representation letter is attached in appendix 3.
Audit Quality in Canada	Matters pertaining to independence
<p>The reports available through the following links were published by the Canadian Public Accountability Board to inform Councils and other stakeholders about the results of quality inspections conducted over the past year:</p> <ul style="list-style-type: none">• CPAB Audit Quality Insights Report: 2020 Interim Inspection Results• CPAB Audit Quality Insights Report: 2019 Annual Inspections Results <p>Visit our Audit Quality Resources page for more information including access to our Transparency report</p>	KPMG remains independent of the entity in accordance with the CPA Ontario rules of professional conduct.

Appendix 2: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada.	<u>Learn more</u>
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	<u>Learn more</u>
Accelerate 2020	Perspective on the key issues driving the audit committee agenda.	<u>Learn more</u>
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>

Appendix 3: Management representation letter

KPMG LLP
115 King Street South, 2nd floor
Waterloo, Ontario N2J 5A3
Canada

May 26, 2022

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Corporation of the County of Wellington ("the Entity") as at and for the period ended December 31, 2021.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 15, 2019, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:
 - the names of all related parties and information regarding all relationships and transactions with related parties;
 - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.
 - f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

GOING CONCERN:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).
- 11) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

APPROVAL OF FINANCIAL STATEMENTS

- 12) (Insert name of director) has the recognized authority to take, and has taken, responsibility for the financial statements.

Yours very truly,

By: Mr. Ken DeHart, Treasurer

By: Mr. Scott Wilson, Chief Administrative Officer

By: Ms. Susan Aram, Deputy Treasurer

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.



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KPMG member firms around the world have 227,000 professionals, in 146 countries.

