

The Corporation of the Town of Caledon

Report to the Members of the Audit Committee

December 31, 2020

May 3, 2021

To the Members of the Audit Committee
The Corporation of the Town of Caledon

Our audit of the financial statements of The Corporation of the Town of Caledon (the Town) for the year ended December 31, 2020 is complete and we have issued a draft unqualified report on these financial statements.

This report to the members of the Audit Committee has been prepared in accordance with the assurance recommendations issued by the CPA Canada. This standard recommends we communicate with the audit committee, or equivalent, various matters including: the overall audit strategy, our responsibility as auditors, any matters arising from the audit, misstatements, significant accounting policies, and any other matters which may be of interest to the Audit Committee.

We express our appreciation for the cooperation and assistance received from the management and the Finance Department of the Town during the course of our audit.

If you have any particular comments or concerns, please do not hesitate to contact me.

Yours very truly,

MILLARD, ROUSE & ROSEBRUGH LLP



H. Cameron Johnston, CPA, CA, LPA
Partner

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Introduction

This report summarizes significant matters that we believe should be brought to your attention for the Town. We emphasize that the audit and this report would not necessarily identify all matters that may be of interest to the Audit Committee.

This report has been prepared solely for the purpose of assisting the Audit Committee in the discharge of its oversight responsibility and should not be used for any other purpose. We disclaim any obligation to any other party that may rely upon this report.

Audit Scope and Responsibility

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of The Corporation of the Town of Caledon (the 'Town'), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Town as at December 31, 2020, and the results of its operations 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 Auditors' Responsibilities for the Audit of Financial Statements section of our report. We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Other Information – Annual Report

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditors' report thereon, in the Annual Financial Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the annual Financial Report prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements, management is responsible for assessing the Town's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 these 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 consolidated 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 Town'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 Town's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Town to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Independence

As external auditors of the Town, we are required to be independent in accordance with Provincial professional requirements. These standards require that we disclose to the Audit Committee all relationships that, in our professional judgement, may reasonably be thought to bear on our independence. We have provided a letter to management, which confirms our independence with respect to the Town.

We confirm that we are not aware of any relationship or non-audit services that would impair our independence for purposes of expressing an opinion on the financial statements.

Responsibility of Management

Preparation of financial statements

The preparation of the financial statements, including the accompanying notes, is the responsibility of management. This includes the preparation of the financial statements in accordance with Canadian public sector accounting standards.

Management is responsible for selecting the significant accounting policies used in the preparation of the financial statements, for applying judgement in preparing accounting estimates contained in the financial statements, and for preparing or obtaining documentation supporting amounts and disclosures in the financial statements. In addition, management is responsible for assessing the impact of any misstatements detected during the preparation and audit of the financial statements, individually and in aggregate, on the fair presentation of amounts and disclosures contained in the financial statements and determining if such adjustments should be recorded.

Management's representations

The transactions and estimates reflected in the accounts and in the financial statements are within the direct control of management. Accordingly, the fairness of the representations made through the financial statements is an implicit and integral part of management's responsibility.

Throughout the course of our audit, we obtain representations from management in the form of answers to our audit enquiries. Management will also be providing us with a signed formal letter of representation.

Reportable Matters

CPA Canada has specified matters that should be brought to the attention of the Audit Committees. The following summarizes the matters to be communicated.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. Within the context of the audit, management has represented to us that there have not been any material changes in the accounting principles and policies during the year.

During the course of the audit, we did not note any significant unusual transactions that may contravene any current policies.

Materiality

Millard, Rouse & Rosebrugh LLP planned the audit with the objective of having reasonable assurance of detecting misstatements that would be material to the financial statements taken as a whole. As required by audit standards, materiality was utilized during the conduct of the audit and the evaluation of any misstatements identified.

Misstatements and significant audit adjustments

Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.

A misstatement may arise from an error or from fraud and other irregularities. An error refers to an unintentional misstatement in financial statements, including an omission of amount or disclosure.

Fraud and other irregularities refer to an intentional misstatement in financial statements, including an omission of amount or disclosure, or to a misstatement arising from theft of the Town's assets.

In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management, who in consultation with us, determine if an adjustment should be recorded.

During the course of our audit, we did discover a misstatement related to disposals of tangible capital assets. The disposal amounts have been adjusted by staff.

Internal controls

Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting systems provide timely, accurate and reliable financial information, as well as safeguard the assets of the Town.

Through our role as auditors of your financial statements we possess an understanding of the Town and its operating environment, including internal control. However, a financial statement audit is not designed to provide assurance on internal control. Professional standards do require us to communicate to the Audit committee significant deficiencies and material weaknesses in internal control that have come to our attention in the course of performing the audit.

During the course of our audit, we did not discover any significant deficiencies in internal control.

Fraud and illegal acts

Our inquiries of management and our testing of financial records did not reveal any fraud, illegal or possible illegal acts. However, please be aware that improper conduct is usually carefully and often elaborately concealed and therefore, the probability of detecting such acts is not high. Management is also asked in the formal letter of representations to disclose if they are aware of any fraud, illegal or possible illegal acts that would impact the financial statements.

Difficulties

We did not encounter any difficulties in the performance of the audit. We have had no disagreements with management, and have resolved all auditing, accounting and presentation issues to our satisfaction.

Cooperation during the Audit

We report that we have received excellent cooperation from management of the Town. To our knowledge, we were provided with complete access to all necessary accounting records and other documentation. Issues identified, as a result of our audit work, whether in amounts for the financial statements or disclosure, were discussed with management and issues have been resolved to our satisfaction. There were no limitations placed on the scope of our audit.

Current Accounting and Reporting Developments

We continually monitor the potential impact of new accounting pronouncements on the accounting practices of The Corporation of the Town of Caledon.

Standards effective April 1, 2022

Foreign Currency Translation, Section PS 2601

This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements.

Portfolio Investments, Section PS 3041

This Section establishes standards on how to account for and report portfolio investments in government financial statements.

Assets Retirement Obligations, Section PS 3280

This Section establishes standards on how to account for and report a liability for asset retirement obligations.

Financial Instruments, Section 3450

This Section establishes standards on how to account for and report all types of financial instruments including derivatives.

With the adoption of PS 2601 and PS 3450, there will also be corresponding changes to statement presentation.

Standards effective April 1, 2023

Revenue, PS 3400

This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations, referred to as "exchange transactions", and transactions that do not have performance obligations, referred to as "non-exchange transactions".

Other Matter

Covid-19

With the continuation of the Covid-19 pandemic, the financial statements have noted the impact of the pandemic. However, as noted for 2020 and continuing into 2021, there are several issues that could impact the operations of the Town of Caledon, for example:

- Retirement benefit liabilities (impacts rate of return on plan assets) and future OMERS payments
- Liabilities (i.e. for downsizing of staff/operations)
- Impairment of tangible capital assets (test in public sector is service potential, not future cash flows)
- Amortization (normally set aside when asset is not in use for example a recreation center or library)
- Government transfers
- Loans receivable
- Tax revenue
- Loan guarantees
- Measurement uncertainty