

Regional Municipality of Niagara

Audit Findings Report for the year ending December 31, 2024

KPMG LLP

Prepared as of May 2, 2025 for presentation on May 22, 2025

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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. 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

We have completed the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on the ‘Status’ slide of this report.

- No significant changes to communicate.
- Management Override of Controls
- Post employment Benefits
- Obligatory Reserve Fund Revenue, Developer Charges & Deferred Revenue
- Tangible Capital Assets and Asset Retirement Obligations

**Policies and
practices
&
Specific topics**

New standards:

- PS 3400 Revenue
- PSG-8 Purchased Intangibles
- PS 3160 Public Private Partnerships

Audit highlights

Misstatements - uncorrected

- No uncorrected misstatements to report.

Misstatements - Corrected

- No corrected misstatements to report.

Control deficiencies

- Refer to slide 13. No matters to report.

Audit Quality

- Refer to slide 15.

Independence

- Refer to Slide 17. We confirm we remain independent of the Region in all respects.

Materiality

- There were no changes to our materiality. Our audit misstatement posting threshold remained at \$1,800,000.

Status

As of May 2, 2025, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Final completion and sign-off procedures
- Subsequent event procedure up to the audit report date
- Receipt of legal letter responses regarding litigation and claims and updated inquiries to the reporting date
- Completing our discussions with Council
- Obtaining evidence of the Council's approval of the consolidated financial statements
- Receipt of the signed management representation letter

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

A draft of our auditor's report is provided attached to the draft consolidated financial statements within the meeting package.



Significant risks and results

We highlight our significant findings in respect of **significant risks**.

Management Override of Controls

Significant risk	Estimate?	Our response
On all financial statement audits, there is a risk of a material misstatement due to fraud resulting from management override of controls. 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.	No	<ul style="list-style-type: none">Our procedures included:<ul style="list-style-type: none">We tested the design and implementation of controls surrounding the review of journal entries, and the business rationale for significant entries.In responding to risks of fraud and management override of controls, we set specific criteria to isolate high risk journal entries and adjustments in order to analyze for further insights into our audit procedures and findings. We focused on journal entries that could possibly be related to override activities.Using our KPMG Clara Journal Entry Analysis Tool, we obtained 100% of the journal entries posted during the year and selected journal entries to test.No issues were noted in the performance of the above procedures.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Post-employment benefit liabilities



Other risk of material misstatement	Estimate?
By nature, this liability represents an estimate which requires management's judgment in order to compute. Management utilizes a third party independent actuarial specialist to assist with preparation of the estimate. The specialist's report involves the use of several assumptions.	Yes

Our response

- Our procedures included:
 - We obtained the report prepared by management's actuarial specialists, which was prepared in 2021 and extrapolated for fiscal 2024.
 - We observed that the actuary continued to use similar assumptions as 2023, the prior comparative period.
 - We assessed the discount rate used in calculating the employee future benefits in 2024, which we considered to be appropriate for use, and is consistent with appropriate benchmarks.
 - We ensured the census data provided to the actuary to prepare their report was complete and accurate.
- No issues were noted in the performance of the above procedures.
- We note a new full valuation is generally required every three years and management has noted that the Region is currently in the process of completing the full actuarial valuation as at December 31, 2024 and the report is expected to be completed and available in 2025.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Obligatory Reserve Fund Revenue, Developer Charges and Deferred Revenue

Other risk of material misstatement	Estimate?
<p>Obligatory reserve fund revenue and deferred revenue</p> <p>This represents an area of focus which is material to the financial statements in each year based on significance of the amounts. Our areas of focus include recognition of revenue from reserve funds as well as amounts received from other levels of government and developer</p> <p>Our response</p> <ul style="list-style-type: none">• Our procedures included:<ul style="list-style-type: none">• We identified and evaluated the design and implementation of internal controls over the identification of development charge funding projects and allocation of related expenses.• We performed substantive testing over amounts being recognized as revenue.• We assessed grant revenue to determine if it was recognized as revenue or deferred until expenditures have been incurred.• We obtained a sample of costs that related to development charge revenue to ensure they were appropriate and were allocated to the appropriate project.• We assessed the appropriateness of the accounting for deferred development charges.• We agreed annual taxation amounts to approved by-laws.• No issues were noted in the performance of the above procedures.	<p>No</p>



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Tangible Capital Assets and Asset Retirement Obligations

Other risk of material misstatement	Estimate?	Our response
<p>Tangible Capital Assets represent a material balance on the financial statements each year by nature and thus represent an area of audit focus.</p> <p>Asset Retirement Obligations represent a material estimate for future liabilities, and is required to be reassessed annually after its initial implementation in 2023.</p>	Yes	<ul style="list-style-type: none">• Our procedures included:<ul style="list-style-type: none">• We obtained the asset continuity schedule and ensured it accurately rolled forward from prior period.• We recalculated amortization and ensured it was applied in line with the Region’s accounting policy.• We sampled a series of capital asset additions, including additions previously classified as work-in-progress to ensure they met the criteria for capitalization in line with public sector accounting standards.• We sampled disposals to ensure they were appropriately derecognized and proceeds upon disposal were accurately accounted for.• We reviewed the Region’s annual updates to the Asset Retirement Obligation to ensure the changes had valid rationale, including benchmarking the revised discount rate for appropriateness.• We audited costs incurred during the year and observed the obligation was adjusted for them appropriately. <ul style="list-style-type: none">• We have no significant issues to report on these matters.

Accounting and Auditing Standards Changes

Newly effective accounting standards (effective for fiscal 2024)

PS 3400 – Revenue: Previous standards provided guidance for revenue recognition on primary revenue streams such as taxation revenue and government grants. The new standard provides general recognition guidance to provide consistency for other streams not previously covered by existing public sector standards.

PSG-8 – Purchased Intangibles: This standard governs recognition of intangible assets which were acquired through an exchange transaction, namely an arm's length exchange between two willing parties (as opposed to inter-entity transfers, which are excluded).

PS 3160 – Public Private Partnerships: Public private partnerships ("P3s") are an alternative procurement and finance model where public sector entities purchase infrastructure using a private sector partner.

- We note that each of the above were implemented by management as required and did not have a material impact on the consolidated financial statements.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content

No matters to report, consistent with prior period and in line with public sector requirements. We provided management with suggested wording on accounting policy notes and other disclosures, which were adopted by management.

Concerns regarding application of new accounting pronouncements

No matters to report, see previous slide.

Specific topics

We have highlighted the following that we would like to bring to your attention:

Matter	Finding
Illegal acts, including noncompliance with laws and regulations, or fraud (identified or suspected)	No matters to report.
Other information in documents containing the audited financial statements	No matters to report.
Significant difficulties encountered during the audit	No matters to report.
Difficult or contentious matters for which the auditor consulted	No matters to report.
Management’s consultation with other accountants	No matters to report.
Disagreements with management	No matters to report.
Related parties	No matters to report.
Significant issues in connection with our appointment or retention	No matters to report.
Other matters that are relevant matters of governance interest	No matters to report.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Region'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.

Control deficiencies

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 deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

Results

We have not identified any deficiencies in internal controls, either significant or otherwise. We have no matters to bring to your attention based on the results of our procedures, including those over IT-related control processes.

Required inquiries of Regional Council

Should members of Regional Council be aware of any matters related to the items below which may impact our financial statement audit, we request that we be notified for further discussion, if necessary.

Inquiries regarding fraud, illegal acts or subsequent events

- Prior to the completion of our audit, we are required to inquire with Council and obtain confirmation of any acts of fraud, illegal activity or material subsequent events that have not previously been communicated to us to date.
- Should you have any matters to report to us, please bring to our attention at this time.

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.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

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 management; and
- all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Independence

**Audit
services**

Detailed description of service

**Potential effects of the proposed
service on independence**

Audit of the consolidated financial statements of the Region as of December 31, 2024 in accordance with Public Sector Accounting Standards.

Audit of the financial statements and special reports of the related entities noted in our audit plan as of December 31, 2024 in accordance with Public Sector Accounting Standards (or applicable framework for those special reports which are required to report in line with terms of various funding agreements).

Such services are provided by the auditor pursuant to statutory or regulatory requirements and are permitted under CPA Code and ESBA independence rules.

We have not identified any services within our agreed upon scope which would infringe on our independence as external auditors.

We confirm that we remain independent of the Region and have not provided any services which would infringe on our independence as external auditors. We have remained independent throughout the audit process and since our appointment.

Appendices

A Regulatory
communications

B Draft auditor’s
report

C Insights

Appendix A: Other required communications

Engagement terms

A copy of the engagement letter is available to Council.

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 Regulatory Oversight Report: 2023 Annual Inspections Results
 - <https://cpab-ccrc.ca/docs/default-source/inspections-reports/2023-annual-inspections-results-en.pdf>
- CPAB Audit Quality Insights Report: 2024 Interim Inspections Results
 - <https://cpab-ccrc.ca/docs/default-source/inspections-reports/2024-interim-inspections-en.pdf>
- CPAB Regulatory Oversight Report: 2024 Annual Inspections Results
 - <https://cpab-ccrc.ca/docs/default-source/inspections-reports/2024-annual-inspections-results-en.pdf>

Appendix B: Draft auditor's report

A copy of our draft auditor's report is attached to the draft consolidated financial statements in the meeting package.

Appendix C: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, Councils and management. Of particular note are Lean process reviews, fraud prevention and cyber penetration testing, which are services currently sought after to help strengthen organizations.

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

<https://kpmg.com/ca/en/home/insights/2021/05/audit-assurance-insights.html>

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

<https://kpmg.com/ca/en/home/market-insights/board-leadership.html>

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Assurance & Related Services, Canadian Securities Matters, and US Outlook reports.

<https://kpmg.com/ca/en/home/insights/2020/11/current-developments.html>

Appendix C: Audit and assurance insights

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

<https://home.kpmg/ca/en/home/insights/2021/11/audit-committee-guide-canadian-edition.html>

Accelerate 2024

The key issues driving the audit committee agenda in 2024.

<https://kpmg.com/ca/en/home/insights/2023/11/accelerate.html>

Sustainability Reporting

Resource centre on implementing the new Canadian reporting standards

<https://kpmg.com/ca/en/home/services/environmental-social-and-governance/reporting/cssb-sustainability-reporting.html>

Government and Public Sector

We have a wealth of thought leadership to help public sector organizations grow and advance.

<https://kpmg.com/ca/en/home/industries/government-public-sector.html>