Conservation Halton Finance & Audit Committee Meeting - 01 21
ZOOM Meeting:
https://us02web.zoom.us/j/85777179467?pwd=TzY3Wmtjb2NVQU9DdFpyc09KRnhPQT09 / Passcode: 012824

Start: Thursday, April 8, 2021 - 9:30am

End: Thursday, April 8, 2021 - 11:00am

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1. Roll Call

2. Disclosure of Pecuniary Interest for Finance & Audit Committee Members

3. Consent Items

4. Action Items

    4.1. 2020 Audited Financial Statements (FA 01 21 01)

    2020 Audited Financial Statements - Finance & Audit Committee Report (FA 01 21 01)

    2020-12-31 Conservation Halton FS DRAFT (Appendix A)

    Conservation Halton Audit Findings Report Dec 2020 KPMG. (Appendix B)

    4.2. Appointment of Auditor 2021 (FA 01 21 02)

    Appointment of Auditor for 2021 year end (FA 01 21 01)

5. IN CAMERA - Q & A with the Auditor

6. Other Business

7. Adjournment

REPORT TO:	**Finance & Audit Committee**
REPORT NO: #	FA 01 21 01
FROM:	Marnie Piggot, Director, Finance
DATE:	April 8, 2021
SUBJECT:	**2020 Audited Financial Statements**

Recommendation

THAT the Finance & Audit Committee **recommends to the Conservation Halton Board of Directors the audited financial statements for the year ended December 31, 2020, as attached, be approved.**

Executive Summary

The annual audit of Conservation Halton's financial transactions for the year ended December 31, 2020 has been completed by KPMG LLP. The attached draft 2020 financial statements (Appendix A) have been prepared by Conservation Halton staff.

The KPMG Auditors' Report which is included in the financial statements is a standard audit report without qualifications and it is their opinion that the statements are presented fairly and in accordance with public sector accounting standards. KPMG has also provided the attached 2020 Audit Findings Report ((Appendix B). KPMG staff will be available at the meeting to present their report.

Report

The Statement of Financial Position for Conservation Halton reports Accumulated Surplus at December 31, 2020 of $77 million. This is an overall increase of 2.9% over the 2019 Accumulated Surplus of almost $75 million.

Statement of Financial Position Summary	**2020 Actual**	**2019 Actual**
Financial assets	$ 32,456,876	$ 29,423,296
Non-financial assets	72,607,313	72,517,223
Total Assets	$ 105,064,189	$ 101,940,519
Less: Financial liabilities	$ (27,884,841)	$ (26,918,908)
Accumulated surplus	**$ 77,179,348**	**$ 75,021,611**

The increase in the Accumulated Surplus is derived from the 2020 Annual Surplus of $2,157,737 reported on the Statement of Operations. A summary of the Statement of Operations is as follows:

Statement of Operations Summary	2020 Budget	2020 Actual	2019 Actual
Total Revenue	$ 31,019,101	$ 29,322,376	$ 34,072,438
Total Expenses	30,027,943	27,164,639	30,020,625
Annual Surplus	**$ 991,158**	**$ 2,157,737**	**$ 4,051,813**

The audited financial statements were prepared using the amounts in the 2020 year end Budget Variance Report financial appendix (CHBD 02 21 06 – Appendix C) presented at the March 25, 2021 Board meeting with a reported operating surplus of $2,023,035.

The Conservation Halton annual budget is prepared on a modified accrual basis to ensure there is adequate funding cash flow available for the planned outlay of expenditures. This budget preparation method is consistent with public sector budgeting practices.

Adjustments to the audited financial Statement of Operations amounts include the:

- Addition of amortization of tangible capital assets and
- Removal of tangible capital asset acquisitions, Reserve transfers, municipal debt financing and the principal portion of debt financing charges.

These items are not considered revenue and expenses according to PSAB though they are reported as funding sources and expenditure items that Conservation Halton must budget for.

The PSAB adjustments to the Budget Variance Report financial amounts to arrive at the audited financial statement Annual Surplus are as follows:

	2020 Actual	2019 Actual
Total Operating Surplus - Budget Variance Report	**$ 2,203,035**	**$ 1,438,374**
Public Sector Accounting Board (PSAB) Adjustments:		
· Acquisition of tangible capital assets	2,267,140	8,059,728
· Amortization of tangible capital assets expense	(1,946,029)	(2,035,742)
· Proceeds on disposal of tangible capital assets	(95,618)	(42,592)
· Loss on disposal of tangible capital assets	65,861	(230,220)
· Transfers to and from reserves	(601,878)	(179,404)
· Municipal Debt Financing	(314,532)	(3,372,598)
· Debt financing charges - Principal portion	579,758	414,267
Total PSAB adjustments	**(45,298)**	**2,613,439**
Annual surplus per audited financial statements	**$ 2,157,737**	**$ 4,051,813**

The 2020 budget amounts shown on the Statement of Operations have also been modified to be consistent with PSAB standards. The adjustments to the 2020 budget are outlined in financial statement note 10.

The Accumulated Surplus of $77,149,348 is made up largely by Tangible Capital Assets and is detailed in note 9 of the audited financial statements as follows:

Surplus – Tangible Capital Assets	$72,112,103
Deficit – Current Funds	(5,585,201)
Reserves	10,652,446
Total Accumulated Surplus, December 31, 2020	**$77,149,348**

The reserve transfers approved in the 2020 year end Budget Variance Report have been reflected in the audited financial statements.

The Deficit – Current Funds is attributed for the most part to long-term debt financing of $5,091,697 at December 31, 2020 and $314,532 in Halton Region municipal debt financing invoiced in 2021 for debt financed capital project costs incurred in 2020.

Details of significant budget variances reported on the Statement of Operations were provided in the 2020 Budget Variance Report financial appendix (CHBD 02 21 06 Appendix C) at the March 25 Board meeting.

Impact on Strategic Goals

This report supports the Metamorphosis strategic theme of Striving for service excellence and efficiency. This theme is supported by the objective to provide clear financial data and analysis to support informed strategic and operational decision-making for budget development and long-term planning.

Financial Impact

The report provides details on the annual financial results for the year ended December 31, 2020 for Conservation Halton. The audited financial statements to be approved will be provided to various funding partners and stakeholders of Conservation Halton to meet funding agreements and are a source of information on the programs carried out by Conservation Halton.

Signed & respectfully submitted:

Marnie Piggot
Director, Finance

Approved for circulation:

Hassaan Basit
President & CEO/Secretary-Treasurer

FOR QUESTIONS ON CONTENT: Marnie Piggot; Director Finance
905-336-1158, ext. 2240; mpiggot@hrca.on.ca;

Financial Statements of

CONSERVATION HALTON

Year ended December 31, 2020

CONSERVATION HALTON

Financial Statements

Year ended December 31, 2020

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Directors of Conservation Halton

Opinion

We have audited the financial statements of Conservation Halton (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations and changes in 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, 2020, and its results of operations and its cash flows 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 the Financial Statements"** section of our auditors' 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 these 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.

Auditors' 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 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 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 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 Entity's 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.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
April 22, 2021

CONSERVATION HALTON

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Financial assets:		
Cash	$ 633,504	$ 1,073,262
Investments (note 2)	17,781,423	12,443,202
Investment - Water Management System (note 3)	11,961,907	11,531,387
Accounts receivable (note 4)	2,080,042	4,375,445
	32,456,876	29,423,296
Financial liabilities:		
Accounts payable and accrued charges	2,436,147	3,541,331
Deferred revenue (note 5)	7,458,676	6,481,712
Deferred revenue - capital and major projects (note 6)	936,414	950,530
Deferred revenue - Water Management System (note 3)	11,961,907	11,531,387
Long-term liabilities (note 7)	5,091,697	4,413,948
	27,884,841	26,918,908
Net financial assets	4,572,035	2,504,388
Non-financial assets:		
Tangible capital assets (note 8)	72,112,103	71,820,749
Prepaid expenses	369,033	592,598
Inventory	126,177	103,876
	72,607,313	72,517,223
Contingencies (note 11)		
Commitments (note 12)		
Implications due to COVID-19 (note 15)		
Accumulated surplus (note 9)	$ 77,179,348	$ 75,021,611

See accompanying notes to financial statements.

On behalf of the Board:

______________________ Chair

______________________ Vice-Chair

CONSERVATION HALTON

Statement of Operations and Changes in Accumulated Surplus

Year ended December 31, 2020, with comparative information for 2019

	2020 Budget	2020 Actual	2019 Actual
	(Note 10)		
Revenue (note 15):			
Municipal grants	$ 9,660,318	$ 9,660,318	$ 9,330,984
Ministry of Natural Resources and Forestry	155,034	155,034	155,034
Corporate services	113,549	296,071	204,337
Flood forecasting and operations	4,000	1,831	–
Planning and watershed management	3,297,648	3,510,020	2,690,995
Science and partnerships	392,211	395,648	431,638
Project management office	208,484	171,677	101,337
Watershed management and support service operations	320,000	270,140	330,924
Conservation areas	13,682,089	11,389,754	14,449,105
Partnership projects	905,554	705,694	727,267
Major projects	2,280,214	2,766,189	5,650,817
Total revenue	31,019,101	29,322,376	34,072,438
Expenses (note 15):			
Corporate services	4,673,137	4,315,126	4,128,771
Corporate compliance	704,615	714,648	597,651
Flood forecasting and operations	1,063,797	986,802	982,308
Planning and watershed management	4,838,339	4,309,739	4,129,326
Science and partnerships	1,404,848	1,166,653	1,264,482
Project management office	976,413	1,041,886	796,944
Watershed management and support service operations	1,500,696	1,274,611	1,271,059
Conservation areas	12,860,678	10,665,672	14,075,842
Partnership projects	905,554	705,694	727,267
Major projects	862,243	1,819,556	1,902,189
Debt financing charges	237,623	164,252	144,786
Total expenses	30,027,943	27,164,639	30,020,625
Annual surplus (note 9)	991,158	2,157,737	4,051,813
Accumulated surplus, beginning of year		75,021,611	70,969,798
Accumulated surplus, end of year		$ 77,179,348	$ 75,021,611

See accompanying notes to financial statements.

CONSERVATION HALTON

Statement of Changes in Net Financial Assets

Year ended December 31, 2020, with comparative information for 2019

	2020 Budget (Note 10)	2020 Actual	2019 Actual
Annual surplus	$ 991,158	$ 2,157,737	$ 4,051,813
Acquisition of tangible capital assets	(2,962,138)	(2,267,140)	(8,059,728)
Amortization of tangible capital assets	1,946,000	1,946,029	2,035,742
Proceeds on disposal of tangible capital assets	–	95,618	42,592
Loss on disposal of tangible capital assets	–	(65,861)	230,220
	(24,980)	1,866,383	(1,699,361)
Change in prepaid expenses		223,565	(305,553)
Change in inventories		(22,301)	79,405
Net change in net financial assets		2,067,647	(1,925,509)
Net financial assets, beginning of year		2,504,388	4,429,897
Net financial assets, end of year		$ 4,572,035	$ 2,504,388

See accompanying notes to financial statements.

CONSERVATION HALTON

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 2,157,737	$ 4,051,813
Items not involving cash:		
Amortization	1,946,029	2,035,742
Loss on disposal of tangible capital assets	(65,861)	230,220
	4,037,905	6,317,775
Change in non-cash working capital balances:		
Accounts receivable	2,295,403	(1,786,873)
Prepaid expenses	223,565	(305,553)
Inventory	(22,301)	79,405
Accounts payable and accrued charges	(1,105,184)	(60,568)
Deferred revenue	976,964	461,484
Deferred revenue - capital and major projects	(14,116)	(202,644)
	6,392,236	4,503,026
Capital transactions:		
Acquisition of tangible capital assets	(2,267,140)	(8,059,728)
Proceeds on disposal of tangible capital assets	95,618	42,592
	(2,171,522)	(8,017,136)
Investing activities:		
Net (purchase) sale of investments	(5,338,221)	1,578,767
Investment - Water Management System	(430,520)	(439,117)
	(5,768,741)	1,139,650
Financing transactions:		
Deferred revenue - Water Management System	430,520	439,117
Proceeds from long-term debt	1,257,506	2,360,386
Repayment of long-term debt	(579,757)	(390,899)
	1,108,269	2,408,604
Net change in cash	(439,758)	34,144
Cash, beginning of year	1,073,262	1,039,118
Cash, end of year	$ 633,504	$ 1,073,262

See accompanying notes to financial statements.

Purpose of Organization:

Conservation Halton is established under the Conservation Authorities Act of Ontario to further the conservation, restoration, development and management of natural resources, exclusive of gas, oil, coal and minerals for the watersheds within its area of jurisdiction. The watersheds include areas in the Regions of Halton and Peel, the Township of Puslinch and the City of Hamilton.

Conservations Halton's mission is to protect and enhance the natural environment from lake to escarpment for present and future generations.

1. Significant accounting policies:

(a) Basis of accounting:

The financial statements of Conservation Halton are prepared by management in accordance with the Chartered Professional Accountants of Canada Public Sector Accounting Handbook.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measureable; expenses are recognized as they are incurred and measureable as a result of receipt of goods or services and the creation of a legal obligation to pay.

These financial statements do not include the activities of the Conservation Halton Foundation, a related incorporated registered charity with a mission to raise funds and profile for Conservation Halton projects and programs.

(b) Investments:

Investments are recorded at the lower of cost and market value based on quoted market prices. Losses are recorded when the decline in market value is other than temporary.

(c) Tangible capital assets:

Tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue on the same basis as the amortization expense related to the acquired tangible capital assets. Assets under construction are not amortized and are transferred into their relative asset category when available for productive use. Amortization is recorded on either a straight-line basis over the estimated life of the assets or by using the declining-balance method.

1. Significant accounting policies (continued):

(c) Tangible capital assets (continued):

The following rates are used:

Asset	Basis	Useful Life - Years
Land improvements	Straight-line	30 to 50 years
Buildings and building improvements	Straight-line	25 to 50 years
Machinery and equipment	Straight-line	5 to 40 years
Furniture and fixtures	Straight-line	5 to 20 years
Infrastructure	Straight-line	20 to 75 years
Vehicles	Declining balance	30%
Computer hardware and software	Straight-line	4 to 10 years

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined using specific identification of the cost of the individual items.

(e) Deferred revenue - Capital and Major Projects:

Conservation Halton receives certain amounts for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed. Funds received for the purchase of tangible capital assets are recognized when the related asset is purchased.

(f) Deferred revenue - Water Management System:

Conservation Halton has received funds for expenses to be incurred for the future operation of a water management system and management of certain lands. These funds are externally restricted and cannot be drawn until Conservation Halton commences management of the lands. These amounts will be recognized as revenues when the relating expenses are incurred or management services performed.

1. Significant accounting policies (continued):

(g) Revenue recognition:

Municipal levies, government transfers and funding for projects are recognized as revenue when the transfer is authorized, any eligible criteria has been met and the amount can be reasonably estimated.

User charges and fees are recognized as revenue in the period in which the related services are performed.

(h) Use of estimates:

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include accrued liabilities, contaminated site liability, contingencies and tangible capital assets. Actual results could differ from estimates.

2. Short-term investments:

	2020	2019
Business investment	$ 1,555,710	$ 490,219
Notice plan investment	2,038,278	2,007,687
High interest savings	5,300,053	3,238,345
Guaranteed investment certificates	4,000,000	2,000,000
Pooled fund - Provincial and Corporate bonds	4,357,101	4,206,953
Pooled fund - Equity	530,281	499,998
Total	$ 17,781,423	$ 12,443,202

The guaranteed investment certificates have effective rates that range between 0.85% and 2.85% (2019 - 2.34% to 2.85%). Interest is receivable on the date of maturity. Maturity dates range from March 15, 2021 to July 11, 2022. The business investment and pooled funds (which include money market, bond and equity funds) earn interest at variable rates which is paid monthly.

The notice plan investment has accrued interest rate of 2.5% that is tied to bank reference rates that are subject to change and withdrawals require 31 days' notice.

Market value of investments are $18,710,874 (2019 - $13,127,041).

3. Investment/Deferred revenue - Water Management System:

Conservation Halton entered into an agreement for the transfer of a Water Management System and its long-term operation with an estimated time line of 2063. The agreement is based on the principle that the net costs associated with ongoing operation, maintenance and performance of the Water Management System will not be a financial liability to Conservation Halton.

To ensure that Conservation Halton should not have a net financial liability for the management of the water system, Conservation Halton has received amounts from 2008 to 2017, as part of the agreement. The amounts received are to be invested in accordance with Municipal Act Regulations and will be managed by an Investment Committee as required by the agreement. At the time of transfer, Conservation Halton will be able to draw on the funds, only to facilitate the management of the water system.

The funds are invested as follows:

	2020	2019
Cash	$ 96	$ 96
Provincial and provincially regulated agency bonds	8,511,511	10,340,648
Guaranteed investment certificates	3,450,300	1,190,643
Total	$ 11,961,907	$ 11,531,387

The Provincial and provincially regulated agency bonds have effective yields of 3.62% to 4.95% (2019 - 2.27% to 5.00%). Interest is receivable on the date of maturity. Maturity dates range from April 17, 2021 to December 1, 2037.

The guaranteed investment certificates have been an effective interest rate of 2.33% and 2.85% (2019 - 2.51%). Interest is receivable on the date of maturity. Maturity dates range from March 8, 2021 to January 13, 2022.

Market value of investments are $13,542,502 (2019 - $12,522,755).

4. Accounts receivable:

Included in accounts receivable is $206,634 (2019 - $112,476) due from Conservation Halton Foundation.

During 2020, the Foundation contributed $518,095 (2019 - $349,322) to fund projects carried out by the Conservation Halton.

5. Deferred revenue:

	Balance at December 31, 2020	Additions	Revenue recognized	Balance at December 31, 2019
Watershed Management	$ 2,788,391	$ 1,323,949	$ 494,409	$ 1,958,851
Partnership Projects	1,304,914	10,516,826	9,902,216	690,304
Source Water Protection	15,063	173,049	255,545	97,559
Conservation Areas	3,350,307	4,843,644	5,228,335	3,734,998
	$ 7,458,675	$ 16,857,468	$ 15,880,505	$ 6,481,712

Additions to deferred revenue includes contributions from external parties and payments for annual passes and lesson programs received during the year pertaining to the following year.

6. Deferred revenue - capital and major projects:

	Balance at December 31, 2020	Contributions received	Revenue recognized	Balance at December 31, 2019
Capital - Ministry of Natural Resources	$ 241,336	$ 382,824	$ 479,930	$ 338,442
Capital - Municipal	695,075	464,000	358,503	589,578
Capital - Other Municipal funding	–	110,629	133,139	22,510
	$ 936,411	$ 957,453	$ 971,572	$ 950,530

7. Long-term liabilities:

	2020	2019
5 year term loan at 2.95% interest compounded annually, with a registered collateral mortgage covering 54.36 acres of land, due November 2025	$ 212,369	$ –
5 year term loan at 3.5%, interest only payable during the first 36 months with a registered collateral mortgage covering 54.36 acres of land, due December 2020	–	409,636
Municipal debt financing and interest payments due annually at variable current interest rates of 3.0% to 3.2% (2019 - 3.0% to 3.2%), annual principal repayments, due December 2027 to December 2049	4,879,328	4,004,312
	$ 5,091,697	$ 4,413,948

Principal repayments over the next five fiscal years and thereafter are as follows:

2021	$ 397,613
2022	390,971
2023	360,820
2024	344,240
2025	267,662
Thereafter	3,330,391
	$ 5,091,697

8. Tangible capital assets:

Cost	Balance at December 31, 2019	Additions	Disposals	Transfers	Balance at December 31, 2020
Land	$ 35,759,541	$ 488,411	$ –	$ –	$ 36,247,952
Land Improvements	564,806	–	–	–	564,806
Buildings and building improvements	15,916,896	134,458	(11,136)	–	16,040,218
Machinery and equipment	8,280,655	457,892	(179,140)	–	8,559,407
Furniture and fixtures	504,214	21,213	(33,230)	–	492,197
Infrastructure	34,167,096	482,172	–	–	34,649,268
Vehicles	2,592,526	370,226	(188,530)	–	2,774,222
Computer hardware and software	1,435,294	115,566	(109,030)	–	1,441,830
Assets under construction	99,269	197,202	–	–	296,471
	$ 99,320,297	$ 2,267,140	$ (521,066)	$ –	$101,066,371

Accumulated Amortization	Balance at December 31, 2019	Amortization	Disposals	Transfers	Balance at December 31, 2020
Land	$ –	$ –	$ –	$ –	$ –
Land Improvements	330,995	11,467	–	–	342,462
Buildings and building improvements	5,778,502	433,644	(6,957)	–	6,205,189
Machinery and equipment	4,543,045	369,141	(176,200)	–	4,735,986
Furniture and fixtures	240,188	21,975	(33,230)	–	228,933
Infrastructure	13,736,823	721,987	–	–	14,458,810
Vehicles	1,891,589	224,107	(168,249)	–	1,947,447
Computer hardware and software	978,406	163,708	(106,673)	–	1,035,441
Assets under construction	–	–	–	–	–
	$ 27,499,548	$ 1,946,029	$ (491,309)	$ –	$ 28,954,268

	Net book value, Balance at December 31, 2019	Net book value Balance at December 31, 2020
Land	$ 35,759,541	$ 36,247,952
Land Improvements	233,811	222,344
Buildings and building improvements	10,138,394	9,835,029
Machinery and equipment	3,737,610	3,823,421
Furniture and fixtures	264,026	263,264
Infrastructure	20,430,273	20,190,458
Vehicles	700,937	826,775
Computer hardware and software	456,888	406,389
Assets under construction	99,269	296,471
	$ 71,820,749	$ 72,112,103

8. Tangible capital assets (continued):

Cost	Balance at December 31, 2018	Additions	Disposals	Transfers	Balance at December 31, 2019
Land	$ 35,932,065	$ –	$ (172,524)	$ –	$ 35,759,541
Land Improvements	564,806	–	–	–	564,806
Buildings and building improvements	15,498,531	423,699	(5,334)	–	15,916,896
Machinery and equipment	8,245,453	260,722	(225,520)	–	8,280,655
Furniture and fixtures	476,330	27,884	–	–	504,214
Infrastructure	26,105,097	6,861,074	–	1,200,925	34,167,096
Vehicles	2,468,589	319,743	(195,806)	–	2,592,526
Computer hardware and software	1,438,085	111,823	(114,614)	–	1,435,294
Assets under construction	1,245,411	54,783	–	(1,200,925)	99,269
	$ 91,974,367	$ 8,059,728	$ (713,798)	$ –	$ 99,320,297

Accumulated Amortization	Balance at December 31, 2018	Amortization	Disposals	Transfers	Balance at December 31, 2019
Land	$ –	$ –	$ –	$ –	$ –
Land Improvements	319,528	11,467	–	–	330,995
Buildings and building improvements	5,182,042	598,516	(2,056)	–	5,778,502
Machinery and equipment	4,333,196	374,686	(164,837)	–	4,543,045
Furniture and fixtures	218,351	21,837	–	–	240,188
Infrastructure	13,072,202	664,621	–	–	13,736,823
Vehicles	1,865,755	194,947	(169,113)	–	1,891,589
Computer hardware and software	913,718	169,668	(104,980)	–	978,406
Assets under construction	–	–	–	–	–
	$ 25,904,792	$ 2,035,742	$ (440,986)	$ –	$ 27,499,548

	Net book value, Balance at December 31, 2018	Net book value Balance at December 31, 2019
Land	$ 35,932,065	$ 35,759,541
Land Improvements	245,278	233,811
Buildings and building improvements	10,316,489	10,138,394
Machinery and equipment	3,912,257	3,737,610
Furniture and fixtures	257,979	264,026
Infrastructure	13,032,895	20,430,273
Vehicles	602,834	700,937
Computer hardware and software	524,367	456,888
Assets under construction	1,245,411	99,269
	$ 66,069,575	$ 71,820,749

9. Accumulated surplus:

Accumulated surplus consists of operating surplus and reserves as follows:

	Balance at December 31, 2020	Excess of Revenue over expenses	Transfers (to) from reserves	Balance at December 31, 2019
Surplus - investment in tangible capital assets	$ 72,112,103	$ (1,975,786)	$ 2,267,140	$ 71,820,749
Surplus (deficit) - current funds	(5,585,201)	4,133,523	(3,868,297)	(5,850,427)
Total surplus	66,526,902	2,157,737	(1,601,157)	65,970,322
Reserves:				
Conservation areas capital	3,294,218	–	578,335	2,715,883
Conservation areas stabilization	1,000,568	–	–	1,000,568
Vehicle and equipment	723,967	–	(190,455)	914,422
Building	373,137	–	(106,991)	480,128
Building - state of good repair	315,611	–	51,318	264,293
Watershed management capital - municipal funds	783,981	–	182,648	601,333
Watershed management capital - self generated funds	416,909	–	26,000	390,909
Watershed management and support services stabilization	1,789,212	–	996,019	793,193
Digital transformation	254,900	–	4,900	250,000
Debt financing charges capital	425,564	–	(47,106)	472,670
Legal - planning and watershed management	258,891	–	–	258,891
Legal - corporate	200,000	–	–	200,000
Water festival	188,911	–	–	188,911
Property management	145,629	–	50,589	95,040
Land securement	60,437	–	25,900	34,537
Stewardship and restoration	420,511	–	30,000	390,511
Total reserves	10,652,446	–	1,601,157	9,051,289
Accumulated surplus	$ 77,179,348	$ 2,157,737	$ –	$ 75,021,611

10. Budget amounts:

The 2020 budget amounts approved by Conservation Halton on November 21, 2019 were not prepared on a basis consistent with that used to report actual results under Public Sector Accounting Standards. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget figures anticipated use of surpluses accumulated in previous years to reduce current year expenses in excess of current year revenues to $nil. In addition, the budget expensed all tangible capital expenses rather than including amortization expenses. As a result, the budget figure presented in the statements of operations and changes in net financial assets represent the budget adopted by Conservation Halton on November 21, 2019, with adjustments as follows:

	2020	2019
Budget surplus (deficit) for the year	$ (259,938)	$ 246,068
Less: Amortization of tangible capital assets	(1,946,000)	(2,035,000)
Less: Municipal debt financing	(176,430)	–
Add: Acquisition of tangible capital assets	2,962,138	1,772,135
Add: Debt financing charges - principal portion	411,388	470,988
Budget surplus per Statement of Operations	$ 991,158	$ 454,191

11. Contingencies:

Conservation Halton has been named as defendant or co-defendant in several lawsuits that have claims outstanding. Conservation Halton anticipates any individual settlement amount will not exceed the limits of insurance coverage provided to Conservation Halton on the majority of the claims. For claims in which the claim amount exceeds the limit of insurance coverage provided to Conservation Halton the outcome is not determinable.

Conservation Halton has entered into an agreement to ensure implementation of a monitoring and mitigation plan for the future rehabilitation of lands adjacent to a Provincially Significant Wetland. The agreement requires a Trust account to be established by the funder to ensure there are funds available for the rehabilitation plan implementation. Conservation Halton is a member of the Investment Committee that will oversee management of the Trust account with a balance of $1,960,480 (2019 - $1,346,118) at December 31, 2020. A deposit to the Trust account by the funder is required to be made by March 31, 2021 for $351,997 (2020 - $583,663) which was completed. Conservation Halton will release their interest in the Trust account when the implementation plan is completed.

12. Commitments:

Conservation Halton has entered into contracts related to projects at Glen Eden, various dam studies and repairs, and leases for office equipment and vehicles. Commitments outstanding on these contracts to be paid beyond December 31, 2020 are as follows:

2021	$ 1,002,882
2022	24,455
2023	18,986
2024	6,060
	$ 1,052,383

13. Pension agreements:

Conservation Halton belongs to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of the members of its staff. This plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The cost of the plan is the employer's contribution to the plan.

The 2020 employer portion of OMERS pension contributions was $1,137,090 (2019 - $1,135,862).

Conservation Halton belongs to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of the members of its staff. This plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are the joint responsibility of Ontario municipal organizations and their employees. As a result, Conservation Halton does not recognize any share of the OMERS pension surplus or deficit.

The latest available report for the OMERS plan was December 31, 2020. At that time the plan reported a $3.2 billion actuarial deficit (2019 - $3.4 billion actuarial deficit), based on actuarial liabilities of $111.8 billion (2019 - $106.4 billion) and actuarial assets of $108.6 billion (2019 - $103.0 billion). Ongoing adequacy of the current contribution rates will need to be monitored and may lead to increased future funding requirements.

14. Comparative information:

Certain comparative information on the statement of operations under revenue and expenses have been reclassified to conform to the financial statements presentation adopted in the current year.

15. Implications due to COVID-19:

On March 11, 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak a pandemic. This has resulted in significant financial, market and societal impacts in Canada and around the world.

During the year, Conservation Halton has experienced the following in relation to the pandemic:

- Reduction in self-generated Conservation Areas revenue;
- Temporary and permanent layoffs; and
- Mandatory working from home requirements for those able to do so.

Conservation Halton has applied for funding through the Canada Emergency Wage Subsidy (CEWS) program. The estimated claims for 2020 total $4,700,000 Conservation Halton continues to determine if it meets all of the eligibility requirements under the CEWS program, therefore these financial statement have not recorded this potential funding source as revenue in 2020.

The ultimate duration and magnitude of the COVID-19 pandemic's impact on Conservation Halton's operations and financial position is not know at the time. There remains uncertainty for the upcoming year regarding the items mentioned above. These impacts could include a decline in future cash flows, changes to the value of financial assets and liabilities, and the use of accumulated surplus to sustain operations. An estimate of the financial effect of the pandemic on Conservation Halton is not practicable at this time

15. Revenue and expenses by program:

2020	Corporate Services	Corporate Compliance	Engineering, Flood Forecasting & Operations	Planning & Watershed Management	Science & Partnerships	Project Management Office	Watershed Management & Support Service Operations	Conservation Areas	Partnership Projects	Major Projects	Debt Financing Charges	Reserve Funding	Total
Revenue:													
Municipal funding	$ 3,431,838	$ 531,715	$ 408,063	$ 1,416,921	$ 886,228	$ 664,667	$ 853,396	$ 354,909	$ –	$ –	$ 649,011	$ 464,200	$ 9,660,318
Provincial transfer payments	–	–	155,034	–	–	–	–	–	–	–	–	–	155,034
Program fees and other	296,071	–	1,831	3,510,020	395,648	171,677	270,140	11,389,754	705,694	2,766,189	–	–	19,507,024
	3,727,909	531,715	564,928	4,926,941	1,281,876	836,344	1,123,536	11,744,663	705,694	2,766,189	649,011	464,200	29,322,376
Expenses:													
Salaries, wages and benefits	3,175,987	528,530	381,466	3,950,504	1,122,178	863,308	986,395	6,400,812	245,172	–	–	–	17,654,352
Members per diems and expenses	23,133	–	–	–	–	–	–	–	–	–	–	–	23,133
Materials and supplies	144,206	6,129	10,214	9,449	9,386	54,260	71,572	979,498	96,904	1,473,804	–	–	2,855,422
Property taxes	–	56,672	–	–	–	–	–	4,961	–	–	–	–	61,633
Purchased services	686,192	87,639	67,870	114,068	35,089	103,134	119,365	1,950,249	363,618	345,752	–	–	3,872,976
Legal	4,807	35,678	–	229,317	–	–	–	16,579	–	–	–		286,381
Finance and rent	25,430	–		1,751	–	–	16,195	322,946	–	–	–	–	366,322
Debt financing charges	–	–	–	–	–	–	–	–	–	–	164,252	–	164,252
Amortization of tangible capital assets	253,325	–	527,252	4,650	–	20,371	110,265	1,030,167	–	–	–	–	1,946,030
Loss on disposal of tangible capital assets	2,046	–	–	–	–	813	(29,181)	(39,540)	–	–	–	–	(65,862)
	4,315,126	714,648	986,802	4,309,739	1,166,653	1,041,886	1,274,611	10,665,672	705,694	1,819,556	164,252	–	27,164,639
Excess (deficiency) of revenues over expenses, for the year	$ (58,217)	$ (182,933)	$ (421,874)	$ 616,572	$ 115,223	$ (205,542)	$ (151,075)	$ 1,078,991	$ –	$ 946,633	$ 484,759	$ 464,200	$ 2,157,737

15. Revenue and expenses by program:

2019	Corporate Services	Corporate Compliance	Engineering, Flood Forecasting & Operations	Planning & Watershed Management	Science & Partnerships	Project Management Office	Watershed Management & Support Service Operations	Conservation Areas	Partnership Projects	Major Projects	Debt Financing Charges	Reserve Funding	Total
Revenue:													
Municipal funding	$ 3,421,328	$ 445,952	$ 466,652	$ 1,065,554	$1,103,428	$ 697,557	$ 729,674	$ 240,000	$ –	$ –	$ 696,639	$464,200	$ 9,330,984
Provincial transfer payments	–	–	155,034	–	–	–	–	–	–	–	–	–	155,034
Program fees and other	204,337	–	–	2,690,995	431,638	101,337	330,924	14,449,105	727,267	5,650,817	–	–	24,586,420
	3,625,665	445,952	621,686	3,756,549	1,535,066	798,894	1,060,598	14,689,105	727,267	5,650,817	696,639	464,200	34,072,438
Expenses:													
Salaries, wages and benefits	2,901,895	467,588	408,191	3,834,543	1,179,347	510,472	891,913	7,863,678	207,044	–	–	–	18,264,671
Members per diems and expenses	21,047	–	–	–	–	–	–	–	–	–	–	–	21,047
Materials and supplies	122,421	4,806	9,138	22,354	20,557	74,866	206,330	1,827,559	52,243	739,953	–	–	3,080,227
Property taxes	–	49,421	–	–	–	–	–	5,671	–	–	–	–	55,092
Purchased services	654,703	63,602	101,317	125,945	64,578	138,491	40,948	2,755,382	467,980	1,162,236	–	–	5,575,182
Legal	7,843	12,234	–	136,220	–	–	–	64,026	–	–	–	–	220,323
Finance and rent	64,756	–	–	3,128	–	–	10,814	314,637	–	–	–	–	393,335
Debt financing charges	–	–	–	–	–	–	–	–	–	–	144,786	–	144,786
Amortization of tangible capital assets	256,214	–	463,662	7,136	–	73,115	64,175	1,172,801	–	–	–	–	2,037,103
Loss on disposal of tangible capital assets	99,892	–	–	–	–	–	56,879	72,088	–	–	–	–	228,859
	4,128,771	597,651	982,308	4,129,326	1,264,482	796,944	1,271,059	14,075,842	727,267	1,902,189	144,786	–	30,020,625
Excess (deficiency) of revenues over expenses, for the year	$ (503,106)	$ (151,699)	$ (360,622)	$ (372,777)	$ 270,584	$ 1,950	$ (210,461)	$ 613,263	$ –	$3,748,628	$ 551,853	$ 464,200	$ 4,051,813

Appendix B

Conservation Halton

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Chartered Professional Accountants

Prepared March 15, 2021 for
upcoming Finance and Audit
Committee meeting on April 8, 2021

KPMG

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KPMG contacts

The contacts at KPMG in connection with this report are:

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Audit Engagement Partner

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Audit Senior Manager

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skraemer@kpmg.ca

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Audit Committee, in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2020.

Finalizing the audit

As of March 15, 2021, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of management representation letter;
- Receipt of legal responses; and
- Completing our discussions with the Finance and Audit Committee; and
- Obtaining evidence of the Board's approval of the financial statements.

Our auditors' report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Directors, Finance and Audit Committee and Management. 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.

Executive summary

Audit materiality

Materiality has been determined based on total revenue for 2020. We have determined materiality to be $860,000

See page 4

Audit risks and results

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- grant revenue, deferred revenue, and grant receivables (government transfers); and
- revenue recognition policies

See pages 5 to 10

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 and other observations

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

Executive summary

Adjustments and differences

We did not identify differences that were corrected nor uncorrected.

Independence

We are independent and have extensive quality control and conflict checking processes in place.

KPMG is providing assistance with the calculation of the eligible wages for the Canada Emergency Wage Subsidy (“CEWS”).

Materiality

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

Materiality determination	Comments	Amount
Benchmark	Based on actual revenue for 2020	$29.3 Million
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $900,000	$860,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.5%	2.9%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $43,000	$43,000

We will report to the Finance and Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

Audit risks and results

We highlight our professional requirements in respect to fraud risks:

Professional Requirements	Why is it significant?
Fraud risk from revenue recognition	This is a presumed fraud risk. We have rebutted this as the risk is considered low given no significant estimates involved when revenue is recorded and when received.

Our response and significant findings

KPMG has rebutted the risk.

Professional Requirements	Why is it significant?
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

- In responding to risks of fraud and management override of controls, we perform testing over journal entries and adjustments in order to analyze for further insights into our audit procedures and findings.
- We evaluate business rationale for any significant unusual transactions.

No issues were noted in the performance of the above procedures.

Audit risks and results

Other matters	Why is it significant?
Government transfers	Revenue recognition – risk of error

Our response and significant findings

Grant revenue and deferred contributions.

- We have agreed cash receipts received by Conservation Halton from the Ministry, local Municipalities and other relevant Government entities and reconcile to revenue reported for the fiscal year.
- We have reviewed correspondence for a selection of funding received and perform substantive procedures to ensure appropriate revenue recognition criteria are applied.

No issues were noted.

Audit risks and results

Other matters	Why is it significant?
Canadian Emergency Wage Subsidy ("CEWS")	Management applied for CEWS funding amounting to $4.7M, for the period from March 15, 2020 to December 19, 2020. Management has not accrued the $4.7M in CEWS funding at year-end.

Our response and significant findings

Audit approach:

We obtained a copy of management's subsidy calculations and performed the following:

- Select a sample of employees, inspect their employment status to assess their eligibility to be included in the subsidy amount and agree their renumeration back to supporting documentation.
- Verify mathematical accuracy of management's revenue decline calculations, including assessing the eligibility of revenues included/excluded, use revenue decline figures to recalculate CEWS percentages by period applied to renumeration.
- For each claim period, obtain a copy of management's application form on the CRA site, and a copy of any elections, if applicable.

Evaluate whether the presentation of the CEWS amounts are in accordance with Conservation Halton's accounting policies and the applicable financial reporting framework.

Findings:

The revenue and receivable have not been recorded in the year end financial statements as Conservation Halton continues to determine if it meets all of the edibility requirements under the CEWS program.

The procedures performed are not intended to confirm that management's CEWS application is complete or accurate but rather to provide an opinion the financial statements taken as a whole.

Given these procedures have been designed to address this new risk of error related to the existence, accuracy and presentation of the CEWS amount, an incremental fee of $3,000 for these additional procedures.

Audit risks and results

Other matters	Why is it significant?
Accrued remediation costs	Unusual transaction - Risk of error

Our response and significant findings

- During December 2018, it was identified that furnace oil leaked in the Main Chalet of the Kelso/Glen Eden facility
- Conservation Halton ("CH"), along with service providers and direction received from the TSSA concluded that CH is required to remediate the property and clean up the spill
- CH has insurance that was expected to cover the vast majority of the costs
- Accounting rules require that CH accrue as a liability the estimated costs to remediate the property in accordance with appropriate property and environmental standards. While we understand that there are significant uncertainties in what the final cost will be, that does not relieve the entity from making an estimate based on the best information available. Furthermore, to the extent that insurance will cover the cost, an appropriate recover can be recorded. In 2018, $820K liability was recorded.
- In 2019, the estimate was re-evaluated to be $1.7M in total costs, in which CH incurred $1,527K in total costs, accruing a further $173K. CH also estimated $1M in insurance receivable for 2019 that they expected to obtain from two insurance policies in fiscal 2020.
- The full amount of insurance accrued for was received during FY20 ($1M).

Other observations

In our view, a key area for management's attention is asset management.

Year	TCA Additions (millions $)	TCA Amortization (millions $)	Summary observation
2015	3.3	1.6	— In aggregate, over the past six years, tangible capital assets have been acquired at a multiple of 188% of amortization, or 1.88 to 1. Even with 2019 being excluded, the rate is 1.5 to 1. — To ensure that tangible capital assets are being renewed at a sustainable rate, a multiple of 1.5 – 2.0 should be maintained over the long term. — Note that large infrastructure projects can skew this analysis and need to be considered qualitatively. — Excluding land, the ratio of net book value to cost of tangible capital assets is 0.55. — This means that your assets, on average, are less than 1/2 of the way through their useful lives. The Infrastructure category of assets is the biggest driver, at a ratio of 0.58.
2016	1.0	1.6	
2017	3.1	1.7	
2018	2.4	1.8	
2019	8.1	2.0	
2020	2.7	1.9	
Average	**3.4**	**1.8**	

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with Conservation Halton's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation 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 segment of the organization. It is consistent with its peer group in Ontario and in accordance with PSAB standards.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation

Appendices

Appendix 1: Other Required Communications

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

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letters in Appendix 3.

Management representation letter

Management make certain representations at the completion of the annual audit. In accordance with professional standards, a copy of the representation letter is in Appendix 4.

Auditors' report

The Auditors' Report is included in the draft financial statements.

Audit findings report

The report as presented.

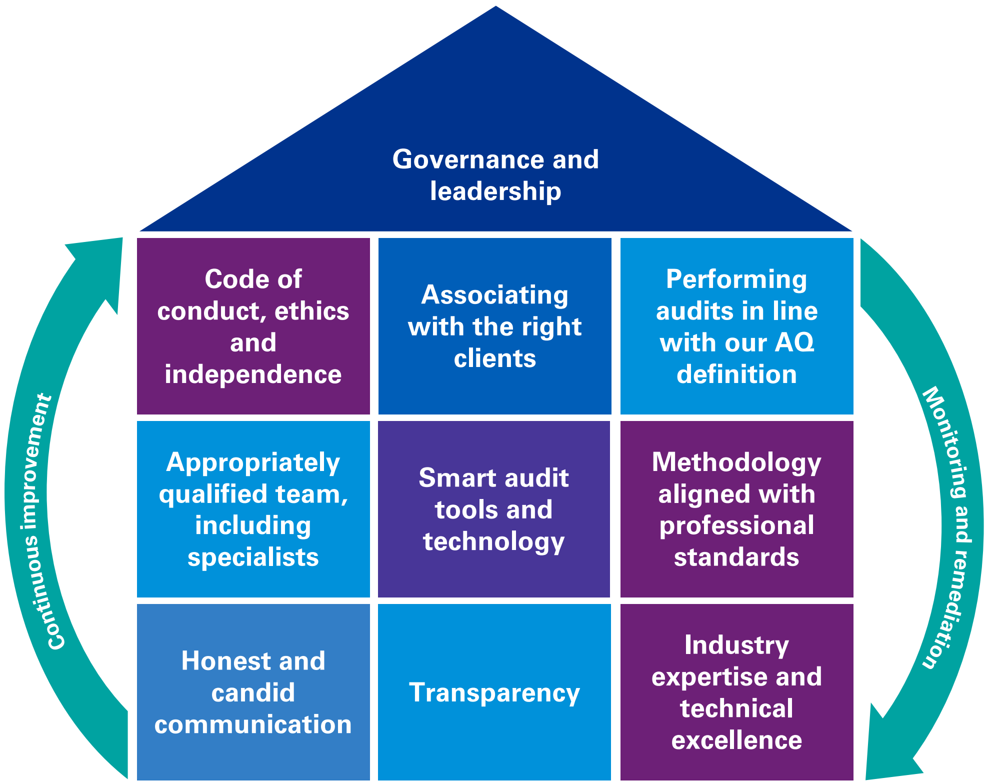
Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

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

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

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

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

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

Appendix 3: Engagement Letters

KPMG LLP
115 King Street South,
2nd floor
Waterloo Ontario N2J 5A3
Canada
Tel (519) 747-8800
Fax (519) 747-8830

PRIVATE & CONFIDENTIAL

Ms. Marnie Piggot
Director, Finance
Conservation Halton
2596 Britannia Road West
Burlington, Ontario L7P 0G3

November 13, 2020

Dear Ms. Piggot:

Except as specified herein, all provisions of the most recent Engagement Letter between KPMG and Conservation Halton (the "Entity") dated November 30, 2018 continue in effect from period to period unless amended or terminated in writing or unless revised due to the issuance of new professional standards.

This letter amends the following terms of our engagement:

Terms and Conditions

This letter amends the Terms and Conditions in our previous engagement letter dated November 30, 2018 with the ones attached to this letter.

Fees

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the services described in this letter is $27,000.

Harmonized Sales Tax (HST) will be computed and shown separately on our invoices, together with our firm's HST registration number, so that you will have the information required to claim input tax credits and input tax refunds, if applicable.

The Entity agrees, by accepting the terms of this engagement, to pay all invoices to KPMG within 30 days of receipt.

COVID 19 Rider

We update our previous engagement letter dated November 30, 2018 with a COVID 19 Rider which can be found ***Appendix – COVID 19 Rider***.

****

We are available to discuss these amendments to the terms of our engagement with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign the copy in the space provided and return it to us.

Yours very truly,

KPMG LLP

Matthew Betik, CPA, CA
Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body
519-747-8245

Enclosure

The terms of the engagement for Conservation Halton set out are as agreed:

Marnie Piggot

Marnie Piggot, Director, Finance

25 February 2021

Date (DD/MM/YY)

Appendix - COVID-19 Rider

1. During the engagement, each party shall keep the other party reasonably informed of any events which:
   i. relate to the notifying party and the COVID-19 situation;
   ii. are not existing or reasonably foreseeable at the date of this agreement; and
   iii. which will materially and adversely affect the notifying party's ability to perform its obligations under the engagement.

2. Each party will implement mitigation measures to enable the services to be performed so far as reasonably practicable in the circumstances, including:
   i. reducing travel (particularly international travel) and in-person meetings to the minimum necessary level;
   ii. at the party's premises, implementing such infection control procedures as are recommended or required by official bodies in the applicable location;
   iii. implementing internal corporate policies which permit and encourage individual remote working, and technical systems to enable individual remote working; and
   iv. implementing telepresence, audio conference, video conference, and other systems for collaborative working.

3. If, as a result of the global COVID-19 virus situation, performance by a party of its obligations under the engagement are rendered impossible or impracticable, the time for performance of such obligations shall be extended by such period as is reasonable in the circumstances, PROVIDED THAT the party in question is complying, and continues to comply, with its obligations pursuant to paragraphs 1 and 2 above.

KPMG LLP
115 King Street South, 2nd floor
Waterloo Ontario N2J 5A3
Canada
Tel (519) 747-8800
Fax (519) 747-8830

PRIVATE & CONFIDENTIAL

Ms. Marnie Piggot
Director, Finance
Conservation Halton
2596 Britannia Road West
Burlington, Ontario L7P 0G3

November 30, 2018

Dear Ms. Piggot:

The purpose of this letter is to outline the terms of our engagement to audit the annual financial statements ("financial statements" or "annual financial statements") of Conservation Halton (the "Entity"), commencing for the period ending December 31, 2018.

This letter supersedes our previous letter to the Entity dated January 8, 2014.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions and any exhibits, attachments and appendices hereto and subsequent amendments form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

FINANCIAL REPORTING FRAMEWORK FOR THE FINANCIAL STATEMENTS

The annual financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The annual financial statements will include an adequate description of the financial reporting framework.

MANAGEMENT'S RESPONSIBILITIES

Management responsibilities are described in Appendix – Management's Responsibilities.

An audit does not relieve management or those charged with governance of their responsibilities.

AUDITORS' RESPONSIBILITIES

Our responsibilities are described in Appendix – Auditors' Responsibilities.

If management does not fulfill the responsibilities above, we cannot complete our audit.

AUDITORS' DELIVERABLES

The expected form and content of our report(s) is provided in Appendix – Expected Form of Report. However, there may be circumstances in which a report may differ from its expected form and content.

In addition, if we become aware of information that relates to the financial statements after we have issued our audit report , but which was not known to us at the date of our audit report, and which is of such a nature and from such a source that we would have investigated that information had it come to our attention during the course of our audit, we will, as soon as practicable: (1) communicate such an occurrence to those charged with governance; and (2) undertake an investigation to determine whether the information is reliable and whether the facts existed at the date of our audit report. Further, management agrees that in conducting that investigation, we will have the full cooperation of the Entity's personnel. If the subsequently discovered information is found to be of such a nature that: (a) our audit report would have been affected if the information had been known as of the date of our audit report; and (b) we believe that the audit report is currently being relied upon or is likely to be relied upon by someone who would attach importance to the information, appropriate steps will be taken by KPMG and appropriate steps will also be taken by the Entity to prevent further reliance on our audit report.

Such steps include, but may not be limited to, appropriate disclosures by the Entity to the users of the financial statements and audit report thereon of the newly discovered facts and the impact to the financial statements.

ADDITIONAL RESPONSIBILITIES REGARDING "OTHER INFORMATION"

"Other information" is defined in professional standards to be the financial or non-financial information (other than the financial statements and the auditors' report thereon) included in the "annual report". An "annual report" is defined in professional standards to comprise a document or combination of documents. Professional standards also indicate that:

- an annual report is prepared typically on an annual basis in accordance with law, regulation or custom (i.e., is reoccurring)
- an annual report contains or accompanies the financial statements and the auditors' report thereon
- an annual report's purpose is to provide owners (or similar stakeholders) with information on the Entity's:
  - operations; and/or
  - financial results and financial position as set out in the financial statements.

Based on discussions with management, the following are expected to meet the definition of an "annual report" under professional standards:

- The document likely to be entitled "Glossy Annual Report"

Management agrees, when possible, to provide us with the final versions of the document(s) comprising the "annual report" prior to the date of our auditors' report on the financial statements. If that timing is not possible, management agrees to provide us with the final versions of the document(s) comprising the "annual report" prior to the entity's issuance so that we can complete our responsibilities required under professional standards.

Management is responsible for the "other information". Our responsibility is to read the "other information" and, in doing so, consider whether such information is materially inconsistent with:

- the financial statements; or
- our knowledge obtained in the audit.

Our responsibility is also to remain alert for indications that the "other information" appears to be materially misstated.

Our auditors' report on the financial statements, when applicable under professional standards, will contain a separate section where we will report on this "other information".

INCOME TAX COMPLIANCE AND ADVISORY SERVICES

Tax compliance and advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

FEES

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the services described in this letter is $26,000.

Harmonized Sales Tax (HST) will be computed and shown separately on our invoices, together with our firm's HST registration number, so that you will have the information required to claim input tax credits and input tax refunds, if applicable.

The Entity agrees, by accepting the terms of this engagement, to pay all invoices to KPMG within 30 days of receipt.

* * * * * * * * *

We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable to the Entity, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Matthew Betik, CPA, CA
Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body
519-747-8245

/ga

Enclosure

The terms of the engagement for Conservation Halton set out are as agreed:

Marnie Piggot

Marnie Piggot, Director, Finance

30/Nov./2018

Date (DD/MM/YY)

Appendix - Management's Responsibilities

Management acknowledges and understands that they are responsible for:

(a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.

(b) providing us with all information of which management is aware that is relevant to the preparation of the financial statements 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
- 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 to be included in such summaries.

(c) providing us with unrestricted access to such relevant information.

(d) providing us with complete responses to all enquiries made by us during our engagement.

(e) providing us with additional information that we may request from management for the purpose of the engagement.

(f) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain evidence.

(g) 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

(h) ensuring that all transactions have been recorded and are reflected in the financial statements.

(i) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that, as required by professional standards, we may disclaim an audit opinion when management does not provide certain written representations required.

(j) ensuring that internal auditors providing direct assistance to us, if any, will be instructed to follow our instructions and that management, and others within the entity, will not intervene in the work the internal auditors perform for us.

Appendix - Auditors' Responsibilities

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above
- to report on the annual financial statements

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the annual financial statements 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
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks
- form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. The form (oral or in writing) and the timing will depend on the importance of the matter and the requirements under professional standards

Appendix - Expected Form of Report

INDEPENDENT AUDITORS' REPORT

To the Directors

Opinion

We have audited the financial statements of Conservation Halton (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and change in 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, 2018, and its results of operations and its cash flows 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 the Financial Statements"** section of our auditors' 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 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 these 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.

Appendix - Expected Form of Report (continued)

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.

Auditors' 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 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 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 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 Entity's to cease to continue as a going concern.

Appendix - Expected Form of Report (continued)

- 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.

TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS
(NOT-FOR-PROFIT)

These Terms and Conditions are an integral part of the accompanying engagement letter or proposal from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter. The term "Entity" used herein has the meaning set out in the accompanying engagement letter or proposal. The term "Management" used herein means the management of Entity.

1. DOCUMENTS AND LICENSES.

a. All working papers, files and other internal materials created or produced by KPMG in relation to this engagement and all copyright and intellectual property rights therein are the property of KPMG.
b. Only in connection with the services herein, Entity hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of Entity solely for presentations or reports to Entity or for internal KPMG presentations and intranet sites. Further, Entity agrees that KPMG may list Entity as a customer in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "Client is an Audit, Advisory, and/or Tax client of KPMG LLP").

2. ENTITY'S RESPONSIBILITIES.

a. Entity agrees that all management responsibilities will be performed and all management decisions will be made by Entity, and not by KPMG.
b. Entity's provision of documents and information to KPMG on a timely basis is an important factor in our ability to issue any reports under this Engagement Letter. KPMG is not responsible for any consequences arising from Entity's failure to deliver documents and information as required.
c. To the extent that KPMG personnel are on Entity's premises, Entity will take all reasonable precautions for their safety.
d. Entity understands and acknowledges that KPMG's independence may be impaired if any KPMG partner, employee or contractor accepts any offer of employment from Entity.
e. Except as required by applicable law or regulation, Entity shall keep confidential the terms of this Engagement Letter, and such confidential information shall not be distributed, published or made available to any other person without KPMG's express written permission.
f. Management agrees to promptly provide us with a copy of any comment letter or request for information issued by any securities or other regulatory authority in respect of information on which KPMG reported, including without limitation any continuous disclosure filings.

3. FEE ARRANGEMENTS.

a. KPMG's estimated fee is based in part on the quality of Entity's records, the agreed-upon level of preparation and assistance from Entity's personnel, and adherence by Entity to the agreed-upon timetable. KPMG's estimated fee also assumes that Entity's financial statements and/or other financial information, as applicable, are prepared in accordance with the relevant financial reporting framework or the relevant criteria, as applicable, and that there are no significant changes to the relevant financial reporting framework or the relevant criteria, as applicable; no significant new or changed accounting policies; no significant changes to internal control; and no other significant issues.
b. Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, Entity and KPMG agree to revise the estimated fee. Our professional fees are also subject to an additional charge to cover information technology infrastructure costs and administrative support of our client service personnel. Disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.
c. KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing any applicable report and/or consent.
d. Fees for any other services will be billed separately from the services described in this Engagement Letter and may be subject to written terms and conditions supplemental to those in the Engagement Letter.
e. Canadian Public Accountability Board ("CPAB") participation fees, when applicable, are charged to Entity based on the annual fees levied by CPAB.

4. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS; STORAGE AND USE OF INFORMATION.

a. KPMG is a member firm of the KPMG International Cooperative ("KPMG International"). Entity acknowledges that in connection with the provision of services hereunder, KPMG may use the services of KPMG International member firms, as well as other third party service providers or subcontractors, and KPMG shall be entitled to share with them all documentation and information related to the engagement, including Entity's confidential information and personal information ("information"). KPMG may also: (i) directly, or using such aforementioned KPMG International member firms, third party service providers or subcontractors, perform data analytics in respect of the information; and (ii) retain and disclose to KPMG International member firms the information to share best practices or for knowledge sharing purposes. In all such cases, such information may be used, retained, processed, or stored outside of Canada by such KPMG International member firms, other third party service providers or subcontractors, and may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is used, retained, processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG represents that such KPMG International member firms, other third party service providers or subcontractors have agreed or shall agree to conditions of confidentiality with respect to Entity's confidential information, and that KPMG is responsible to ensure their compliance with those conditions. Any services performed by KPMG International member firms or other third party service providers or subcontractors shall be performed in accordance with the terms of this Engagement Letter, but KPMG remains solely responsible to Entity for the delivery of the services hereunder. Entity agrees that any claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or other third party service providers or subcontractors referred to above.

b. Certain information (including information relating to time, billing and conflicts) collected by KPMG during the course of the engagement may be used, retained, processed and stored outside of Canada by KPMG, KPMG International member firms or third party service providers or subcontractors providing support services to KPMG for administrative, technological and clerical/organizational purposes, including in respect of client engagement acceptance procedures and maintaining engagement profiles; and to comply with applicable law, regulation or professional standards (including for quality performance reviews). Such information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is used, retained, processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG may also share information with its legal advisers and insurers for the purposes of obtaining advice.

c. Entity acknowledges that KPMG aggregates anonymous information from sources including the Entity for various purposes, including to monitor quality of service, and Entity consents to such use. KPMG may also use Entity's information to offer services that may be of interest to Entity.

5. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of the engagement. Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at www.kpmg.ca. Entity represents and warrants that (i) it will obtain any consents required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice to those individuals whose personal information may be collected, used and disclosed by KPMG hereunder of the potential processing of such personal information outside of Canada (as described in Section 4 above). KPMG's Privacy Officer noted in KPMG's privacy policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

6. THIRD PARTY DEMANDS FOR DOCUMENTATION AND INFORMATION / LEGAL AND REGULATORY PROCESSES.

a. Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to acknowledge that KPMG or a foreign component auditor which has been engaged in connection with an assurance engagement ("component auditor") may from time to time receive demands from a third party (each, a "third party demand"), including without limitation (i) from CPAB or from professional, securities or other regulatory, taxation, judicial or governmental authorities (both in Canada and abroad), to provide them with information and copies of documents in KPMG's or the component auditor's files including (without limitation) working papers and other work-product relating to the affairs of Entity, its subsidiaries and affiliates, and (ii) summons for production of documents or information related to the services provided hereunder; which information and documents may contain confidential information of Entity, its subsidiaries or affiliates. Except where prohibited by law, KPMG or its component auditor, as applicable, will advise Entity or its affiliate or subsidiary of the third party demand. Entity acknowledges, and agrees to cause its subsidiaries and affiliates to acknowledge, that KPMG or its component auditor, as applicable, will produce documents and provide information in response to the third party demand, without further authority from Entity, its subsidiaries or affiliates.

b. KPMG will use reasonable efforts to withhold from production any documentation or information over which Entity asserts privilege. Entity must identify any such documentation or information at the time of its provision to KPMG by marking it as "privileged". Notwithstanding the foregoing, where disclosure of such privileged documents is required by law, KPMG will disclose such privileged documents. If and only if the authority requires such access to such privileged documents pursuant to the laws of a jurisdiction in which express consent of Entity is required for such disclosure, then Entity hereby provides its consent.

c. Entity agrees to reimburse KPMG for its professional time and any disbursements, including reasonable legal fees and taxes, in responding to third party demands.

d. Entity waives and releases KPMG from any and all claims that it may have against KPMG as a result of any disclosure or production by KPMG of documents or information as contemplated herein.

e. Entity agrees to notify KPMG promptly of any request received by Entity from any third party with respect to the services hereunder, KPMG's confidential information, KPMG's advice or report or any related document.

7. CONNECTING TO THE ENTITY'S IT NETWORK; EMAIL AND ONLINE FILE SHARING AND STORAGE TOOLS.

a. Entity authorizes KPMG personnel to connect their computers to Entity's IT Network and the Internet via the Network while at the Entity's premises for the purpose of conducting normal business activities.

b. Entity recognizes and accepts the risks associated with communicating electronically, and using online file sharing, storage, collaboration and other similar online tools to transmit information to or sharing information with KPMG, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Entity assumes all responsibility or liability in respect of the risk associated with the use of the foregoing, and agrees that KPMG is not responsible for any issues that might arise (including loss of data) as a result of Entity using the foregoing to transmit information to or otherwise share information with KPMG and, in the case of online tools other than email, KPMG's access to and use of the same in connection with obtaining Entity information and documents.

8. LIMITATION ON WARRANTIES.

THIS IS A SERVICES ENGAGEMENT. KPMG WARRANTS THAT IT WILL PERFORM SERVICES HEREUNDER IN GOOD FAITH WITH QUALIFIED PERSONNEL IN A COMPETENT AND WORKMANLIKE MANNER IN ACCORDANCE WITH APPLICABLE INDUSTRY STANDARDS. SUBJECT TO SECTION 14, KPMG DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS OR CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES, REPRESENTATIONS OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

9. LIMITATION ON LIABILITY AND INDEMNIFICATION

a. Subject to Section 14: Entity agrees that KPMG shall not be liable to Entity for any actions, damages, claims, fines, penalties, complaints, demands, suits, proceedings, liabilities, costs, expenses, or losses (collectively, "Claims") in any way arising out of or relating to the services performed hereunder for an aggregate amount in excess of one million dollars ($1,000,000).

b. Subject to Section 14, in the event of a Claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Entity will indemnify and hold harmless KPMG from all such Claims, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

c. Subject to Section 14: (i) in no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, liabilities, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs); (ii) in any Claim arising out of the engagement, Entity agrees that KPMG's liability will be several and not joint and several; and (iii) Entity may only claim payment from KPMG of KPMG's proportionate share of the total liability based on degree of fault.

d. For purposes of this Section 9, the term KPMG shall include its subsidiaries, its associated and affiliated entities and their respective current and former partners, directors, officers, employees, agents and representatives. The provisions of this Section 9 shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

10. CONSENT TO THE USE OF THE KPMG NAME OR KPMG REPORT.

Except as otherwise specifically agreed in this Engagement Letter, KPMG does not consent to:

i. the use of our name or our report in connection with information, other than what we have reported on as part of this engagement letter or our report thereon, that contains, incorporates by reference, or otherwise accompanies our report or our name;

ii. the use of our report in another language, or the use of our report in connection with information that we reported on that has been translated into another language, or the use of our name in connection with information that we reported on that has been translated into another language ;

iii. the use of our report in connection with an offering document or other securities filing, including continuous disclosure filings; or

iv. the use of our name or our report in connection with the interim financial statements (or other interim financial information) to any statement by the Entity regarding the services that we provided on the interim financial statements or other interim financial information. Any communication, report, statement or conclusion on the interim financial statements may not be included in, or otherwise referred to in any public document or public oral statements except when the interim review conclusion contains a modified conclusion, in which case our interim review report will accompany the interim financial statements.

If the Entity wishes to obtain KPMG's consent regarding the matters above or other matters not otherwise specifically covered by this Engagement Letter, we will be required to perform procedures as required by applicable professional standards, and such procedures would be a separate engagement and subject to separate engagement terms.

11. ALTERNATIVE DISPUTE RESOLUTION.

Any dispute or claim between the parties arising under or relating to this Engagement Letter or the services provided hereunder (the "Dispute") shall be submitted to non-binding mediation. If mediation is not successful within 90 days after the issuance by a party of a request for mediation, then the Dispute shall be referred to and finally resolved by arbitration under the Arbitration Rules of the ADR Institute of Canada in force at that time. The Seat of Arbitration shall be the province where KPMG's principal office performing this engagement is located. The language of the arbitration shall be English. The Arbitral Tribunal shall be made up of a single Arbitrator. The arbitration award shall be final, conclusive and binding upon the parties, and not subject to appeal.

12. POTENTIAL CONFLICTS OF INTEREST.

a. KPMG is or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that, without further notice or disclosure to Entity, KPMG may: (i) accept or continue such engagements on matters unrelated to KPMG's engagement for Entity; and (ii) provide advice or services to any other person or entity making a competing bid or proposal to that of Entity whether or not KPMG is providing advice or services to Entity in respect of Entity's competing bid or proposal.

b. In accordance with professional standards, KPMG will not use any confidential information regarding Entity in connection with its engagements with other clients, and will establish confidentiality and other safeguards to manage conflicts, which may include, in KPMG's sole discretion, the use of separate engagement teams and data access controls.

c. In no event shall KPMG be liable to Entity, or shall Entity be entitled to a return of fees or disbursements, or any other compensation whatsoever as a result of KPMG accepting or continuing a conflicting engagement in accordance with the terms of this Engagement Letter.

d. Entity agrees that KPMG may, in its sole discretion, disclose the fact and nature of its engagement for Entity to (i) KPMG International member firms to inform conflict searches, and (ii) to the extent reasonably required in order to obtain the consent of another entity or individual in order to permit KPMG to act for such entity or individual, or for Entity, in connection with the engagement or any future engagement.

e. In the event that circumstances arise that place KPMG into a conflict of interest as between Entity and a pre-existing client, which in KPMG's sole opinion cannot be adequately addressed through the use of confidentiality and other safeguards, KPMG shall be entitled to immediately terminate the engagement with Entity, without liability.

f. Other KPMG International member firms are or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that (i) it will not assert that other KPMG International member firms are precluded from being engaged by those other entities or individuals, and (ii) those engagements of other KPMG International member firms do not conflict with KPMG's engagement for Entity.

13. LOBBYING.

Unless expressly stated in this Engagement Letter, KPMG will not undertake any lobbying activity, as that term is defined in all applicable federal, provincial and municipal lobbyist registration statutes and regulations, in connection with the engagement. In the event that KPMG and Entity agree that KPMG will undertake lobbying activity in connection with the engagement, such agreement shall be set out in an amendment to this Engagement Letter.

14. SEVERABILITY.

The provisions of these Terms and Conditions and the accompanying proposal or engagement letter shall only apply to the extent that they are not prohibited by a mandatory provision of applicable law, regulation or professional standards. If any of the provisions of these Terms and Conditions or the accompanying proposal or engagement letter are determined to be invalid, void or unenforceable, the remaining provisions of these Terms and Conditions or the accompanying proposal or engagement letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall remain valid and in effect and be enforceable and binding on the parties to the fullest extent permitted by law.

15. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law).

16. LLP STATUS.

KPMG is a registered limited liability partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial LLP legislation.

17. INDEPENDENT LEGAL ADVICE

Entity agrees that it been advised to retain independent legal advice at its own expense prior to signing this Engagement Letter (including without limitation with respect to Entity's rights in connection with potential future conflicts) and agrees that any failure on its part to retain such independent legal counsel shall not affect (and it shall not assert that the same affects) the validity of the provisions of this Engagement Letter.

18. SURVIVAL.

All sections hereof other than Section 7(a) shall survive the expiration or termination of the engagement.

Appendix 4: Draft Management Representation Letter

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

April 22, 2021

Ladies and Gentlemen:

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 Conservation Halton ("the Entity") as at and for the year ended December 31, 2020.

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 November 30, 2018 and amended November 13, 2020, 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, such as all financial records and documentation and other matters, including:

        (i) the names of all related parties and information regarding all relationships and transactions with related parties; and

        (ii) 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 such 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 management, 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

— others

where 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) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Going concern:

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

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Non-SEC registrants or non-reporting issuers:

11) 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).

12) 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.

Yours very truly,

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By: Marnie Piggot, Director, Finance

____

By: Hassaan Basit, President and CEO

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

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.

Appendix 5: 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	**Learn more**
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.	**Learn more**
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	**Learn more**
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	**Learn more**
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.	**Sign-up now**
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**

Appendix 6: KPMG's audit approach and methodology

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

Issue identification

Continuous updates on audit progress, risks and findings before issues become events.

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards.

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

Appendix 7: Current developments and audit trends

The following is a summary of the current developments that are relevant to the Conservation Halton:

Standard	Summary and implications
PS 3250, Employee Benefits	Identified as the top priority in PSAB's 2014 Project Priority Survey, the Board has approved a project to review Section PS 3250, Retirement Benefits, and Section PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. Since the issuance of these Sections decades ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts. This project will involve looking at issues such as deferral of experience gains and losses, discount rates, how to account for shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered. A new, comprehensive Handbook Section on employment benefits will replace the two existing Sections. PSAB have sent out an invitation to comment.
PS 3280, Asset Retirement Obligations	This standard describes how to account for and report asset retirement obligations associated with tangible capital assets. This standard is effective for fiscal periods beginning on or after April 1, 2021 (Conservation Halton's December 31, 2022 yearend). Implications: Conservation Halton will have to identify if they have any asset retirement obligations.
Public Private Partnerships	In recent years, governments across Canada are increasingly using various forms of public private partnership arrangements for the provision of assets and delivery of services. This project is expected to develop in two stages. The first stage will involve contemplating specific issues, including project scope, recognition and measurement of a public private partnership and disclosure requirements. Other issues will also be considered. The second stage will involve determining how to account for public private partnerships. The objective is to develop a public sector accounting standard specific to public private partnerships.

kpmg.ca/audit

Conservation Halton

April
2021

REPORT TO: **Finance & Audit Committee**

REPORT NO: # FA 01 21 02

FROM: Marnie Piggot, Director, Finance

DATE: April 8, 2021

SUBJECT: **Appointment of Auditor for 2021**

Recommendation

THAT the Finance & Audit Committee **recommends to the Conservation Halton Board of Directors the reappointment of KPMG LLP as auditor for Conservation Halton for the 2021 fiscal year.**

Report

According to the CH By-law Governance Section C.6, the General Membership shall appoint an auditor for the coming year at the Annual Meeting in accordance with Section 38 of the Conservation Authorities Act.

A Request for Proposal (RFP) for the Provision of External Audit Services was issued by Conservation Halton in 2017. The Finance & Audit Committee and Conservation Halton Board of Directors approved the following recommendation in September 2017:

That the Finance Committee approve ***the appointment of the firm of KPMG LLP as external auditors for Conservation Halton for up to a five-year term for the fiscal years 2017 to 2021, with the option to renew annually for up to an additional five years.***

The annual audit fees for 2017 to 2021 were also approved in that report. Staff recommend the reappointment of KPMG as auditors for Conservation Halton based on the services provided to date.

Impact on Strategic Goals

This report supports the Metamorphosis strategic theme of Striving for service excellence and efficiency. This theme is supported by the objective to provide clear financial data and analysis to support informed strategic and operational decision-making for budget development and long-term planning.

Financial Impact

The 2021 audit fees included in the KPMG LLP proposal received in response to the RFP issued in 2017 are included in the 2021 budget.

Signed & respectfully submitted:

Marnie Piggot
Director, Finance

Approved for circulation:

Hassaan Basit
President & CEO/Secretary-Treasurer

FOR QUESTIONS ON CONTENT: Marnie Piggot; Director Finance
905-336-1158, ext. 2240; mpiggot@hrca.on.ca;