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Town of Aurora

Audit Committee Report

No. FIN24-031

Subject: 2023 Audited Financial Statements and Audit Report

Prepared by: Elizabeth Adams-Quattrociocchi, CPA, CGA, Manager, Financial Reporting and Revenue / Deputy Treasurer

Department: Finance

Date: June 25, 2024

Recommendation

1. That Report No. FIN24-031 be received; and
2. That the 2023 Audit Reports and Financial Statements for the year ended December 31, 2023 be approved and published on the Town's website.

Executive Summary

The Town of Aurora's audited financial statements and auditor's report for the year ended December 31, 2023 are presented for approval.

- The audited statements combine all of the Town's financial results into one set of statements
- The full accrual version of the financial statement presents a much larger surplus than budget variance reporting
- The summary of unadjusted misstatements is below the materiality threshold

Background

The entire audit package as presented by our auditors KPMG LLP is attached, this package includes the 2023 Yearend Audit Report, Letter to the Audit Committee and the audited financial statements which can all be found under Attachment 1. The financial statements were prepared by staff and audited by KPMG LLP. These statements have been marked DRAFT by the auditors as the audit cannot technically be completed until

after the approval of the statements by Council. Council is required to approve these statements as part of the finalization of the audit. After the approval the auditors will sign their final report in the coming days. Then financial statements will be made publicly available by being placed on the Town website, a requirement under Section 295 of the *Municipal Act, 2001*, S.O. 2001, c. 25 as amended (the Act).

Analysis

The Audited Statements combine all of the Town's financial results into one set of statements

The audited financial statements present a consolidation of the Aurora's finances including the combined results of tax and rate funded operating and capital activities and financial results for the Aurora Public Library. The results shown in these consolidated statements differ from the yearend financial performance report to budget because of the inclusion of tangible capital assets and other Public Sector Accounting Standards (PSAS) reporting differences.

As part of the annual audit, KPMG performed a review of all Council minutes, prior year's internal control letters and considered any concerns raised therein during their current audit. Their audit looks for continuing circumstances, weaknesses or concerns as raised in the prior year and how they may affect the outcome of their current audit.

KPMG also performed an audit of the financial system conversion in the fall of 2023. This audit confirms the data transitioned from the legacy system is accurately reflected in the new Oracle system.

The full accrual version of the financial statement presents a much larger surplus than budget variance reporting

The audited Public Sector Accounting Board (PSAB) basis financial statements for 2023, as currently drafted, reflect an operating surplus of \$36,792,000. This amount reconciles to the internal report combined tax and user rate funded operating budget surplus of \$1,298,500 as shown in Table 1.

Table 1
Public Sector Accounting Board 2023 Surplus Reconciliation

Description	Amount
Tax levy supported budget surplus	725,100
User rate supported budget surplus	573,400
Traditional Balanced Consolidated Budget Surplus	1,298,500
Add: Capital assets assumed through development	21,999,000
Add: Transfers to/from reserves	17,311,700
Add: Net deferred revenue adjustment – DC, CIL, FGT	14,683,800
Add: Debt principal repaid included	4,067,000
Add: Net capitalization of asset adjustment	2,699,000
Deduct: Amortization & accretion	(23,738,000)
Deduct: Unrealized loss on investments	(829,000)
Deduct: Loss on disposal of capital assets	(700,000)
PSAB 2023 “Annual Surplus”: Audited (Draft)	36,792,000

Of note, the operating budgeted transfers to/from reserves amount of \$17,311,700 represent budgeted contributions that are considered expenses or revenues under the Town’s traditional balanced budget. However, under the Public Sector Accounting Standards (PSAS) in consideration that these transfers simply represent the movement of Town surpluses, they are not considered to be true expenses or revenues and therefore any net contributions to reserves of this nature should be removed as expenses from the calculated operating surplus resulting in a larger surplus.

In addition, in some instances PSAB requires that the Town recognize expenses and revenues that do not result in a cash inflow or outflow such as in the cases of the Town’s assumption of assets from developers and the annual amortization of assets. In these instances, the PSAS require that the Town record a revenue equivalent to the value of the assets assumed from a developer and an expense equivalent to how much value of its existing asset book value that is estimated to have been consumed for the year. Because these two items do not result in a cash impact to the Town, they are not included under the traditional balanced budget surplus calculation and therefore the surplus needs to be increased or decreased by any PSAS generated revenues or expenses, respectively to arrive at the Town’s PSAB 2023 annual surplus.

The summary of unadjusted misstatements is below the materiality threshold

During the annual audit, the auditor generates a list of misstatements for which the presented financial statements have not been adjusted for. They are considered to be material if individually, or in aggregate, could reasonably be expected to influence the economic decisions of financial statement users. For 2023, the auditor has defined the Aurora's materiality thresholds as \$3,350,000 for all financial statement areas.

In 2023 an unadjusted misstatement was identified relating to amortization of tangible capital assets in the amount of \$811,000. Management with the agreement from KPMG decided that this misstatement was not material and will be corrected and accounted for in the 2024 year end financial statements.

The 2024 audit will be performed by KPMG

KPMG will be returning to complete the 2024 financial audit. Their audit plan includes the scope and approach to their planned audit. Staff are not in a position to comment or challenge the approach that the auditors have chosen in order to fulfil their professional obligations required when rendering an audit opinion report. From the perspective of Finance, we continue to be committed to provide the auditors with the documentation requested in an effort to facilitate the audit in a timely manner.

Audit fees are always quoted on the presumption that staff will have completed all requested schedules and support materials in advance of the audit, and that the financial statements and associated notes have been properly and fully prepared by staff. The fee also anticipates not finding any item of substance requiring extensive additional audit effort to resolve or report. KPMG included the additional work required for the system conversion as part of their contract with the Town.

Advisory Committee Review

Not applicable

Legal Considerations

The annual audit of the Aurora's financial statements fulfils the statutory requirements set out in Section 296 of the Act.

Financial Implications

There are no financial implications relating to the 2023 yearend audit report. The statements included are presented for receipt by the Audit Committee, as well as to obtain approval of the Consolidated 2023 Financial Statements so that the statements may be published as required by legislation.

The cost for the 2024 audit has been provided for within the 2024 budget. An amount of \$62,000 has been budgeted for the 2024 audit of the consolidated financial statements, excluding administration charges and taxes. Additional audit expenses from this budget include independent actuarial valuations separately commissioned by staff.

Communications Considerations

In accordance with section 295 of the Act, the 2023 audited financial statements will be published on the Town's website. The Town of Aurora will use 'Inform' as the level of engagement for the Town's 2023 audited financial statements. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision-making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform the public, this report will be posted to the Town's website.

Climate Change Considerations

The information contained within this report does not impact greenhouse gas emissions or impact climate change adaption.

Link to Strategic Plan

The annual audit is a statutory requirement that is guided by professional standards applicable to all Canadian licensed audit practitioners. Preparation and publication of the annual audited financial statements support the Strategic Plan principles of integrity, progressive corporate excellence and continuous improvement.

Alternative(s) to the Recommendation

Not applicable

Conclusions

The auditors are ready to issue an unqualified opinion on the fairness and completeness of the corporation's financial statements for the year ended December 31, 2023. Staff recommend the approval of the statements. Once approved and final versions are prepared, the Mayor and CAO will sign the statements.

Attachments

Attachment 1 – 2023 Presentation Audit Findings Report

Attachment 2 – 2023 Draft Consolidated Financial Statements

Previous Reports

FIN23-031 - 2022 Audited Financial Statements and Audit Report, June 27, 2023

Pre-submission Review

Agenda Management Team review via email on June 14, 2024

Approvals

Approved by Rachel Wainwright-van Kessel, CPA, CMA, Director, Finance

Approved by Doug Nadorozny, Chief Administrative Officer