



City of Port Colborne

For the year ended December 31, 2023

Report to Members of Council
Audit results

November 26, 2024

James D. Brennan, CPA, CA
Principal
T 905-834-6622
E James.Brennan@ca.gt.com



Contents

Executive summary	1
Audit risks and results	2
Adjustments and uncorrected misstatements	8
Other reportable matters	9
Technical updates – highlights	10

Appendices

Appendix A – Draft Independent auditor’s report
Appendix B – Draft Management representation letter
Appendix C – Internal control letter
Appendix D – PSAS Accounting developments
Appendix E – Auditing developments

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the consolidated financial statements of City of Port Colborne (the "City") for the year ended December 31, 2023. This communication will assist Members of Council in understanding the results of audit procedures and includes comments on misstatements, significant accounting policies, sensitive estimates and other matters.

The information in this document is intended solely for the information and use of Council. It is not intended to be distributed or used by anyone other than these specified parties.

We were engaged to provide the following deliverables:

Deliverable	Timing
Communication of audit strategy	January 15, 2024
Report on the December 31, 2023 consolidated financial statements	November, 2024
Communication of audit results	November, 2024

Status of our audit

We have substantially completed our audit of the consolidated financial statements of the City and the results of that audit are included in this report.

We will finalize our report upon resolution of the following items that were outstanding as at November 26, 2024:

- Receipt of signed management representation letter (a draft has been attached in **Appendix B**)
- Approval of the consolidated financial statements by Council
- Procedures regarding subsequent events
- Responses for legal inquiries

We have successfully executed our audit strategy in accordance with the plan presented to Members of Council on January 15, 2024.

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on January 15, 2024.

Audit risks and results

We highlight our significant findings in respect of significant transactions, accounting practices and other areas of focus.

Areas of focus

The following is a summary of areas of focus, and the related matters and findings we would like to communicate to Members of Council.

Area of focus	Matter	Our response and findings
Fraud risk from revenue recognition	<p>There is a presumed risk of fraud in revenue.</p> <ul style="list-style-type: none"> The risk primarily relates to revenue recognized under water and sewer and other revenue 	<ul style="list-style-type: none"> Analytical assessment of revenues based on budgeted expectations Monthly water and wastewater analytical based on expectations from prior years Tested the details of the other revenue transactions during the year (statistical sample) Subsequent receipts testing of receivables as at December 31, 2023 (statistical sample) <p>There were no significant findings as a result of these procedures.</p>
Fraud risk from management override / segregation of duties	<p>This is a presumed fraud risk.</p> <ul style="list-style-type: none"> The risk primarily relates to limited segregation of duties, administrative access to accounting system and the senior finance management's ability to post journal entries 	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Reviewed accounting estimates for biases Evaluated the business rationale for significant transactions that are or appear to be outside the normal course of business <p>There were no significant findings as a result of these procedures.</p>

Area of focus	Matter	Our response and findings
Taxation revenue and receivables	The taxes receivable balances may be invalid and the allowance for uncollectible taxes understated.	<ul style="list-style-type: none"> Recalculation of the net tax revenues based on verified assessment rolls and approved tax rates Subsequent receipts testing of taxes receivable as at December 31, 2023 (statistical sample) Assessing the adequacy of the allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of underlying property <p>There were no significant findings as a result of these procedures.</p>
Government transfers	Allocation of government transfers may not be appropriate and recognition of revenue may not meet government transfer conditions.	<ul style="list-style-type: none"> Reviewed the allocation of funds between fiscal periods to determine if it is appropriate and tested revenue recognition in accordance with grant terms and conditions. Reviewed grant terms to determine if any deferrals, receivables or payables are appropriate. <p>There were no significant findings as a result of these procedures.</p>
Purchases and payables	Payables may be understated or not recorded in the correct period.	<ul style="list-style-type: none"> Analytical assessment of expenses based on budgeted expectations Reviewed supporting documentation and management estimates with respect to the completeness and accuracy of significant year end accruals Performed a search for unrecorded liabilities <p>There were no significant findings as a result of these procedures.</p>
Provisions for employee benefits	Provision and related expenses may be understated.	<ul style="list-style-type: none"> Reviewed actuarial reports, method and assumptions used Tested supporting calculations relating to the various amounts and disclosures <p>There were no significant findings as a result of these procedures.</p>
Provision for asset retirement obligations	Provision and tangible capital assets and/or related expenses may be understated.	<ul style="list-style-type: none"> Reviewed process and assumptions used by management to develop the estimate Tested supporting calculations relating to the various amounts and disclosures <p>There were no significant findings as a result of these procedures.</p>
Provision for contaminated sites	Provision and related expenses may be understated.	<ul style="list-style-type: none"> Reviewed assumptions used by management Tested supporting calculations relating to the various amounts and disclosures <p>There were no significant findings as a result of these procedures.</p>

Area of focus	Matter	Our response and findings
Commitments and contingencies	There is uncertainty regarding contingent liabilities.	<ul style="list-style-type: none"> Verified the accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers, examination of supporting documentation, and discussions with management <p>There were no significant findings as a result of these procedures.</p>
Financial instruments	The financial statement disclosure relating to financial instruments are not complete and accurate	<ul style="list-style-type: none"> Verified the accuracy and reasonableness of disclosures, with reference to PS 3450 financial instruments <p>There were no significant findings as a result of these procedures.</p>
Tangible capital assets	Valuation of additions, including contributed assets, as well as appropriateness of amortization	<ul style="list-style-type: none"> Reviewed supporting documentation for capital asset additions with respect to the validity of the additions, on a test basis. Reviewed disposals to determine if any gain/loss is calculated appropriately. Recalculated amortization expense. Reviewed capital project costs to determine if any additional costs should be capitalized. There were no significant findings as a result of these procedures.

Sensitive accounting estimates and disclosures

Area of focus	Matter	Our response and findings
Sensitive accounting estimates and disclosures	The provision for vested sick leave of approximately \$ 388,500 and retirement benefits of approximately \$ 5,820,400.	<ul style="list-style-type: none"> Management engaged an actuary to calculate the liabilities for vested sick leave and for employees who have taken early retirement based on the current annual benefits and the number of years until the employees turn 65. Liabilities have been recognized in the financial statements for vested sick leave and employee retirement benefits. The objective is to recognize a liability in the reporting period in which employees have provided the services that give rise to the benefits. Management's estimate is based on the actuary's valuation report and is reasonable in the context of the consolidated financial statements taken as a whole. The actuary's valuation was performed in accordance with the standards of the Canadian Institute of Actuaries. <p>Management's estimate is reasonable in the context of the consolidated financial statements taken as a whole.</p>

Area of focus	Matter	Our response and findings
Sensitive accounting estimates and disclosures	The provision for the Workplace Safety and Insurance Board future benefits of approximately \$ 2,171,500.	<ul style="list-style-type: none"> The Municipality is a Workplace Safety and Insurance Board (“WSIB”) Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self-insurance for all its employees. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The Municipality remits payments to the WSIB as required to fund disability payments. <p>Management’s estimate is reasonable in the context of the consolidated financial statements taken as a whole.</p>
Sensitive accounting estimates and disclosures	The provision for uncollectible taxes of approximately \$ 292,000.	<ul style="list-style-type: none"> Management reviews previous year’s rebates to determine the current years. Management also reviews accounts which are significantly in arrears and determines if it is likely that they will be collected either through the land owner or through tax sale. For tax revenue amounts billed but may not be collected as of December 31, 2023. For uncollected accounts, management estimates the collectability of these receivables based on their age and their knowledge of the specific properties. As part of our audit, we review the age of the receivables and search for any subsequent receipts or relevant communications to assess whether management’s allowance for uncollectable receivables is reasonable. <p>Management’s estimate is reasonable in the context of the consolidated financial statements taken as a whole.</p>
Sensitive accounting estimates and disclosures	The asset retirement obligations are approximately \$1,737,300.	<ul style="list-style-type: none"> We discussed with management regarding their process for developing the estimate, including assumptions made. We obtained and verified reasonableness of management’s summary calculation sheet and calculation of the present value of the asset retirement obligations. We reviewed the adjustments to the financial statements and related note disclosure to ensure it is in accordance with PS 3280. <p>Management’s estimate is reasonable in the context of the consolidated financial statements taken as a whole.</p>

Area of focus	Matter	Our response and findings														
Factors affecting disclosure values	Useful life estimates of tangible capital assets	<p>The estimated useful lives assigned to tangible capital assets are as follows:</p> <table border="0"> <tr> <td>Land improvements</td> <td>10 to 100 years</td> </tr> <tr> <td>Buildings</td> <td>20 to 50 years</td> </tr> <tr> <td>Leasehold improvements</td> <td>20 to 50 years</td> </tr> <tr> <td>Vehicles</td> <td>10 to 20 years</td> </tr> <tr> <td>Office equipment and furniture and fixtures</td> <td>5 to 10 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>3 to 30 years</td> </tr> <tr> <td>Infrastructure</td> <td>10 to 100 years</td> </tr> </table> <p>Management's estimate is reasonable in the context of the consolidated financial statements taken as a whole.</p>	Land improvements	10 to 100 years	Buildings	20 to 50 years	Leasehold improvements	20 to 50 years	Vehicles	10 to 20 years	Office equipment and furniture and fixtures	5 to 10 years	Machinery and equipment	3 to 30 years	Infrastructure	10 to 100 years
Land improvements	10 to 100 years															
Buildings	20 to 50 years															
Leasehold improvements	20 to 50 years															
Vehicles	10 to 20 years															
Office equipment and furniture and fixtures	5 to 10 years															
Machinery and equipment	3 to 30 years															
Infrastructure	10 to 100 years															
Adoption of new guidance	The Canadian Public Sector Accounting Standards Board issued new Sections PS 3450 Financial Instruments and PS 3280 Asset Retirement Obligations and amendments to Section PS 2601 Foreign Currency Translation and PS 1201 Financial Statement Presentation, effective for fiscal years beginning on or after April 1, 2022.	<ul style="list-style-type: none"> • Management's adopted PS 3450 Financial Instruments as at January 1, 2023 and applied the new accounting standard prospectively. • Management adopted the amendments to PS 2601 Foreign Currency Translation as at January 1, 2023 and exercised an election permitted on a one-time-basis to recognize unrealized exchange gains and losses on US denominated cash, accounts receivable and accounts payable as adjustments to the Statement of Operations at January 1, 2023, however, no adjustments were required. • Management adopted PS 3280 Asset Retirement Obligations as at January 1, 2023 and applied the new accounting standard prospectively. PS 3280 Asset Retirement Obligations recognizes legal obligations associated with the retirement of tangible capital assets. Management is responsible to ensure this new accounting standard is adhered and appropriate note disclosures are prepared. <p>Based on the audit work performed, no issues were noted.</p>														

Other areas of focus

Area of focus	Matter	Our response and findings
Fraud and illegal acts	Our audit procedures were performed for the purpose of forming an opinion of the financial statements and although these procedures might bring possible fraudulent or illegal activities to our attention, our audit procedures are less likely to detect material misstatements arising from fraud or other illegal acts because such acts are usually accompanied by acts designed to conceal their existence.	<ul style="list-style-type: none"> • We did not detect any fraudulent or illegal activities or material misstatements resulting from fraudulent or illegal activities during our audit.

Use of experts

We used the work of independent third-party specialists for the following:

- Employee benefit obligations
- Asset retirement obligations

Adjustments and uncorrected misstatements

Adjustments

Misstatements identified and adjusted in the consolidated financial statements by the City as a result of our audit procedures are as follows:

Description	Increase (Decrease)			Statement of operations	
	Statement of financial position		Accumulated surplus	Annual surplus	
	Assets	Liabilities			
To consolidate the Main St and Downtown BIAs into the City	\$ 42,963	\$ 12,140	\$ -	\$	30,823
To proportionately consolidate the Niagara Central Dorothy Rungeling Airport Commission into the City	135,716	121,564	-		14,152
To adjust allowance for doubtful accounts to actual	(25,728)	-	-		(25,728)
To correct interest receivables and revenue and transfers to/from reserves	84,932	-	-		84,932
Total adjusted misstatements	\$ 237,883	\$ 133,704	\$ -	\$	104,179

Uncorrected misstatements

We have no non-trivial unadjusted misstatements to report.

Summary of disclosure matters

Our audit did not identify any unadjusted non-trivial misstatements of disclosure matters.

Other reportable matters

Internal control

The audit is designed to express an opinion on the consolidated financial statements. We obtain an understanding of internal control over financial reporting to the extent necessary to plan the audit and to determine the nature, timing and extent of our work. Accordingly, we do not express an opinion on the effectiveness of internal control.

If we become aware of a deficiency in your internal control over financial reporting, the auditing standards require us to communicate to Members of Council those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

Please refer to **Appendix C** for a detailed explanation of the following internal control observations noted during our audit:

Financial Reporting

- Journal entry controls

Technical updates – highlights

Accounting

Accounting standards issued by the Accounting Standards Board that may affect the City in future years include:

- **Section PS 3160 Public Private Partnerships**
- **Section PS 1000 Financial statement concepts, Section 1201 Financial Statement Presentation, and PSG-8 Purchased intangibles**
- **Section PS 3400 Revenues**

Further details of the changes to accounting standards, including management's preliminary comments on their applicability to the City, are included in Appendix D. If you have any questions about these changes we will be pleased to address your concerns.

Assurance

In addition, assurance standards issued by the AASB that may change the nature, timing and extent of our audit procedures on the City and our communication with Members of Council include:

- **Issuance of CSQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, CSQM 2 Engagement Quality Reviews and revised CAS 220 Quality Management for an Audit of Financial Statements**
- **Revisions to CAS 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)**
- **Proposed Canadian Standard on Sustainability Assurance (CSSA) 5000, General Requirements for Sustainability Assurance Engagements**

Further details of the changes to assurance standards, including management's preliminary comments on their applicability to the City, are included in Appendix E. If you have any questions about these changes we will be pleased to address your concerns.

Appendix A – Draft Independent auditor’s report

Independent auditor's report

To the Members of Council, Inhabitants and Taxpayers of the Corporation of the City of Port Colborne

Opinion

We have audited the consolidated financial statements of the City of Port Colborne (“the Municipality”), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of operations, changes in net debt and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the financial position of the City of Port Colborne as at December 31, 2023, and its results of operations, its changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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 Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Municipality and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Port Colborne, Canada

Chartered Professional Accountants
Licensed Public Accountants

DRAFT

Appendix B – Draft Management representation letter

City Letterhead

Management Representation Letter

November 26, 2024

Grant Thornton LLP

Chartered Professional Accountants
PO Box 336
Port Colborne, ON
L3K 5W1

Dear Sirs:

We are providing this letter in connection with your audit of the consolidated financial statements of the City of Port Colborne (“municipality”) as of December 31, 2023, and for the year then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the City of Port Colborne in accordance with Canadian public sector accounting standards.

We acknowledge that we have fulfilled our responsibilities for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the consolidated financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the consolidated financial statements would influence the decision of a reasonable person relying on the consolidated financial statements.

We confirm, to the best of our knowledge and belief, as of November 26, 2024, the following representations made to you during your audit.

Financial statements

- 1 The consolidated financial statements referred to above present fairly, in all material respects, the financial position of the municipality as at December 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards, as agreed to in the terms of the audit engagement.

Completeness of information

- 2 We have made available to you all financial records and related data and all minutes of the meetings of Council and committees of Council, as agreed in the terms of the audit engagement. Summaries of actions of recent meetings for which minutes have not yet been prepared have been provided to you. All significant Council and committee actions are included in the summaries.
- 3 We have provided you with unrestricted access to persons within the municipality from whom you determined it necessary to obtain audit evidence.
- 4 There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements. The adjusting journal entries which have been proposed by you are approved by us and will be recorded on the books of the municipality.
- 5 We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
- 6 We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated financial statements or as the basis of recording a contingent loss.
- 7 We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.
- 8 We have identified to you all known related parties and related party transactions, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements guarantees, non-monetary transactions and transactions for no consideration.
- 9 You provided a non-attest service by assisting us with drafting the consolidated financial statements and related notes. In connection with this non-attest service, we confirm that we have made all management decisions and performed all management functions, have the knowledge to evaluate the accuracy and completeness of the consolidated financial statements, and accept responsibility for such consolidated financial statements.

Fraud and error

- 10 We have no knowledge of fraud or suspected fraud affecting the municipality involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the consolidated financial statements.
- 11 We have no knowledge of any allegations of fraud or suspected fraud affecting the municipality's financial statements communicated by employees, former employees, analysts, regulators or others.
- 12 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Recognition, measurement and disclosure

- 13 We believe that the significant assumptions used by us in making accounting estimates, including those used in arriving at the fair values of financial instruments as measured and disclosed in the consolidated financial statements, are reasonable and appropriate in the circumstances.
- 14 We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the consolidated financial statements.
- 15 All related party transactions have been appropriately measured and disclosed in the consolidated financial statements.
- 16 The nature of all material measurement uncertainties has been appropriately disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.
- 17 All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.
- 18 All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated financial statements.
- 19 With respect to environmental matters:
 - a) at year end, there were no liabilities or contingencies that have not already been disclosed to you;
 - b) liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements; and
 - c) commitments have been measured and disclosed, as appropriate, in the consolidated financial statements.
- 20 The municipality has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the municipality's assets nor has any been pledged as collateral.
- 21 We have disclosed to you, and the municipality has complied with, all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- 22 The Harmonized Sales Tax (HST) transactions recorded by the municipality are in accordance with the federal and provincial regulations. The HST liability/receivable amounts recorded by the municipality are considered complete.

- 23 Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of Section 3250 *Retirement Benefits* and Section 3255 *Post-Employment Benefits, Compensated Absences and Terminations Benefits* of the Canadian Institute of Chartered Accountants (CICA) Public Sector – Accounting.
- 24 Events subsequent to the statement of financial position date up to the date hereof have been recognized or disclosed in the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

Other

- 25 We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the municipality's ability to continue as a going concern and have concluded that no such events or conditions are evident.

Yours very truly,

Bryan Boles, CPA, CA, MBA
Director of Corporate Services/Treasurer

Charlotte Madden
City Clerk

Appendix C – Internal control letter

November 26, 2024

City of Port Colborne
66 Charlotte Street
Port Colborne, ON
L3K 3C8

Doane Grant Thornton LLP
222 Catharine Street, Suite B
PO Box 336
Port Colborne, ON
L3K 5W1
T +1 905 834 3651
F +1 905 834 5095

Dear Members of Management:

In connection with our audit of the City of Port Colborne consolidated financial statements as of December 31, 2023 and for the year then ended, the Canadian Auditing Standards require that we advise management and Council (hereinafter referred to as “those charged with governance”) of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as “internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention.

Significant deficiencies

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination, may be material weaknesses or significant deficiencies.

A deficiency in internal control (“control deficiency”) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City’s annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the City’s financial reporting (also referred to as those charged with governance).

We consider the following identified control deficiencies to be significant deficiencies.

Financial Reporting

Journal entry controls

The Director of Corporate Services and the Manager, Financial Services have the ability to post journal entries into the financial reporting application. Duties of senior financial reporting personnel should not include the ability to make journal entries as it is important to have an appropriate level of review and authorization over journal entries. Staff members who have responsibility for authorization and approval of journal entries should not have the ability to post entries into the system.

Management response

Given the size of the City's Finance department it is not unreasonable for management to have the ability to create journal entries in the event that staff are not available. Management agrees that staff, regardless of position, should not have the ability to both create and approve their own entries. A working group consisting of the Director, Corporate Services, the Manager, Financial Services, the Supervisor, Financial Reporting, and the Manager, Information Technology Services, has been formed and has met to review both system access rights and journal entry approvals. This group meets on a trimesterly basis. This mitigating control was in place for all of 2023.

Management responses

The Management's written responses to the internal control matters identified herein have not been subjected to our audit procedures and accordingly, we express no opinion on them.

* * *

This communication is intended solely for the information and use of management, those charged with governance, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

Grant Thornton LLP



James D. Brennan, CPA, CA
Principal

Appendix D – PSAS

Accounting developments

Public Sector Accounting Standards	Effective date
<p data-bbox="296 634 747 659">Section PS 3160 <i>Public Private Partnerships</i></p> <p data-bbox="296 670 1444 813">New Section PS 3160 <i>Public Private Partnerships</i> establishes standards on how to account for public private partnerships between public and private sector entities where infrastructure is procured by a public sector entity using a private sector partner that is obligated to design, build, acquire or better infrastructure; finance the infrastructure past the point where the infrastructure is ready for use and operate and/or maintain the infrastructure. Infrastructure typically includes items such as tangible capital assets (i.e., complex network systems), but may also include items that are intangible in nature. The main features of the new Section are:</p> <ul data-bbox="296 824 1444 1019" style="list-style-type: none"><li data-bbox="296 824 1444 873">• The infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is also recognized when the public sector entity recognizes an asset<li data-bbox="296 873 1444 898">• The infrastructure asset and corresponding liability are initially measured at the cost of the infrastructure asset<li data-bbox="296 898 1444 946">• Subsequent measurement of the infrastructure asset is based on the asset cost amortized in a rational and systematic manner over the useful life of the asset<li data-bbox="296 946 1444 1019">• Subsequent measurement of the financial liability is at amortized cost using the effective interest method. When all or a portion of the liability represents a performance obligation, revenue is recognized, and the liability reduced in accordance with the substance of the public private partnership agreement (as performance is achieved) <p data-bbox="296 1040 798 1065">Retrospective or prospective application is permitted.</p>	<p data-bbox="1480 670 1803 719">Fiscal years beginning on or after April 1, 2023.</p> <p data-bbox="1480 732 1751 756">Earlier adoption is permitted.</p>

Public Sector Accounting Standards**Effective date**

Section PS 1000 *Financial statement concepts*, Section 1201 *Financial Statement Presentation*, and PSG-8 *Purchased intangibles*

Fiscal years beginning on or after April 1, 2023.

Section PS 1000 has been amended to remove the prohibition of recognition of purchased intangibles in public sector financial statements. Consequentially, Section PS 1201 has also been amended to remove disclosure requirements for unrecognized purchased intangibles since entities can now recognize purchased intangibles in their financial statements. Entities still reporting in accordance with Section PS 1200 *Financial Statement Presentation* can also adopt the amendments and recognize purchased intangible assets. New Public Sector Guideline, PSG-8 *Purchased intangibles*, has been issued to explain the scope of the intangibles that are allowed to be recognized in the financial statements given this amendment to Section PS 1000. However, it is important to note that no further recognition, measurement, disclosure and presentation guidance has been provided.

Earlier adoption is permitted.

The main features of PSG-8 include:

- A definition of purchased intangibles (which does not include those received through a government transfer, contribution or inter-entity transaction)
- Examples of items that are not purchased intangibles
- References to other guidance in the Handbook on intangibles
- Reference to the asset definition, general recognition criteria and the GAAP hierarchy for accounting for purchased intangibles

Retrospective or prospective application is permitted.

Section PS 3400 *Revenues*

New Section PS 3400 *Revenue* establishes standards on how to account for and report on revenue. It does not apply to revenues for which specific standards already exist, such as government transfers, tax revenue or restricted revenues. The Section distinguishes between revenue that arises from transactions that include performance obligations (i.e., exchange transactions) and transactions that do not have performance obligations (i.e., non-exchange transactions). The main features of the new Section are:

Fiscal years beginning on or after April 1, 2023.

Earlier adoption is permitted.

- Performance obligations are defined as enforceable promises to provide specific goods or services to a specific payer
 - Revenue from transactions with performance obligations will be recognized when (or as) the performance obligation is satisfied by providing the promised goods or services to the payer
 - Revenue from transactions with no performance obligations will be recognized when a public sector entity has the authority to claim or retain the revenue and identifies a past transaction or event that gives rise to an asset
-

Appendix E – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
<p>Issuance of CSQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>, CSQM 2 <i>Engagement Quality Reviews</i> and revised CAS 220 <i>Quality Management for an Audit of Financial Statements</i></p> <p>Auditors must effectively manage audit quality, both at the firm level and the engagement level. The IAASB recognised a need to strengthen standards addressing quality control and the AASB implemented similar changes to those made at the international level. In January 2021, the AASB unanimously approved the suite of quality management standards.</p> <p>CSQM 1 introduces a new approach to “managing quality”. Quality management is intended to be proactive in nature and to be a continuous process. Implementing the new standard requires firms to analyse and enhance many of their internal processes to achieve effective quality management. This standard replaces the extant standard, CSQC 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i></p> <p>CSQM 2 deals specifically with the topic of engagement quality reviews (EQRs), which are performed by firms to obtain an objective evaluation of the significant judgments made by the engagement team and the conclusions reached. The standards setters recognized the importance of EQRs and noted that many stakeholders (including oversight bodies) were concerned that the requirements of CSQM 1 with respect to EQRs were not sufficiently robust. As a result, CSQM 2 was issued. CSQM 1 deals with the topic of when an EQR should be performed, while CSQM 2 covers the appointment and eligibility considerations related to the person performing the EQR and the performance and documentation requirements.</p> <p>CAS 220 was revised to clarify and strengthen the key elements of quality management at the engagement level by:</p> <ul style="list-style-type: none">• emphasizing that the engagement partner is responsible for managing and achieving quality at the engagement level• clarifying the engagement partner’s responsibilities, and acknowledging the engagement partner can assign certain tasks/procedures to members of the engagement team who are appropriately skilled or suitably experienced in managing and achieving quality• modernizing the standard for the evolving environment	<p>CSQM 1 is effective for audits or reviews of financial statements or other assurance engagements as of December 15, 2022 and related services engagements as of December 15, 2023.</p> <p>CSQM 2 is effective for audits or reviews of financial statements with periods beginning on or after December 15, 2022, other assurance engagements beginning on or after December 15, 2022 and related services engagements beginning on or after December 15, 2023.</p> <p>CAS 220 is effective for audits of financial statements for periods beginning on or after December 15, 2022.</p>
<p>Revisions to CAS 600 <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i></p> <p>Many audits today are of group financial statements, also known as group audits, and these types of engagements can be very challenging. In April 2020, the International Auditing and Assurance Standards Board (IAASB) issued an Exposure Draft proposing changes to ISA 600 and related ISAs with the goals of strengthening the auditor’s approach to planning and performing group audits and clarifying the interaction of ISA 600 with other ISAs and issued the final standard in 2022. The AASB issued the equivalent Canadian standard, which included the same revisions as the ISA with no Canada-specific amendments. The changes made to the standard were designed to:</p> <ul style="list-style-type: none">• Clarify the scope and applicability of the standard• Emphasise the importance of exercising professional skepticism throughout the group audit• Clarify and reinforce that all CASs need to be applied in a group audit situation	<p>Periods beginning on or after December 15, 2023.</p>

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB

Effective date

- Focus the group engagement team's attention on identifying and assessing the risks of material misstatement of the group financial statements and emphasise the importance of designing procedures to respond to those risks
- Reinforce the need for robust communication between the group engagement team and component auditors

Include new guidance and considerations relating to testing common controls, addressing access restrictions, establishing materiality and documenting group audits.

Canadian Exposure Drafts issued by the AASB

Effective date**Potential revisions to CAS 570 *Going Concern***

Auditors are required to obtain sufficient appropriate audit evidence on the appropriateness of management's use of the going concern basis of accounting and conclude on whether a material uncertainty exists in relation to going concern. Financial statement users have raised questions about how much auditors should be able to detect from their audit procedures in this area, and what is communicated to users about the entity's ability to continue as a going concern. This led the IAASB to initiate a project to revise the standard. In April 2023, the IAASB issued its Exposure Draft and the AASB has issued a corresponding Exposure Draft. The Exposure Draft proposes several key changes, which include:

- Defining material uncertainty related to going concern
- Enhancing the risk identification and assessment requirements so they are consistent with those set out in CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*
- Enhancing the auditor's evaluation of management's going concern assessment, including requirements to support the auditor's application of professional skepticism
- Adding a requirement for the auditor to request management to extend its going concern assessment of the entity to cover at least 12 months from the date of approval of the financial statements if management has not already done so
- Enhancing the auditor's consideration of information related to management's going concern assessment that becomes available to the auditor after the date of the auditor's report but before the date the financial statements are issued

Adding requirements to enhance communications about going concern in the auditor's report.

The comment period for the Exposure Draft ended on July 31, 2023. It is expected that the effective date for the revised standard will be for periods beginning in 2026, but the exact effective date will depend on when the standard is approved.

Proposed Canadian Standard on Sustainability Assurance (CSSA) 5000, *General Requirements for Sustainability Assurance Engagements*

In September 2022, the IAASB approved a project proposal to develop a new overarching standard for sustainability assurance engagements. In January 2023, the AASB approved a project proposal to concurrently adopt this international standard with any potential additional Canadian amendments, as a first of its kind Canadian Standard on Sustainability Assurance (CSSA).

CSSA 5000 will not be a financial statement audit standard, but rather will serve as a comprehensive, standalone standard suitable for sustainability assurance engagements. It will apply to sustainability information reported across any appropriate sustainability topic, prepared according to any suitable framework, including the recently released IFRS Sustainability Disclosure Standards S1 and S2. The proposed standard is profession agnostic, supporting its use by both professional accountant and non-accountant assurance practitioners who meet the relevant ethical and quality management requirements, and will apply to both limited and reasonable assurance engagements.

The comment period for the Exposure Draft ended on November 6, 2023. It is expected that the effective date will be for periods beginning in 2026, but the exact effective date will depend on when the standard is approved.