Report 2022-218

Appendix B

City of Port Colborne

For the year ended December 31, 2021

Report to the Members of Council
Audit results

October 11, 2022

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Appendices

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 the City of Port Colborne (the "entity") for the year ended December 31, 2021. This communication will assist the 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
Report on the December 31, 2021 consolidated financial statements	Oct. 11, 2022
Communication of audit results	Oct. 11, 2022

Status of our audit

We have substantially completed our audit of the consolidated financial statements of the entity 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 October 11, 2022:

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

We have successfully executed our audit strategy in accordance with the plan presented to the Members of Council on January 24, 2022.

Auditor’s report modifications

Our responsibility is to form an opinion on the consolidated financial statements. We are also required to communicate matters that impact our standard auditor’s report, including key audit matters or modifications to the reports.

Our auditor’s report contained the following modifications:

- Emphasis of Matter – Restated Comparative Information

A copy of our draft auditor’s report is included in Appendix A.

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 24, 2022.

Audit risks and results

We highlight our significant findings in respect of COVID-19 impacts on audit risks and responses, significant transactions, accounting practices and other areas of focus.

COVID-19 impact on audit risks and responses

Area of focus	Matter	Our response and findings
Subsequent events and COVID-19	The COVID-19 virus became widespread in January, 2020 and the magnitude of its impact increased thereafter. Management determined there were no significant impacts resulting from COVID-19 and identified no significant related subsequent events. This has been disclosed in Note 26 to the financial statements.	• Reviewed the financial statement disclosure provided by management We have no finding to note in connection with the subsequent events disclosure

Areas of focus

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

Area of focus	Matter	Our response and findings
Fraud risk from revenue recognition	There is a presumed risk of fraud in revenue. • The risk primarily relates to revenue recognized under water and sewer and other revenue	• Recalculation of the net tax revenues based on verified assessment rolls and approved tax rates • Analytical assessment of revenues based on budgeted expectations • Subsequent receipts testing of receivables as at December 31, 2021 (statistical sample) • Assessed the adequacy of allowances for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining supporting documentation There were no significant findings as a result of these procedures.
Fraud risk from management override / segregation of duties	This is a presumed fraud risk. • 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	• 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 There were no significant findings as a result of these procedures.
Taxation revenue and receivables	• The taxes receivable balances may be invalid and the allowance for uncollectible taxes understated	• 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, 2021 (statistical sample) • Assessed the adequacy of the allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of underlying property There were no significant findings as a result of these procedures.

Area of focus	Matter	Our response and findings
Purchases and payables	Payables may be understated or not recorded in the correct period.	• 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 There were no significant findings as a result of these procedures.
Provisions for employee benefits	Provision and related expense may be understated.	• Reviewed actuarial reports, method and assumptions used • Tested supporting calculations relating to the various amounts and disclosures There were no significant findings as a result of these procedures.
Provisions for contaminated sites liability	Provision and related expense may be understated.	• Reviewed assumptions used by management • Tested supporting calculations relating to the various amounts and disclosures 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 $ 332,000 and retirement benefits of approximately $ 7,125,000.	• 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. Management's estimate is reasonable in the context of the consolidated financial statements taken as a whole.
Sensitive accounting estimates and disclosures	The provision for the Workplace Safety and Insurance Board future benefits of approximately $ 2,348,000.	• 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. Management's estimate is reasonable in the context of the consolidated financial statements taken as a whole.
Factors affecting disclosure values	The provision for uncollectible taxes of approximately $ 24,000.	• 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, 2021. 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. Management's estimate is reasonable in the context of the consolidated financial statements taken as a whole.

Area of focus	Matter	Our response and findings
Factors affecting disclosure values	Useful life estimates of tangible capital assets.	The estimated useful lives assigned to tangible capital assets are as follows: Land improvements — 10-100 years Buildings — 20-50 years Leasehold improvements — 20-50 years Vehicles — 10-20 years Office equipment and furniture and fixtures — 5-10 years Machinery and equipment — 3-30 years Infrastructure — 10-100 years

Adjustments and uncorrected misstatements

Adjustments

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

Increase (Decrease)	Statement of Financial Position			Statement of Operations
Description	Assets	Liabilities	Accumulated Surplus	Annual Surplus
To consolidate the Main St and Downtown BIAs into the City	$ (54,128)	$ (73,598)	$ -	$ 19,470
To consolidate Niagara's South Coast Tourism Association	30,143	23,561	(1,410)	7,992
To proportionately consolidate the Niagara Central Dorothy Rungeling Airport Commission into the City	2,310	3,511	-	(1,201)
To balance the Port Colborne Trust Funds	(462)	-	-	(462)
To balance transfers recorded to reserves	-	-	(9,636)	9,636
To balance opening accumulated surplus and interest income	-	-	25,000	(25,000)
To record land gain and contributed tangible capital assets				(64,000) 64,000
To adjust library related transfers to reserves from City accounts and correct disposal of library collection and capitalize expenses	90,941 (90,941)		40,000 (40,000)	14,602 (14,602)
Total adjusted misstatements	**$ (22,137)**	**$ (46,526)**	**$ 13,954**	**$ 10,435**

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 the 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:

Information Technology

- Segregation of duties and assignment of administrator rights

Financial Reporting

- Journal entry controls

Financial Activities

- Segregation of duties

Technical updates – highlights

Accounting

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

- Section PS 3400 Revenues
- Section PS 3280 Asset retirement obligations
- Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation, Section PS 1201 Financial statement presentation, and PS 3041 Portfolio investments

Further details of the changes to accounting standards are included in the Appendix D. If you have any questions about these changes we will be pleased to address your concerns.

Assurance

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

- Revisions to CAS 315 Identifying and Assessing Risks of Material Misstatement
- Proposed changes to CAS 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Further details of the changes to accounting standards are included in the 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

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 Corporation of the City of Port Colborne (“the Municipality”), which comprise the consolidated statement of financial position as at December 31, 2021, 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 Corporation of the City of Port Colborne as at December 31, 2021, 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.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 2 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2020 has been restated. Our opinion is not modified in respect of this matter.

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
September____, 2022

Chartered Professional Accountants
Licensed Public Accountants

Appendix B – Draft Management representation letter

September ___, 2022

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 Corporation of the City of Port Colborne as of December 31, 2021, 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 Corporation 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 September ___, 2022, 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, 2021 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 The restatements made to correct material misstatements in the prior period consolidated financial statements have been properly recorded, are approved by us, and will be recorded on the books of the entity.

6 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.

7 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.

8 We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.

9 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.

10 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

11 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.

12 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.

13 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Recognition, measurement and disclosure

14 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.

15 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.

16 All related party transactions have been appropriately measured and disclosed in the consolidated financial statements.

17 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.

18 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.

19 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.

20 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.

21 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.

22 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.

23 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.

24 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.

25 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.

26 We have provided sufficient and appropriate disclosure of the impact of COVID-19 on the municipality in Note 26 to the financial statements. The representations made therein accurately reflect the impact to the municipality and its continued operations.

Other

27 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,

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Scott Luey
Chief Administrative Officer

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Bryan Boles
Director of Corporate Services/Treasurer

Appendix C – Internal control letter

September 27, 2022

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

Dear Members of Management:

In connection with our audit of the City of Port Colborne consolidated financial statements as of December 31, 2021 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.

Information Technology

Segregation of duties and assignment of administrator rights

The following weaknesses have been identified in the information technology system, specifically relating to the assignment of responsibilities and network administrator rights:

The Director of Corporate Services and the Manager, Financial Services have been assigned administrator rights in the financial reporting application. This allows them unrestricted access to all modules of the system, and results in a lack of segregation of duties as they are responsible for the City's financial reporting. Although our audit procedures did not identify any unauthorized or unusual transactions recorded in the financial application by these individuals, the potential exists for unauthorized transactions to be recorded by the administrators and go undetected.

<u>Management response</u>

Although the previous year's management response to this deficiency indicated that access had been removed it has been identified that previous staff had not removed access. Management agrees that the Director, Corporate Services and Manager, Financial Services should not have administrator rights. Management has decided that the Manager, Information Technology, and the IT System Business Analyst will be the administrators of the financial reporting application. Management has engaged its financial reporting application provider and is planning additional administrator rights training for the system administrators.

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.

<u>Management response</u>

Although the previous year's management response to this deficiency indicated that access had been removed it has been identified that previous staff had not removed access. 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 is scheduled to meet on a trimester basis. It was noted during the initial meeting that neither the Director, Corporate Services, nor the Manager, Financial Services created a journal entry during the 2021 fiscal year.

Financial Activities

Segregation of duties

During the course of our planning procedures it came to our attention that segregation of duties remains an issue in the accounting cycles of your operations. When duties are not segregated in the control environment, the City is more susceptible to fraud and errors that may not be identified during our audit procedures.

When one person performs most duties in an accounting cycle, such as revenue, collusion is not required to commit fraudulent activities, since there is less likelihood that such an activity will be detected. For example, a staff member responsible for billing and accounts receivable posting should not be handling cash receipts. The potential is there for a misappropriated payment to be not posted to a receivable account and the receivable reconciliation to the general ledger to be altered so that the fraud is not exposed. If the cash receipts duty is given to another staff member, such a potential fraudulent activity could be prevented, the two employees must work together to commit the fraudulent act.

Management response

The recently implemented organizational changes in the Financial Services department that migrated all billings under the tax and water clerks has removed the identified segregations of duties issue going forward.

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

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Appendix D – PSAS Accounting developments

Public Sector Accounting Standards	Effective date
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: • 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	Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2022, but in August 2020, as a result of the COVID-19 pandemic, the Public Sector Accounting Board (PSAB) has deferred the effective date by one year.)
Section PS 3280 *Asset retirement obligations*	
New Section PS 3280 *Asset Retirement Obligations* establishes standards on how to account for and report a liability for asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use. As a result of the issuance of Section PS 3280, the Public Sector Accounting Board (PSAB) approved the withdrawal of Section PS 3270 *Solid waste landfill closure and post-closure liability* as asset retirement obligations associated with landfills will be within the scope of PS 3280. PS 3280 does not address costs related to remediation of contaminated sites, which will continue to be addressed in Section PS 3260 *Liability for contaminated sites*. Some consequential amendments have been made to PS 3260 to conform with PS 3280 and further clarify the scope of each standard.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2021, but in August 2020, as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)
Section PS 3450 *Financial instruments*, Section PS 2601 *Foreign currency translation*, Section PS 1201 *Financial statement presentation*, and PS 3041 *Portfolio investments*	

Public Sector Accounting Standards	Effective date
PS 3450 *Financial instruments* is a new Section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Some highlights of the requirements include: • a public sector entity should recognize a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument • financial instruments within the scope of the Section are assigned to one of two measurement categories: fair value, or cost / amortized cost • almost all derivatives are measured at fair value • fair value measurement is required for portfolio investments in equity instruments that are quoted in an active market • other financial assets and financial liabilities are generally measured at cost or amortized cost • until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses when the public sector entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category • additional disclosures with respect to financial instruments will be required, including the nature and extent of risks arising from a public sector entity's financial instruments PS 2601 *Foreign currency translation* revises and replaces Section PS 2600 *Foreign currency translation*. Some highlights of the requirements include: • the deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued • until the period of settlement, foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations, unless an irrevocable election is made at initial measurement to recognize exchange gains and losses on a financial asset or financial liability directly in the statement of operations. PS 1201 *Financial statement presentation* revises and replaces Section PS 1200 *Financial statement presentation*. The main amendment to this Section is the addition of the statement of remeasurement gains and losses. PS 3041 *Portfolio investments* revises and replaces Section PS 3040 *Portfolio investments*. The issuance of these new sections also includes consequential amendments to: • *Introduction to accounting standards that apply only to government not-for-profit organizations* • PS 1000 *Financial statement concepts* • PS 1100 *Financial statement objectives* • PS 2125 *First-time adoption by government organizations* • PS 2500 *Basic principles of consolidation* • PS 2510 *Additional areas of consolidation* • PS 3050 *Loans receivable* • PS 3060 *Government partnerships* • PS 3070 *Investments in government business enterprises* • PS 3230 *Long-term debt* • PS 3310 *Loan guarantees* • PS 4200 *Financial statement presentation by not-for-profit organizations*	The new requirements are all required to be applied at the same time. For governments - Fiscal years beginning on or after April 1, 2022. For government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook - Fiscal years beginning on or after April 1, 2012. For all other government organizations - Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. (NOTE: For public sector entities other than government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook, the effective date was previously April 1, 2021, but in August 2020, as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)

Public Sector Accounting Standards	Effective date
PSG-6 *Including results of organizations and partnerships applying fair value measurement* was withdrawn as a result of the issuance of these sections. In April 2020, the PSAB issued amendments to clarify aspects of Section PS 3450's application and add new guidance to its transitional provisions. The amendments introduce changes to the accounting treatment for bond repurchase transactions. Specifically, the amendments no longer require bond repurchase transactions to be treated as extinguishments, unless they are discharged or legally released from the obligation or the transactions meet certain criteria to be considered an exchange of debt. The amendments also provide clarification on the application of certain areas of Section PS 3450, these include: • Section PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable • how a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract is accounted for, and • derecognition of a financial asset does not occur if the transferor retains substantially all the risks and benefits of ownership Finally, the amendments have added new guidance to the transitional provisions as follows: • controlling governments should use the carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization • any unamortized discounts, premiums, or transaction costs associated with a financial asset or financial liability in the cost/amortized cost category should be included in the item's opening carrying value, and • in cases where derivatives were not recognized or were not measured at fair value prior to adopting PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses	

Appendix E – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
Revisions to CAS 315 *Identifying and Assessing Risks of Material Misstatement* In July 2018, the IAASB issued an Exposure Draft proposing changes to ISA 315 that could drive more consistent and effective identification and assessment of the risks of material misstatement by auditors. The AASB published an Exposure Draft of the equivalent Canadian standard, which included the same proposed revisions as the ISA with no Canada-specific amendments. The revised CAS 315 has been issued and key amendments to the standard include the following: • Focusing on the applicable financial reporting framework in identifying and assessing risks of material misstatement • Updating the understanding of the system of internal control, including clarifying the work effort for understanding each of the components of internal control and "controls relevant to the audit", as well as the relationship between this understanding and the assessment of control risk • Updating aspects relating to IT, in particular to the IT environment, the applications relevant to the audit and general IT controls relevant to the audit • Introducing the new concepts of inherent risk factors, relevant assertions, significant classes of transactions, account balances and disclosures, and the spectrum of inherent risk • Separating the inherent risk and control risk assessments for assertion level risks, enhancing the requirements relating to financial statement level risks, and updating the definition of "significant risks"	Periods beginning on or after December 15, 2021.

Canadian Exposure Drafts issued by the AASB	Effective date
Proposed changes to CAS 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* 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 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. The AASB has published an Exposure Draft of the equivalent Canadian standard, which includes the same proposed revisions as the ISA with no Canada-specific amendments. The Exposure Draft proposes changes that: • 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 • 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	The comment period for the Exposure Draft has ended. An effective date for the revised standard has not yet been established.