



City of Port Colborne

For the year ended December 31, 2020

Report to the Members of Council
Audit results

June 14, 2021

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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, 2020. 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/Status] |
|---|-----------------|
| Report on the December 31, 2020 consolidated financial statements | June 14, 2021 |
| Communication of audit results | June 14, 2021 |

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 June 14, 2021:

- 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 inquiries

We have successfully executed our audit strategy in accordance with the plan presented to the Members of Council on February 1, 2021.

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on February 1, 2021.

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 25 to the financial statements. | <ul style="list-style-type: none">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 | <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"> 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, 2020 (statistical sample) Assessed the adequacy of allowances for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining supporting documentation <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> |
| Taxation revenue and receivables | <ul style="list-style-type: none"> 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, 2020 (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 <p>There were no significant findings as a result of these procedures.</p> |

| Area of focus | Matter | Our response and findings |
|---|--|---|
| 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 expense 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> |
| Provisions for contaminated sites liability | Provision and related expense 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> |

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 \$ 295,000 and retirement benefits of approximately \$ 6,834,000. | <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> |
| Sensitive accounting estimates and disclosures | The provision for the Workplace Safety and Insurance Board future benefits of approximately \$ 2,309,000. | <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> |
| Factors affecting disclosure values | The provision for uncollectible taxes of approximately \$ 161,000. | <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, 2020. 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> |

| 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 improvement | 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 balance interfund transfers | \$ 14,462 | \$ 14,402 | \$ - | \$ 60 |
| To correct trust funds and remove interest income from City balances | (648) | - | - | (648) |
| To consolidate the Main St and Downtown BIAs into the City | 33,386 | 24,278 | - | 9,108 |
| To correct deferred revenue | - | - | 318,969 | (318,969) |
| To proportionately consolidate the airport | 4,191 | (533) | (4) | 4,728 |
| To correct current year balances from prior period entries made in error | - | - | 436,719 | (436,719) |
| To record City drains expense | - | - | 20,204 | (20,204) |
| To correct the BIA receivable | (20,000) | (24,004) | - | 4,004 |
| Total adjusted misstatements before estimated tax effect | \$ 31,391 | \$ 14,143 | \$ 775,888 | \$ (758,640) |

Uncorrected misstatements

We have no non-trivial unadjusted misstatements to report.

Other adjustments

Management made the following adjustments after receipt of the trial balance and audit working papers.

| Increase (Decrease) | Statement of Financial Position | | | Statement of Operations effect |
|---|---------------------------------|-------------|--------------------------|--------------------------------|
| | Assets | Liabilities | Accumulated surplus | |
| Description | | | | Net surplus |
| To correct 2020 drainage superintendent grant | \$ (13,454) | \$ - | \$ - | \$ (13,454) |
| To record drainage labour | 2,303 | | | 2,303 |
| To decrease allowance for uncollectible taxes | 96,654 | | | 96,654 |
| To record year end reserve transfers | 12,940 (12,940) | | 772,803 (722,803) | |
| To adjust Library reserves for operating surplus transfer | | | 41,448 (41,448) | |
| To adjust City reserves for operating surplus transfer | | | 1,192,664 (1,192,664) | |
| Total other adjustments | \$ 85,503 | \$ - | \$ - | \$ 85,503 |

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
- Review of user access 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:

- PS 1150 Generally Accepted Accounting Principles
- PS 3160 Public Private Partnerships
- PS 1000 Financial statement concepts, Section 1201 Financial Statement Presentation, and PSG-8 Purchased intangibles
- Annual Improvements

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:

- CAS 540 Accounting Estimates

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, 2020, 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, 2020, 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
May __, 2021

Chartered Professional Accountants
Licensed Public Accountants

Appendix B – Draft Management representation letter

May __, 2021

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, 2020, 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 May ____, 2021, 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, 2020 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.
- 25 We have provided sufficient and appropriate disclosure of the impact of COVID-19 on the municipality in Note 25 to the financial statements. The representations made therein accurately reflect the impact to the municipality and its continued operations.

Other

- 26 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,

Chief Administrative Officer

Director of Corporate Services/Treasurer

Draft - June 7, 2021

Appendix C – Internal control letter

May 14, 2021

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, 2020 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 of Accounting and Revenue 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.

Management response

As of May 25, 2021, this access has been removed.

Review of user access rights

There is currently no formal process in place for management to regularly review and approve user access rights on the network and financial reporting applications. Given the segregation of duties issues that have been identified in the assignment of administrator rights, the regular review by department supervisors or other management of user access rights will ensure that only appropriate and currently employed staff have user ID's on the network and in the applications. As well, this review will ensure that the users have access appropriate for their roles and responsibilities within the organization.

Management response

As of May 25, 2021, the Manager, Financial Services, will review the access listing and document that review on a trimester basis.

Financial Reporting

Journal entry controls

The Director of Corporate Services and the Manager of Accounting and Revenue 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

As of May 25, 2021, this access has been removed. The Manager, Financial Services has been provided approval access only.

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

JDB/jf

Appendix D – PSAS

Accounting developments

| Public Sector Accounting Standards | Effective date |
|---|---|
| Section PS 1150 <i>Generally Accepted Accounting Principles</i> <p>Section PS 1150 has been amended to require public sector entities to look to accounting pronouncements published by the International Public Sector Accounting Standards Board (IPSASB) as the first accounting framework to consult in situations not covered by primary sources of GAAP. When a standard from the IPSASB exists, it must be consulted first before standards issued by other bodies authorized to issue accounting standards.</p> <p>This amendment would only be applied only to new transactions or other events after the effective date for which the entity has no existing accounting policy. It also does not require the revision of existing accounting policies.</p> | Fiscal years beginning on or after April 1, 2021. |
| Section PS 3160 <i>Public Private Partnerships</i> <p>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 style="list-style-type: none">• 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.• The infrastructure asset and corresponding liability are initially measured at the cost of the infrastructure asset.• 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.• 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).• Retrospective or prospective application is permitted. | Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. |

| | |
|---|--|
| <p>Section PS 1000 <i>Financial statement concepts</i>, Section 1201 <i>Financial Statement Presentation</i>, and PSG-8 <i>Purchased intangibles</i></p> <p>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 <i>Financial Statement Presentation</i> can also adopt the amendments and recognize purchased intangible assets. New Public Sector Guideline, PSG-8 <i>Purchased intangibles</i>, 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.</p> <p>The main features of PSG-8 include:</p> <ul style="list-style-type: none"> • A definition of purchased intangibles • Examples of items that are not purchased intangibles • References to other guidance in the PSA Handbook on intangibles • Reference to the asset definition, general recognition criteria and the GAAP hierarchy for accounting for purchased intangibles <p>Retrospective or prospective application is permitted.</p> | <p>Fiscal years beginning on or after April 1, 2023.</p> <p>Earlier adoption is permitted.</p> |
| <p>2019-2020 Annual Improvements</p> <p>The following significant amendment has been made to PSAS as a result of the annual improvements process:</p> <ul style="list-style-type: none"> • A clarification has been added to the <i>Introduction to Public Sector Accounting Standards</i> to require public sector entities to adopt all related consequential amendments when they early adopt a new or amended standard. Consequential amendments are not available for early adoption if the related amended standard has not been early adopted | <p>Effective immediately</p> |

Strategic plan for not-for-profit organizations in the public sector

Since 2012, government not-for-profit organizations (GNPOs) have been required to adopt PSAS but were given the option of applying the specific GNPO accounting standards in PSAS. Some GNPOs have utilized those standards, while others have not. The PSAB recognized that a "one-size-fits-all" approach may not be appropriate for all stakeholders. As a result, in PSAB's 2017-2022 Strategic Plan, the Board signaled intent to understand the needs and concerns of GNPOs and consider if some standards should be applied differently by them. In 2018, PSAB consulted with over 100 GNPO stakeholders to understand their fiscal and regulatory environment, their financial reporting needs, and their financial reporting perspectives in its first Consultation Paper. Diversity in the financial reporting framework, presentation of net debt and fund accounting, the impact of balanced budget requirements and endowments were some of the items stakeholders raised. In January 2021, PSAB released a second Consultation Paper. The purpose of the paper is to:

- summarize the feedback to Consultation Paper I;
- describe the options considered for a GNPO Strategy;
- describe the decision-making criteria used to evaluate the options; and
- propose a GNPO Strategy.

The deadline to respond to the Consultation paper is May 12, 2021.

International strategy

The PSAB has reviewed its current approach towards International Public Sector Accounting Standards (IPSAS) with the intent of developing options for its International Strategy. At its May 2020 meeting, PSAB decided that it will adapt IPSAS principles when developing future Canadian Public Sector Accounting Standards for the Public Sector Accounting Handbook. PSAB has issued a brief document summarizing its decision and what it means, entitled [In Brief – A plain and simple overview of PSAB's 2020 decision to adapt IPSAS principles when developing future standards](#), as well as the [Basis for Conclusions](#) on how it reached its decision. This decision will apply to all projects beginning on or after April 1, 2021.

Concepts underlying financial performance

In response to feedback from stakeholders, the PSAB is proposing changes to its conceptual framework and its reporting model with a focus on measuring the financial performance of public sector entities. A conceptual framework is a clear set of related concepts that act as the foundation for the development of standards and the application of professional judgment. In January 2021, PSAB issued four important exposure drafts:

- *The Conceptual Framework for Financial Reporting in the Public Sector* - PSAB has proposed to issue a revised Conceptual Framework that would include 10 chapters:
 - Chapter 1: Introduction to the Conceptual Framework
 - Chapter 2: Characteristics of public sector entities
 - Chapter 3: Financial reporting objective
 - Chapter 4: Role of financial statements
 - Chapter 5: Financial statement foundations
 - Chapter 6: Financial statement objectives
 - Chapter 7: Financial statement information
 - Chapter 8: Elements of financial statements
 - Chapter 9: Recognition and measurement in financial statements
 - Chapter 10: Presentation concepts for financial statements

The proposed Conceptual Framework would replace the existing conceptual framework in Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*

- *Financial Statement Presentation, Proposed Section PS 1202* – PSAB has proposed replacing the existing reporting model standard in Section PS 1201 *Financial Statement Presentation*. The proposed changes would make some significant changes to financial presentation for public sector entities
- *Consequential Amendments Arising from the Proposed Conceptual Framework* – This Exposure Draft will summarize the implications for the rest of the CPA Canada Public Sector Accounting (PSA) Handbook; and
- *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* – This Exposure Draft will summarize the implications for the rest of the PSA Handbook as a result of new proposed Section PS 1202.

The deadline for responses to the exposure drafts is May 12, 2021.

Appendix E – Auditing developments

| Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB | Effective date |
|--|---|
| <p>Revisions to CAS 540 <i>Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures</i></p> <p>In June 2018, the IAASB approved a revised version of ISA 540 <i>Auditing Accounting Estimates and Related Disclosures</i>. In revising the standard, the IAASB focused on improving the scalability of the ISA to very simple accounting estimates, as well as the most complex accounting estimates. The AASB concluded that the changes to the ISA would be adopted as CASs, with no special amendments being necessary with respect to the Canadian auditing environment. The key changes to the revised standard include:</p> <ul style="list-style-type: none">• Explicit recognition of the spectrum of inherent risk and introduction of concept of inherent risk factors• Requirement for enhanced risk assessment procedures relating to understanding the entity, including internal control• Inclusion of objectives-based work effort requirements directed to methods, data and assumptions when responding to the risks of material misstatement• Enhanced "stand back" requirement for audit evidence obtained, including an increased emphasis on professional scepticism• Clarification of the relationship between CAS 540 (revised) and the other CASs and the requirements when using the work of management's expert as audit evidence in testing how management made the accounting estimate | <p>The revised standard is effective for audits of financial statements with periods beginning on or after December 15, 2019.</p> |

Non-authoritative Guides, Practice Notes, Bulletins and Risk Alerts

| Non-authoritative Guidance issued during the year | Issued |
|---|--------|
| None. | |