

# The Municipality of Lakeshore

Audit Findings Report  
for the year ended  
December 31, 2020



Licensed Public Accountants

Prepared for presentation on March 15, 2022

[kpmg.ca/audit](https://kpmg.ca/audit)



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# KPMG contacts

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## Our refreshed Values

### What we believe



# Audit Quality: How do we deliver audit quality?

Transparency report



**Quality** essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

**‘Perform quality engagements’** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define **‘audit quality’** as being the outcome when:

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



Visit our [Audit Quality Resources](#) page for more information.

**Doing the right thing. Always.**

# Audit highlights

## Purpose of this report<sup>1</sup>

The purpose of this report is to assist you, as a member of Municipal Council, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2020.

### Outstanding matters

As of March 15, 2022 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with Council
- Obtaining evidence of the Council's approval of the financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided in Appendix: Draft Auditors' Report, will be dated upon the completion of any remaining procedures.

### Going concern

No matters to report.

### Significant risks and other significant matters

There are no significant findings to communicate related to significant risks or other significant matters.

### Uncorrected audit misstatements

No matters to report.

### Control deficiencies and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Other observations came to our attention and relate to the following areas:

- Employee future benefits

See pages 13.

### Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

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<sup>1</sup> This Audit Findings Report is intended solely for the information and use of Management and Council, and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## What's new in 2020?

There have been significant changes in the year 2020 which impacted financial reporting, and our audit:

- COVID-19 pandemic – See pages 6-7
- New CAS auditing standards – See page 8

# What's new in 2020

## COVID-19 pandemic

In our Audit Planning Report, we communicated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
<b>Company's financial reporting impacts</b>	<ul style="list-style-type: none"><li>— We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements.</li><li>— In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty.</li></ul>
<b>Materiality</b>	<ul style="list-style-type: none"><li>— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements. Materiality has not been changed from the amount initially calculated due to no reduction to the metrics used to determine materiality.</li></ul>
<b>Risk Assessment</b>	<ul style="list-style-type: none"><li>— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).</li><li>— We did not identify additional risks of material misstatement as a result of impacts to financial reporting, which required an audit response compared to the prior year.</li></ul>
<b>Working remotely</b>	<ul style="list-style-type: none"><li>— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.</li><li>— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.</li></ul>

# What's new in 2020 (continued)

## COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

## Key Observations

### Direction and Supervision of the audit

- The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on financial reporting and changes in internal control over financial reporting.
- Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

### Substantive Testing - Response

- Our evaluation of management's assessment of going concern was enhanced to respond to the uncertainties relating to prospective financial information and judgements about appropriate financial statement disclosures in the rapidly changing environment.



# What's new in 2020 (continued)

## New auditing standards

The following new auditing standards that are effective for the current year had an impact on our audit.

Standard	Key observations
<b>CAS 540, Auditing Accounting Estimates and Related Disclosures</b>	<ul style="list-style-type: none"><li>— The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”.</li><li>— The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.</li><li>— We performed more granular risk assessments based on the elements making up <u>each</u> accounting estimate such as the method, the assumptions used, the data used and the application of the method.</li><li>— We considered the potential for management bias.</li><li>— We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed.</li><li>— See page 11 under Audit Risk and Results for estimates that related to employee future benefits, which was determined to be a significant estimate subject to the new standard.</li></ul>

# Materiality

Materiality determination	Comments	Amount
<b>Materiality</b>	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.	\$1,290,000
<b>Benchmark</b>	Based on total revenues for the prior year-ended December 31, 2019.	\$64,520,972
<b>% of Benchmark</b>		2%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit.	\$60,000

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

## We will report to Council:



Corrected audit misstatements



Uncorrected audit misstatements

# Audit risks and results

We highlight our significant findings in respect of **significant financial reporting risks**, as well as any additional significant financial reporting risks identified.

## Professional requirements

Fraud risk from revenue recognition:

- This is a presumed fraud risk under Canadian Auditing Standards.
- There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year revenue growth or profit.

We have rebutted the fraud risk from revenue recognition as this is not appropriate when we consider the manner in which performance is measured by the Municipality.

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Fraud risk from management override of controls

- This is a presumed fraud risk under Canadian Auditing Standards.
- We have not identified any specific additional risks of management override related to the audit of the financial statements of the Municipality.

## Our response and findings

- As the risk of management override of controls is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address the risk. This included requisite testing over journal entries considered “high risk” and a retrospective review over complex estimates.
- Management brought to the attention of the audit team one instance of management override of the payroll control. In this instance, the proper procedures for management oversight were circumvented exposing a weakness in internal controls design. Management’s mitigating controls to review the banking log, create bank reconciliations and review variance reports operated effectively to detect the override of the payroll control. Due to this finding from management, KPMG selected specific journal entry criteria to identify unusual journal entries to payroll accounts and did not observe any additional findings. Management has also worked with the banking provider to tighten controls on release of payroll files in the future.

# Audit risks and results - Estimates with significant risk

We believe management's process for identifying estimates with significant risk is considered adequate.

We have summarized our assessment of the subjective areas.

Liability	Carrying Amount (\$'000s)
Valuation of employee future benefits obligations	\$1,264

## KPMG comment

Obligations related to employee future benefits are valued based on actuarial assumptions as prepared by management. We have reviewed the assumptions provided by management. Management has utilized a discount rate of 5%. As interest rates have fluctuated significantly over the past few years, we suggest updating the discount rate. Based on our sensitivity analysis this change would not result in a material change to the employee future benefit obligations.

See page 13 for our recommendation that the Municipality engage a third-party actuary to prepare the valuation going forward.

# Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

## Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

## Corrected audit misstatements

We did not identify any misstatements that were communicated to management and subsequently corrected in the financial statements.

# Other observations

Item	Observation
Employee future benefits calculation	<p>During our review of the employee future benefits calculation, we have noted the following:</p> <p><b>Observation</b></p> <p>KPMG observed that the Municipality does not use a third-party actuary to perform the calculation and instead uses a spreadsheet that was created internally many years ago to perform the calculation. KPMG also observed that many of the assumptions used in the calculation are not consistent with the accounting standards or the actual experience of the Municipality, given the new audit standard on estimates. This includes the use of a discount rate that is significantly higher than what the accounting standards would consider appropriate, resulting in the calculated obligation being lower than it should be. Discount rates should be based on the Municipality's long-term borrowing rates.</p> <p><b>Impact</b></p> <p>Given the complexity of this calculation, not using an expert to perform this calculation, and instead relying on a spreadsheet that was created many years ago, with limited understanding of the inputs increases the possibility of material errors in the recorded balance. Additionally, using inappropriate assumptions for discount rate and other inputs may result in the liability being materially understated or overstated.</p> <p><b>Recommendation</b></p> <p>KPMG recommends that the Municipality engages a third-party actuarial expert to perform the employee future benefit obligation calculation at least every three years. This will reduce the risk of material errors in the calculation and reduce the burden and time commitment on management to prepare the calculation. It will also increase the reliability and reduce the risk of the estimate for audit purposes saving time for both the audit team and management.</p>

# Appendices

## Content

**Appendix 1: Other required communications**

**Appendix 2: Management representation letter**

**Appendix 3: Audit and assurance insights**



# Appendix 1: Other Required Communications

Report	Engagement terms
Refer to the draft report attached to the draft financial statements.	A copy of the engagement letter and any subsequent amendments has been provided to management.
Matters pertaining to independence	Representations of management
We confirm our independence to Council.	A copy of the management representation letter is attached.
Audit Quality in Canada	Control deficiencies
<p>The reports available through the following links were published by the Canadian Public Accountability Board to inform Council and other stakeholders about the results of quality inspections conducted over the past year:</p> <ul style="list-style-type: none"> <li>• <a href="#">CPAB Audit Quality Insights Report: 2020 Interim Inspection Results</a></li> <li>• <a href="#">CPAB Audit Quality Insights Report: 2019 Annual Inspections Results</a></li> </ul> <p>Visit our <a href="#">Audit Quality Resources page</a> for more information including access to our <a href="#">Transparency report</a></p>	Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency have been, communicated to management.



## Appendix 2: Management representation letter

See management representation letter attached.

KPMG LLP  
618 Greenwood Centre  
3200 Deziel Drive  
Windsor, Ontario N8W 5K8  
Canada

March 15, 2022

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Corporation of the Town of Lakeshore ("the Entity") as at and for the period ended December 31, 2020.

**GENERAL:**

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**RESPONSIBILITIES:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated April 16, 2019, including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
    - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
    - (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in summaries.

- c) providing you with unrestricted access to such relevant information
- d) providing you with complete responses to all enquiries made by you during the engagement
- e) providing you with additional information that you may request from us for the purpose of the engagement
- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

#### **FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
    - management;
    - employees who have significant roles in internal control over financial reporting, or
    - others

where such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

- d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
- e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**SUBSEQUENT EVENTS:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

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

**GOING CONCERN:**

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**RESERVES, RESERVE FUNDS AND FUNDS:**

- 12) With regards to reserves, reserve funds and funds, all reserves are properly accounted for in the books of the Entity. Furthermore, all provisions and charges to the reserves were in accordance with the Municipal Act. Lastly, all reserve funds and their respective assets have been properly accounted for in the books of the Entity and, where necessary, all funds created during the year were approved by Council.

Yours very truly,

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By: Mr. Justin Rousseau, Corporate Leader – Chief Financial Officer

## Attachment I - Definitions

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian public sector accounting standards *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

## Appendix 3: Audit and assurance insights

Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary	Reference
<b>Accelerate 2022</b>	The key issues driving the audit committee agenda in 2022	<a href="#">Learn more</a>
<b>Audit Committee Guide – Canadian Edition</b>	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada	<a href="#">Learn more</a>
<b>Unleashing the positive in net zero</b>	Real solutions for a sustainable and responsible future	<a href="#">Learn more</a>
<b>KPMG Audit &amp; Assurance Insights</b>	Curated research and insights for audit committees and boards.	<a href="#">Learn more</a>
<b>Board Leadership Centre</b>	Leading insights to help board members maximize boardroom opportunities.	<a href="#">Learn more</a>
<b>KPMG Climate Change Financial Reporting Resource Centre</b>	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	<a href="#">Learn more</a>
<b>The business implications of coronavirus (COVID 19)</b>	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<a href="#">Learn more</a>
<b>Momentum</b>	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<a href="#">Sign-up now</a>
<b>Current Developments</b>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.	<a href="#">Learn more</a>
<b>KPMG Learning Academy</b>	Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.	<a href="#">Learn more</a>



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KPMG member firms around the world have 227,000 professionals, in 146 countries.

