



# Corporation of the Township of South Stormont

2021 Audit Findings

Report to Council

December 31, 2021

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## OVERVIEW

We are pleased to submit to you this Audit Findings Report (the "Report") for discussion of our audit of the financial statements of the Corporation of the Township of South Stormont (the "Township") as at December 31, 2021 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of Council.

As auditors, we report to the members on the results of our examination of the financial statements of the Township as at and for the year ended December 31, 2021. The purpose of this Report is to assist you, as members of Council, in your review of the results of our audit.

This Report is intended solely for the information and use of Council and management and should not be distributed to or used by any other parties than these specified parties.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

## ENGAGEMENT STATUS

We have completed our audit of the financial statements of the Township which has been carried out in accordance with Canadian generally accepted auditing standards and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedures:

- Receipt of the remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with Council;
- Council's review and approval of the financial statements.

No significant limitations were placed on the scope or timing of our audit.

## INDEPENDENT AUDITOR'S REPORT



We expect to have the above procedures completed and to release our Independent Auditor's Report on July 13, 2022.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the members of the Township. A draft copy of our proposed Independent Auditor's Report has been included with this report. The matters disclosed in the Independent Auditor's Report are discussed further in the relevant sections of the Report.

## AUDIT REPORTING MATTERS

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the financial statements considered separately.

### SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

AREA	COMMENTS
 <b>CHANGES FROM AUDIT SERVICE PLAN</b>	There were no deviations from the Audit Service Plan previously presented to you.
 <b>FINAL MATERIALITY</b>	Final materiality used for our audit was \$672,000 for December 31, 2021, and \$450,000 for December 31, 2020.

AREA	COMMENTS
 <b>IDENTIFIED OR SUSPECTED FRAUD</b>	<p>While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.</p>
 <b>IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS</b>	<p>Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.</p>
 <b>MATTERS ARISING IN CONNECTION WITH RELATED PARTIES</b>	<p>No significant matters arose during the course of our audit in connection with related parties of the Township.</p>
 <b>AUDITOR'S VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES, ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES</b>	<p>The application of Canadian public sector accounting standards allows and requires the Township to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.</p> <p>As auditors, we are uniquely positioned to provide open and objective feedback regarding your Township's accounting practices.</p> <p>The accounting policies used by the Township are appropriate and have been consistently applied.</p>
 <b>FINANCIAL STATEMENT DISCLOSURES</b>	<p>The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.</p>
 <b>SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL</b>	<p>While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency we have detected some significant deficiencies in internal controls, which are included with this report and in the Management Letter provided.</p>
 <b>MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT</b>	<p>There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.</p>
 <b>COVID-19</b>	<p>The current pandemic has impacted many business and individuals in North America and across the world. While the Township's main revenue of collecting taxes might not be directly impacted, the slow down of business and the self isolation and loss of jobs of individuals could have significant impact on future demand of other services and on the collectability of receivables as at the year end and future years.</p> <p>We have discussed with management and the possible impact on collectability of receivables, impairment of tangible capital assets or employment layoff as well as any changes in controls and operations processes due to the pandemic.</p> <p>The severity of the impact cannot be determined given</p>

AREA	COMMENTS
	the uncertainty around the length of the pandemic and any future government legislations that could further intensify the lockdown.

#### SIGNIFICANT RISK AREAS AND RESPONSES

SIGNIFICANT RISK AREA	RESPONSE AND CONCLUSION
<b>Revenues and receivables</b>  Revenue could be recorded in the wrong period.	Tested cut-off at a low threshold; no issues noted
<b>Payables and expenses</b>  Expenses could be recorded in the wrong period	Tested cut-off at a low threshold; no issues noted

#### OTHER AREAS

AREA	COMMENTS
<b>AUDITOR INDEPENDENCE</b>	We confirm to Council that we are independent of the Township. Our letter to Council discussing our independence is included as part of the additional materials attached to this report.
<b>MANAGEMENT REPRESENTATIONS</b>	We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit. This letter, provided by management, has been included as additional material to this report.
<b>SUMMARY OF SIGNIFICANT DIFFERENCES</b>	A few significant differences were proposed to management with respect to the December 31, 2021 financial statements. A summary of significant differences has been included with this report.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,



**Chartered Professional Accountants  
Licensed Public Accountants**

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**SUMMARY OF DIFFERENCES**

Corporation of the Township of South Stormont

December 31, 2021

DESCRIPTION OF DIFFERENCES	PROPOSED ADJUSTMENTS DR(CR)				
	[EARNINGS]		[BALANCE SHEET]		
	IDENTIFIED	LIKELY AGGREGATE [(NET OF TAX)]	ASSETS	LIABILITIES	[EQUITY]
To adjust G/L to match sub-ledger based on PY entry made by MNP	-	-	-	-	-
To gross up debt proceeds received for the year	\$ (559,350)	\$ (559,350)	-	-	-
To adjust opening balances based on prior year reclass entries that was not given to the client	-	-	\$ (1,102)	\$ 30,776	\$ (29,674)
To reallocate amount to Misc A/R as transactions went straight into reserves	-	-	\$ 77,819	-	\$ (77,819)
To allocate amount to other revenues	-	-	-	-	-
To gross up transfers/expenses accordingly based on reserve transactions	-	-	-	-	-
To record change in amounts to be recovered for LTD for both debt received and payments made	\$ 559,350	\$ 559,350	-	-	-
To adjust landfill liability	\$ 50,438	\$ 50,438	-	\$ (50,438)	\$ 50,438
to record adjust accrued interest to 2021 from PY	-	-	-	-	-
To record reserve transfers as indicated by budget	\$ 217,068	\$ 217,068	-	-	-
To record year-end payment settlement to school boards	\$ 88,892	\$ 88,892	-	\$ (88,892)	\$ 88,892
To record additional transfers from reserves to offset excess WWW capital costs and reallocate transfers to line up with proper sewer systems	\$ (153,326)	\$ (153,326)	-	-	\$ (0)
To record penalties and interest taxes related to Lactalis as provided by client	\$ (110,000)	\$ (110,000)	\$ 110,000	-	\$ (110,000)
To apply water surplus against PY accumulated deficit	-	-	-	-	-

**SUMMARY OF DIFFERENCES**

Corporation of the Township of South Stormont

December 31, 2021

DESCRIPTION OF DIFFERENCES	PROPOSED ADJUSTMENTS DR(CR)				
	[EARNINGS]		[BALANCE SHEET]		
	IDENTIFIED	LIKELY AGGREGATE [(NET OF TAX)]	ASSETS	LIABILITIES	[EQUITY]
To expense balance that was put in opening vacation payable at year-end	\$ 37,121	\$ 37,121	-	\$ (37,121)	\$ 37,121
Entry to adjust excess prepaid insurance charged to expenses.	\$ (17,236)	\$ (17,236)	\$ 17,236	-	\$ (17,236)
Entry to adjust Dust inventory quantity to actual.	\$ 20,447	\$ 20,447	\$ (20,447)	-	\$ 20,447
To record water and sewer surplus transfer to reserves for the year	\$ 1,107,449	\$ 1,107,449	-	-	-
To record capital surplus to working capital reserve along with remaining CY reserve	\$ 1,838,199	\$ 1,838,199	-	-	-
To adjust change in TCA	-	-	-	-	-
To adjust AFDA	\$ 38,000	\$ 38,000	\$ (38,000)	-	\$ 38,000
<b>Total</b>	<b>\$ 3,117,053</b>	<b>\$ 3,117,053</b>	<b>\$ 145,506</b>	<b>\$ (145,676)</b>	<b>\$ 170</b>
Differences corrected by management	\$ 3,079,053	\$ 3,079,053	\$ 183,506	\$ (145,676)	\$ (37,830)
Total differences net of corrections	\$ 38,000	\$ 38,000	\$ (38,000)	-	\$ 38,000
Uncorrected opening differences	\$ (97,314)	\$ (97,314)	-	-	-
Current period differences	\$ (59,314)	\$ (59,314)	\$ (38,000)	-	\$ 38,000
Final overall materiality	\$ 672,000	\$ 672,000	\$ 672,000	\$ 672,000	\$ 672,000
<b>Excess (shortfall)</b>	<b>\$ 612,686</b>	<b>\$ 612,686</b>	<b>\$ 634,000</b>	<b>\$ 672,000</b>	<b>\$ 634,000</b>

July 13, 2022

Members of Council  
Corporation of the Township of South Stormont  
2 Mille Roches Road  
P.O. Box 84  
Long Sault, ON K0C 1P0

Dear Sirs/Mesdames:

We have been engaged to audit the financial statements of the Corporation of the Township of South Stormont ("the Township") as at December 31, 2021 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the Township and its related entities or persons in financial reporting oversight roles at the Township and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance services in addition to the audit engagement.

We are not aware of any relationship between the Township and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2021 to July 13, 2022.

We hereby confirm that MNP is independent with respect to the Township within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario as of July 13, 2022.

This report is intended solely for the use of Members of Council, management and others within the Township and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,



**Chartered Professional Accountants  
Licensed Public Accountants**

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## About MNP LLP

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## Did you know?

Did you know that the Canadian Auditing Standards (CAS) has revised the auditing standard related to identifying and assessing the risks of material misstatements?

The revised CAS 315 will be effective for our audit of your Company's financial statements ending December 31, 2022.

### Key changes include:

- Re-analyse financial statement risks by component parts: complexity, subjectivity, etc;
- In depth understanding of the Company's use of information technology (IT); and
- Additional requirements around management's control environment.

Refer to [Appendix 1] [the Audit Service Plan under the "New and Proposed Changes to the Assurance Handbook" section] CAS 315 *Identifying and assessing the risks of material misstatements* for more details of the changes.

## What does this mean for our audit?

**There will be an increase in upfront planning time required from both management and our engagement team to meet the revised requirements. Specifically:**

1. Audit risk assessment currently considers fraud schemes and significant risks, and assertion-level evaluation of financial statement risk. The addition of inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud factors) is more granular and will require both careful assessment at planning, and specific audit procedures in response.
2. We will require assistance from management and the entity's information technology's function to understand the entity's use of IT. Based on this detailed understanding, our engagement team will evaluate the risks arising from IT and the design and implementation of the IT general controls. Implications may include the involvement of an IT specialist and testing of the entity's IT general controls and IT application controls. In addition to the IT environment, our engagement team will be assessing key controls and the benefits of testing the operating effectiveness of these controls as it relates to the overall audit approach.
3. Even where we do not plan to rely on controls, additional requirements apply to understand components of management's entity-level control environment including oversight, culture, assignment of responsibility and how individuals are held accountable.

The new requirements noted above may result in the identification of deficiencies in the design and implementation of certain controls. We will then engage with management through the subsequent period to ensure our parallel assessment of efforts aimed at remediating control deficiencies.

## How should you prepare for the upcoming audit?

**Early engage with management to ensure you are aware of the current plan to incorporate the revised expectations for a compliant audit into the Company's internal controls over financial reporting.**

**Sample questions to consider asking management are:**

1. Has the company evaluated controls over risk assessment, oversight, culture, assignment of authority/responsibility?
2. Has the company extended the evaluation of controls to the company's information technology systems (e.g., changes to manage change or logical access IT general controls, implementation of new IT applications) and were any weaknesses identified?
3. Were there any challenges in applying the new requirements?

**Further we encourage you to ask us questions to stay informed, here are a sample of questions to consider:**

1. How has the revised CAS 315 influenced the risk assessment for the current year audit? Has the scope changed from the prior year?
2. How has the assessed risks of material misstatement related to the company's information technology systems affect the audit and how have you addressed those potential risks?
3. To what extent did you engage IT specialists to be involved in the audit of financial statements? If so, how were the specialists used, and did the use of specialists change in the current year?
4. How has your risk assessment of the internal control policies and procedures impacted the audit strategy for the current year?
5. Are there any concerns with management's transaction-level controls within the key business processes?
6. Are there any areas where management could be of greater assistance to reduce the amount of time spent by you?
7. Were there any challenges in applying the new requirements to the audit?

## APPENDIX 1: Revised CAS 315 Identifying and Assessing the Risks of Material Misstatement

The revised CAS 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, incorporates changes to establish more robust requirements and detailed guidance to assist auditors in performing appropriate risk assessment procedures corresponding with the size and nature of the entity. It also includes changes to enhance the application of professional skepticism in audits. The revised CAS 315 accomplishes the following:

- Distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- Clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- Highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling based on the complexity of the situation;
- Clarifies the definition of "significant risk" and introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- Introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- Introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- Separates the assessment of inherent and control risk;
- Enhances the auditor's considerations regarding the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- Introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- Uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- Clarifies the threshold for identifying possible risks of material misstatement in CAS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*.