



The Corporation of the Township of West Lincoln

**Audit Findings Report
for the year ended
December 31, 2023**

KPMG LLP

Prepared as of July 12, 2024 for presentation to the Council on July 15, 2024.

kpmg.ca/audit



KPMG contacts

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Table of contents

Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.



Click on any item in the table of contents to navigate to that section.

5	Highlights	7	Status	8	Significant changes	10	Risks and results
15	Significant unusual transactions	16	Misstatements	20	Control deficiencies	22	Policies and practices
24	Specific topics	25	Independence	26	Appendices		

The purpose of this report is to assist you, as a member of Council, in your review of the results of our audit of the financial statements. This 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.



Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on the ‘Status’ slide of this report. [↗](#)

Significant changes

Significant changes since our audit plan [↗](#)

Risks and results

Significant risks [↗](#)

- Management override of controls
- Fraudulent Revenue Recognition - rebutted

Other risks of material misstatement [↗](#)

- Government grants, including development charges
- Operating Expenditures
- Tangible Capital Assets
- Employee Benefit Obligation
- Investments
- Investment in PWPI
- Asset Retirement Obligation

Policies and practices & Specific topics

Significant unusual transactions [↗](#)

Accounting policies and practices [↗](#)

Other financial reporting matters [↗](#)

Specific Topics [↗](#)

Uncorrected misstatements

Uncorrected misstatements [↗](#)

Corrected misstatements

Corrected misstatements [↗](#)

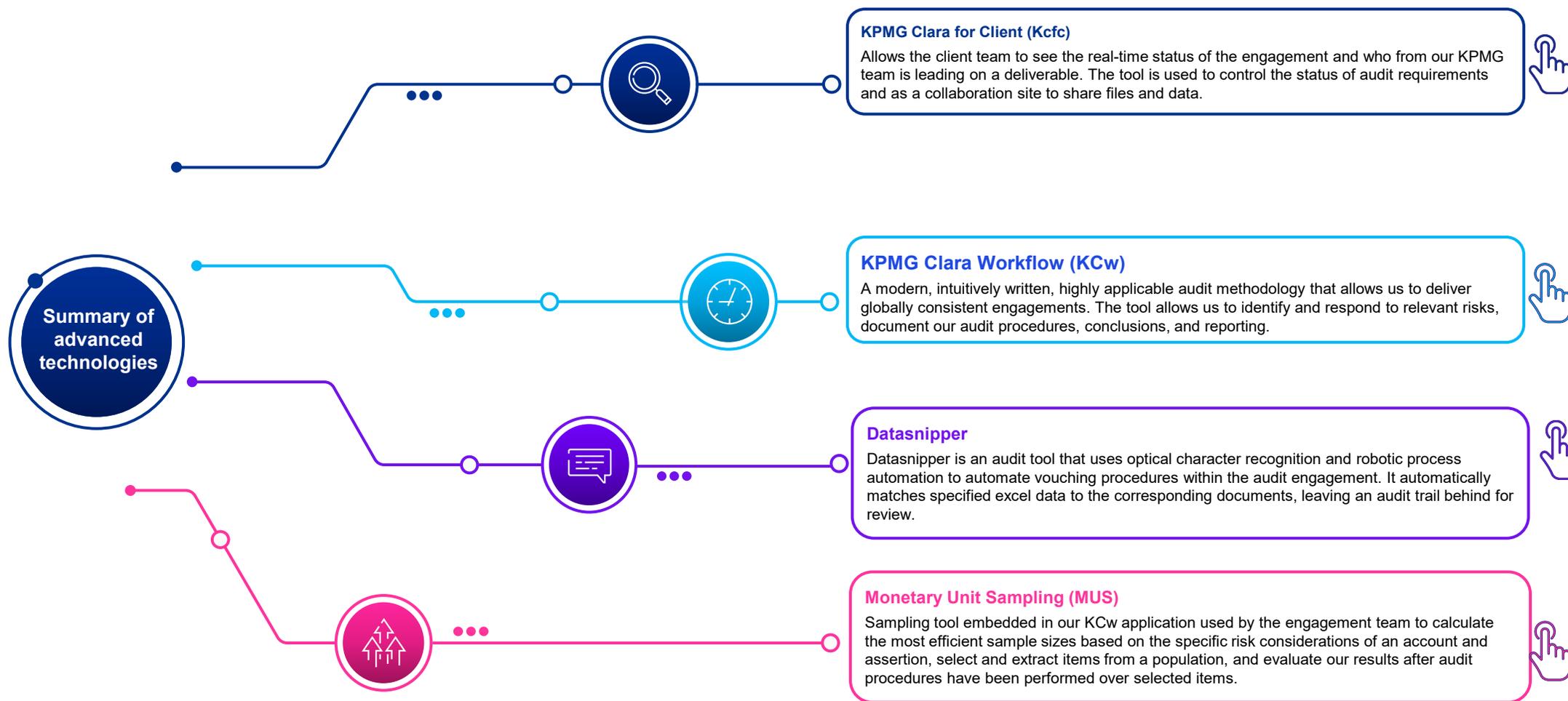
Control deficiencies

Significant deficiencies [↗](#)



Technology highlights

We have utilized technology to enhance the quality and effectiveness of the audit.





Status

As of the date of this presentation we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Final completion procedures
- Completing our discussions with you and obtaining evidence of Council's approval of the financial statements
- Obtaining the signed management representation letter from management following those discussions.

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

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



Significant risks and results

We highlight our significant findings in respect of **significant risk**.



Fraud risk arising from management override of control

RISK OF



FRAUD

Significant risk

Estimate?

Consistent with the audit plan presented to you, and all audits performed under Canadian Auditing Standards, the risk of fraud arising from management's ability to override controls is a presumption which cannot be rebutted. This risk is present by default in all audits due to management's access to the financial reporting process and ability to override controls that other financial reporting staff may not be able to due to this high level of access and their role in the control process.

No

Our response

- As disclosed in our audit plan, this is a presumed fraud risk present in all audits performed under Canadian Auditing Standards. This risk is non-rebuttable and must be addressed in each audit we perform.
- To address this risk and satisfy our professional requirements and standards, we have incorporated the following into our audit:
 - Retrospective review of material estimates which involve management's judgement or estimation
 - Testing of the entire population of journal entries, and specific item testing over those which are deemed to fit certain higher-risk criteria based on the Township's profile
- Based on the results of our audit, we have no instances of management override of controls to bring to your attention.



Significant risks and results

We highlight our significant findings in respect of **significant risk**.



Presumption of risk of fraud involving improper revenue recognition

RISK OF



FRAUD

Significant risk

Estimate?

Under Canadian Auditing Standards (CAS) there are presumed fraud risks for revenue recognition. This is a presumed risk of material misstatement due to fraud.

No

We have not identified any risk of material misstatement resulting from fraudulent revenue recognition.

Relevant inherent risk factors affecting our risk assessment

- Fraud risk arising from improper revenue recognition is a presumed risk that must be considered in the planning and risk assessment phase of all audits performed under our professional standards in Canada. Due to the nature of the Township and the fact that a significant portion of its revenue relates to the annual tax levy, we have not identified any specific risks beyond those which are presumed.
- We have performed audit procedures over primary revenue streams, vouching to third party documentation for sources originating from developers or other third parties, and vouching material third party grant revenues to the underlying agreements or supporting evidence of the arrangement.

Our response

To address the fraud risk from revenue recognition, our audit approach will consist of the following:

- test of journal entries and other adjustments;
- substantively test revenues (both recognized and amounts held as deferred at year end); and
- recalculate management's determination of deferred revenue –obligatory reserve funds through auditing management's methodology
- Based on the results of procedures performed, we have no significant issues or reportable findings to bring to your attention.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Government grants and development charges, including related deferrals

Other risk of material misstatement

Estimate?

Risk of material misstatement related to the completeness, existence and accuracy of grant and development charge revenue.

No

Our response

- We performed substantive testing over the recognition of all significant government transfers and other similar inflows received from third parties.
- We obtained the grant revenue listing and the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to.
- Additionally, we also performed procedures over grant related expenses to validate whether expenses applicable to the selected grants were incurred in the period and that funding related to grants was received in the period.
- We noted no misstatements based on our work performed.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Operating Expenditures, including Payroll

Other risk of material misstatement

Estimate?

Risk of material misstatement related to the completeness, existence and accuracy of expenditures.

Yes

Our response

- We performed substantive sampling of operating expenditures, vouching to third party supporting documentation.
- A search for unrecorded liabilities was performed to ensure all 2023 expenses and accruals have been properly recorded.
- Additionally, we performed substantive procedures over payroll expenses and payroll accruals.

- We noted no misstatements based on our work performed.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Tangible capital assets

Other risk of material misstatement

Estimate?

Risk of material misstatement related to the completeness, existence and accuracy of tangible capital assets and related amortization expense.
Potential risk with respect to valuation of certain assets should indicators of impairment be present.

Yes

Our response

- Consistent with our audit plan, and as expected for any municipality or equivalent government entity, tangible capital assets are a material balance within the statement of financial position and requires audit focus.
- Our audit approach involved the following substantive procedures:
 - Recalculation and trend analysis of annual amortization expenses.
 - Roll forward of the tangible capital asset continuity schedule, including tie-out to the general ledger and financial statements
 - Substantive sampling of material additions to tangible capital assets, vouching to third party supporting documentation
 - Substantive sampling of changes to work-in-progress assets, vouching to evidence of costs incurred to date
 - Assessment of management's evaluation of indicators of impairment
- We noted no misstatements based on our work performed.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Employee Future Benefit Obligation

Other risk of material misstatement

Estimate?

Post employment liabilities involves the use of an actuary, assumptions and calculations which is an area that we perform procedures on.

Yes

Our response

- We obtained valuation reports to gain an understanding of assumptions and data used by management's expert
- We tested assumptions to ensure that assumptions used were appropriate
- We reviewed financial statement disclosures to ensure disclosures are adequate.

- We noted no misstatements based on our work performed.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Investment in Peninsula West Power Inc. (PWPI) and Portfolio Investments

Other risk of material misstatement

Estimate?

Investment in PWPI is significant given the size of and nature of the investment held.

No

There is a risk of material misstatements related to the classification, completeness and accuracy of portfolio investments.

Our response

- We obtained the Investment in Subsidiary worksheet and reconciled the amounts recorded to the PWPI audited financial statements for the year ended December 31, 2023.
- For portfolio investments, we obtained third party external confirmation over recorded investments from the applicable financial institutions.
- Additionally for portfolio investments, we performed substantive analytical procedures over investment income.
- We noted no misstatements based on our work performed.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Asset Retirement Obligations

Other risk of material misstatement

Estimate?

As this is a new standard, there is risk of error on its implementation in the initial year. Based on the method of adoption chosen by the Township, there may be additional risk with respect to required financial statement presentation and disclosure..

Yes

Our response

- We performed substantive testing to ensure that a list of fixed assets used for the estimate is complete.
 - We inquired of management to gain an understanding of process to ensure alignment with objectives and requirements of new standard.
 - We performed benchmarking and analysis of key inputs and audited the mathematical integrity of any material calculations.
 - We reviewed financial statements presentation and disclosure of the new standard.
- We noted no misstatements based on our work performed. The adoption of new standard had no impact on the Township.



Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.



Impact of uncorrected misstatements – Not material to the financial statements

- No uncorrected misstatements noted as part of audit



Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.



Impact of corrected misstatements

- No corrected misstatements noted as part of audit process



Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.



Accounting policies and practices



Initial selection

The following new significant accounting policies and practices were selected and applied during the period.

- Asset Retirement obligations – PS 3280
- Financial Instruments – PS 3450



Revised

Other than initial selection items note above, no revised accounting policies noted



Significant qualitative aspects

No significant qualitative aspects noted.



Other financial reporting matters

We also highlight the following:



Financial statement presentation - form, arrangement, and content



With respect to the audit of the Library Board, we used materiality of \$22,000 to complete the audit for the year ended December 31, 2023. There were no matters to report related to the audit of this component.

With respect to the audit of the Trust Funds, we used materiality of \$485 to complete the audit for the year ended December 31, 2023. There were no matters to report related to the audit of this component.



Concerns regarding application of new accounting pronouncements



As mentioned on slide 18, the change to PSAS 3280 and PSAS 3450 are effective for the Township's fiscal year-ending December 31, 2023.



Significant qualitative aspects of financial statement presentation and disclosure



No matters to report.



Specific topics

We have highlighted the following that we would like to bring to your attention:

Matter	Finding
Illegal acts, including noncompliance with laws and regulations, or fraud	No matters to report
Related parties	No matters to report



Independence

As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet or exceed those of the IESBA Code¹ and CPA Code. The following are the actions or safeguards applied to reduce or eliminate threats to an acceptable level:



Dedicated ethics & independence partners



Process for reporting breaches of professional standards and policy, and documented disciplinary policy



Ethics, independence and integrity training for all staff



International proprietary system used to evaluate and document threats to independence and those arising from conflicts of interest



Operating policies, procedures and guidance contained in our quality & risk management manual



Mandated procedures for evaluating independence of prospective audit clients



Restricted investments and relationships



Annual ethics and independence confirmation for staff

Statement of compliance

We confirm that, as of the date of this communication, **we are independent** of the Township in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

¹International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)

Appendices

A

Required communications

B

Audit quality

C

New auditing standards

D

Insights

E

Environmental, social and governance (ESG)

F

Technology





Appendix: Draft auditor's report

Audit report has been provided as part of draft financial statements.



Appendix: Other required communications



Engagement terms

A copy of the engagement letter and any subsequent is available to Council.



CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2023 Interim Inspections Results](#)



Appendix: Management representation letter(s)

Management representation letter has been provided directly to management.



Appendix: Audit quality - How do we deliver audit quality?

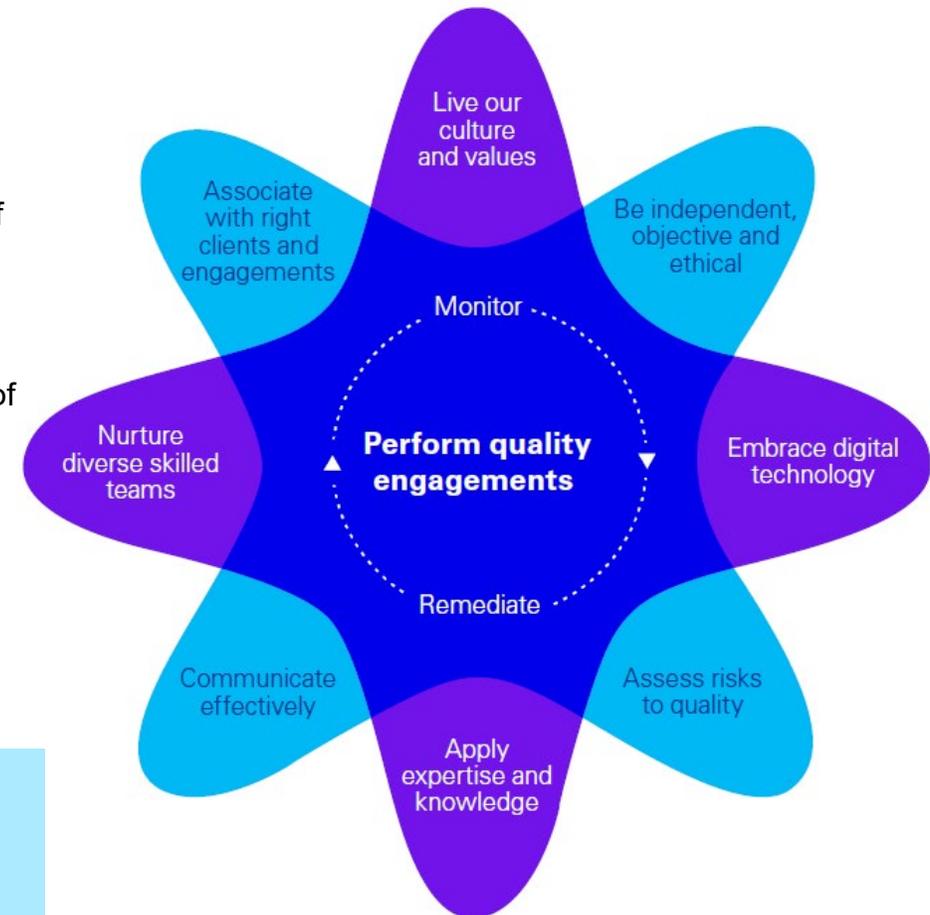
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

[▶ KPMG 2023 Audit Quality and Transparency Report](#)

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 management**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.



Doing the right thing. Always.



Appendix: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards – see Current Developments



Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

.....
(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

.....
Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

.....
Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

.....
Revised special considerations – Audits of group financial statements



Appendix: Audit and assurance insights

Our latest thinking on the issues that matter most to Councils, audit committees, board of directors and management.

Increasingly, many organizations are seeking out support on fraud prevention, lean process reviews, AI and ESG materiality assessments and discovery sessions.

[KPMG Audit & Assurance Insights](#)

Curated research and insights for audit committees and boards.

[Accelerate 2023](#)

The key issues driving the audit committee agenda in 2023.

[Board Leadership Centre](#)

Leading insights to help board members maximize boardroom opportunities

[Momentum](#)

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

[Current Developments](#)

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

[KPMG Climate Change Financial Reporting Resource Centre](#)

Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

[Audit Committee Guide – Canadian Edition](#)

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

[IFRS Breaking News](#)

A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.



Appendix: ESG - Global regulatory reporting standards

	ISSB ¹ and CSSB	Canadian regulators (CSA)	US (SEC ^{2,3} and California ⁴)	EU ^{5,6}
Recent Activity	<ul style="list-style-type: none"> On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard). The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief. In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard). The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption. 	<ul style="list-style-type: none"> In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2. In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 <i>Disclosure of Climate-related Matters</i>. Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year. 	<ul style="list-style-type: none"> The SEC's final climate rule was issued on March 6, 2024. The final rule will generally apply to all SEC registrants; <i>including</i> foreign private issuers (Form 20-F filers); <i>excluding</i> Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers. The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers. The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024. On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill. 	<ul style="list-style-type: none"> The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD). On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts The ESRSs will become effective as early as 2024 reporting periods for some companies. There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our [ISSB Resource Centre](#) for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our [Defining Issues](#) publication for more information on the SEC's final climate rule
3. Refer to our [Defining Issues](#) publication for more information on the SEC's cybersecurity rules
4. Refer to our [publication](#) on California's introduction of climate disclosures and assurance requirements
5. Refer to our [ESRS Resource Centre](#) for resources on implementing the ESRSs
6. Refer to our [publication](#) on the impact of EU ESG reporting on non-EU companies



Appendix: Continuous evolution

Our investment: \$5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.





<https://kpmg.com/ca/en/home.html>

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