



# The Corporation of the Municipality of Huron Shores

**Audit Findings Report  
For the year ended December 31, 2016**

*KPMG LLP*

Prepared May 4, 2017 for meeting on May 10, 2017

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



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# Table of Contents

<b>Executive summary</b>	<b>3</b>
<b>Critical accounting estimates</b>	<b>5</b>
<b>Financial statement presentation and disclosure</b>	<b>8</b>
<b>Audit adjustments and differences</b>	<b>9</b>
<b>Control observations</b>	<b>10</b>
<b>Appendices</b>	<b>11</b>

# Executive summary

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of council, in your review of the results of our audit of the financial statements of The Corporation of the Municipality of Huron Shores (“Huron Shores”) and The Corporation of the Municipality of Huron Shores Trust Funds (“Trust”) as at and for the year ended December 31, 2016.

## Your operating environment and audit risks

As part of our audit we assess specific audit risks in relation to your organization.

- Collection of property taxes
- Landfill liability

See page 5

## Materiality and audit adjustments and differences

The planned scope of the audit included materiality for the entities as noted below: Any audit misstatements that were identified greater than the reporting threshold will be communicated to council.

Company	Materiality	Reporting Threshold
Huron Shores	\$ 127,000	\$ 6,300
Trust	1,490	74

We did not identify differences that remain uncorrected.

KPMG has assisted management in the preparation of year-end adjustments and the agreed upon entries have been recorded.

This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings 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.

# Executive summary (continued)

## Finalizing the audit

As of May 10, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- obtaining the signed management representation letter
- completing our discussions with council;
- obtaining evidence of the Council's approval of the financial statements.

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any significant control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates. Page 5 of this report further discusses accounting estimates as it applies to the Organization.

## Independence

We have included a discussion of our independence relevant to the rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation

See Appendix 3 and 4.

## 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.

See page 7.

# Audit risks and results

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional risks identified..

Significant financial reporting risks	Why	KPMG comment
Taxes receivable valuation	Collection of taxes receivable may not materialize	<p>There is one significant account which continues to be in arrears, net of education taxes, with total balance of \$753,355 (2015 - \$687,133). A valuation allowance has been set up for the full amount.</p> <p>No change has occurred during the year in regards to the collection of these taxes.</p>
Landfill liability	The realization of actual costs for landfill liability may be different than estimated and changes in assumptions can have a significant impact	<p>The Municipality engaged AECOM in 2014 to prepare an assessment on the landfill liability, updating previous cost assumptions. The study has been utilized to roll forward the estimated liability for 2016, resulting in an increase of \$10,005.</p> <p>This is a non-cash adjustment and does not impact your operating surplus.</p>

# Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Entity's related parties, significant difficulties encountered during the audit, and disagreements with management.

## Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
None	

# Critical accounting estimates

Management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas.

Asset / liability	Balance	KPMG comment
Landfill Liability	\$669,381	The Municipality has established a liability for the estimated closure costs on four landfill sites. These costs are estimated using studies performed by a third party. Changes in key assumptions, such as discount rate or closure activities, could have a significant impact on the estimated liability
Taxes receivable (allowance)	\$753,355	The Municipality has established a contingency reserve for tax appeals and other items in the amount of \$753,355. Changes in collections in future periods could have a significant impact on the estimated allowance.

We believe management’s process for identifying critical accounting estimates is considered adequate.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

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**Form, arrangement, and content of the financial statements**

The presentation and disclosure is consistent with accounting guidelines and disclosure requirements.

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# Audit adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

## Corrected adjustments

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

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal control over financial reporting.

## Significant deficiencies

We did not identify any significant control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting (ICFR).

## Other control deficiencies

We did not identify any other control deficiencies that we determined to be deficiencies in ICFR.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Management Representation Letter**

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**Appendix 3: Independence**

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**Appendix 4: Independence Letter**

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**Appendix 5: Audit Quality and Risk Management**

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**Appendix 6: Background and professional standards**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors’ report** – the conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached in Appendix 2.

# Appendix 2: Management representation letter

KPMG LLP  
Chartered Professional Accountants  
111 Elgin Street  
Sault Ste. Marie, Ontario P6A 6L6  
Canada

May 10, 2017

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 consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the Municipality of Huron Shores ("the Entity") as at and for the period ended December 31, 2016.

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 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:

## GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 29, 2013, 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 relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of town council and committees of the town council that may affect the financial statements, and access to such relevant information
- c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

## 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 management is 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 and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, 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 and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

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

Yours very truly,

THE CORPORATION OF THE MUNICIPALITY OF HURON SHORES

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By: Mrs. Sandra Leach

**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 Canadian Public Sector Accounting Standards a *related party* is defined as:

- A related party exists 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. 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: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services, and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

# Appendix 4: Independence Letter

May 24, 2017

Ladies and Gentlemen

We have been asked to communicate to you in writing all relationships between The Corporation of the Municipality of Huron Shores and our firm that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - 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
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.

- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.
- We obtained management’s acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

## **OTHER RELATIONSHIPS**

We are not aware of any other relationships between our firm and The Corporation of the Municipality of Huron Shores that may reasonably be thought to bear on our independence from January 1, 2016 up to the date of our auditors’ report.

## **CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to The Corporation of the Municipality of Huron Shores within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2016 up to the date of our auditors’ report.

## **OTHER MATTERS**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Appendix 5: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm’s standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 6: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation 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 internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

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