TOWN OF ERIN

AUDIT FINAL REPORT TO THE MEMBERS OF COUNCIL

November 2, 2021
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SUMMARY

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Members of Council in fulfilling its responsibilities. This report has been prepared solely for the use of the Members of Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

Status of the Audit

As of the date of this report, we have substantially completed our audit of the 2020 consolidated financial statements, pending completion of the following items:

- Approval of the consolidated financial statements by Council
- Receipt of signed management representation letter
- Subsequent events review through to consolidated financial statement approval date

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement. See Appendix A for our draft independent auditor’s report.

Except as described in this report, the scope of the work performed was substantially the same as that described in our Planning Report to the Members of Council dated June 7, 2021.

Materiality

As communicated to you in our Planning Report to the Members of Council, preliminary materiality was $300,000. Final materiality remained unchanged from our preliminary assessment.

Audit Findings

Our audit strategy and procedures focused on the risks specific to your organization and key accounts as outlined in our Planning Report to the Members of Council. Significant risks of material misstatement identified during our planning included the following items:

- Management override of controls
- Revenue recognition of grant revenue

There were no changes to our planned procedures and no issues were identified in our testing performed. No additional risks were identified during the audit.

Audit findings are discussed in more detail on Page 4 and 5.

Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified. The specifics of this communication are included on Page 6.
Management Representations

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the consolidated financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management. A summary of the representation we have requested from management is set out in the representation letter included in Appendix C to the report.

Adjusted and Unadjusted Differences

All significant unadjusted differences and disclosure omissions identified through the course of our audit engagement are required to be disclosed and discussed with Management. We did not identify any disclosure omissions identified throughout our audit.

Management has determined that the unadjusted differences are immaterial both individually and in aggregate to the consolidated financial statements taken as a whole. Should the Members of Council agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of unadjusted differences has been presented in Appendix B.

Independence

Our annual letter confirming our independence was previously provided to you. We know of no circumstances that would cause us to amend the previously provided letter.

Fraud Discussion

Through our planning process, and current and prior years’ audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the Town.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the Town since our discussions held at planning, we request that you provide us with this information.

Please refer to the Auditor’s Responsibilities for Detecting Fraud in the Planning Report to the Members of Council.
AUDIT FINDINGS

Our audit strategy and procedures focused on the risks specific to your Municipality and key accounts as outlined in our Planning Report to the Members of Council. There were no changes to our planning procedures and no issues were identified in our testing performed. No additional risks were identified during the audit. The significant risks of material misstatement and areas of focus identified included the following items:

<table>
<thead>
<tr>
<th>SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT</th>
<th>AUDIT FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management override of controls</td>
<td>To address this risk, we developed criteria for unusual journal entries, determined the population of unusual journal entries and obtained corroborating evidence of these journal entries from management as to why the journal entries were made. No inappropriate journal entries were noted.</td>
</tr>
<tr>
<td>Revenue recognition of grant revenue</td>
<td>To address this risk, we reconciled significant government transfers to their various government funding agreements and letters, reviewed funding agreements for deferred grants and reviewed minutes to ensure grant revenue listed was completed. No issues were noted in regards to grant revenue during our testing.</td>
</tr>
</tbody>
</table>

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Municipality’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

Management is responsible for determining the Municipality’s significant accounting policies. Significant accounting policies have been disclosed in the financial statements. The choice between accounting policy alternatives can have a significant effect on the financial position and results of the Municipality. The application of these policies often involves significant estimates and judgments by management. Based on the audit work that we have performed, it is our opinion that the estimates are in accordance with the requirements of Canadian public sector accounting policies and have been consistently applied.

A summary of the significant financial statement disclosures, estimates and judgments are as follows:
## SIGNIFICANT FINANCIAL STATEMENT DISCLOSURES

<table>
<thead>
<tr>
<th>SIGNIFICANT FINANCIAL STATEMENT DISCLOSURES</th>
<th>AUDIT FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Surplus</td>
<td>A breakdown of the Town’s accumulated surplus is included in Note 8. This includes the amount invested in capital assets, unfunded liabilities, reserves and reserve funds and also the general surplus (deficit) which is required to be carried forward to the next year’s budget.</td>
</tr>
<tr>
<td>Commitments</td>
<td>Significant capital commitments for capital projects as disclosed in Note 16.</td>
</tr>
<tr>
<td>Contingencies/Litigation Proceedings</td>
<td>We have discussed with management and they have indicated there are no outstanding claims against the Town.</td>
</tr>
</tbody>
</table>

## SIGNIFICANT ESTIMATES AND JUDGMENTS

<table>
<thead>
<tr>
<th>SIGNIFICANT ESTIMATES AND JUDGMENTS</th>
<th>AUDIT FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-Employment Benefits</td>
<td>The Town provides post-employment health and life insurance benefits to eligible retired employees. The benefits earned by employees are determined using management’s best estimate of expected benefit costs and are expensed as services are rendered. In order to help estimate the liability for post-employment benefits, the Town engaged the services of an actuary.</td>
</tr>
<tr>
<td>Taxation Revenue</td>
<td>In accordance with PS 3510, amounts have been estimated for taxable events that have occurred but have not yet been assessed. The estimated was based on trend analysis by year for supplemental taxation billings and write-offs for the last 3 years; and knowledge of potential reassessments.</td>
</tr>
<tr>
<td>Liability for Contaminated Sites</td>
<td>Management compiled a list of all properties owned by the Town or where the Town has accepted responsibility for the property and assessed whether each property was contaminated. Management is not aware of any contaminated sites that are not in current use by the municipality; therefore no liability is accrued.</td>
</tr>
</tbody>
</table>
INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the Municipality’s internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks with management.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as 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.

During the planning of our audit, it was noted that a timesheet had not been signed by their supervisor. This is an internal control deficiency. We recommend that all timesheets are approved and signed by the relevant supervisor to ensure that payroll is accurate.

We did not find any other deficiencies in the design and implementation of the internal controls that were tested during the audit.

As the purpose of the audit is for us to express an opinion on the Municipality’s consolidated financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the consolidated financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.
APPENDIX A: INDEPENDENT AUDITOR’S REPORT
Independent Auditor’s Report

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the Town of Erin

Opinion

We have audited the consolidated financial statements of the Corporation of the Town of Erin (the municipality), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the municipality as at December 31, 2020, and its consolidated results of its operations, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the municipality in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the municipality’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the municipality’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the municipality to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the municipality to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

Orangeville, Ontario
November 2, 2021
### APPENDIX B: UNADJUSTED DIFFERENCES

#### SUMMARY OF UNADJUSTED DIFFERENCES

The following is a summary of uncorrected misstatements noted during the course of our audit engagement:

<table>
<thead>
<tr>
<th></th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
</tr>
<tr>
<td>Debit balances identified in accounts payable listings</td>
<td>$ 49,486</td>
</tr>
<tr>
<td>Differences identified in accounts receivable listings</td>
<td>48,579</td>
</tr>
<tr>
<td>Supplementary taxes and write off accrual</td>
<td>26,055</td>
</tr>
<tr>
<td>Opening difference in sundry accounts receivable listing</td>
<td>$(29,717)</td>
</tr>
<tr>
<td>Due from County and Due from Board accounts</td>
<td>$(24,375)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>70,028</td>
</tr>
<tr>
<td><strong>Effect of Prior Year’s Reversing Errors</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Unadjusted Differences</strong></td>
<td>$ 70,028</td>
</tr>
</tbody>
</table>
APPENDIX C: REPRESENTATION LETTER

Town of Erin
5684 Trafalgar Road
Hillsburgh, Ontario
N0B 1Z0

November 2, 2021
BDO Canada LLP
Chartered Professional Accountants
163 First Street
Orangeville, Ontario
L9W 3J8

This representation letter is provided in connection with your audit of the financial statements of Town of Erin for the year ended December 31, 2020, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards.

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:

Financial Statements
We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated January 17, 2020, for the preparation of the financial statements in accordance with Canadian public sector accounting standards; in particular, the financial statements are fairly presented in accordance therewith.

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.
- All events subsequent to the date of the financial statements and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed.
- The financial statements of the entity use appropriate accounting policies that have been properly disclosed and consistently applied.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- We have reviewed and approved all journal entries recommended by the practitioners during the audit. A list of the journal entries is attached to the representation letter.

Information Provided
- We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
• We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.

• All transactions have been recorded in the accounting records and are reflected in the financial statements.

• We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

• We have disclosed to you the identity of the entity’s related parties and all the related party relationships and transactions of which we are aware.

**Fraud and Error**

• We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

• We have disclosed to you 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.

• We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators, or others.

**General Representations**

• Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.

• We have provided you with significant assumptions that in our opinion are reasonable and appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity when relevant to the use of fair value measurements or disclosures in the financial statements.

• We confirm that there are no derivatives or off-balance sheet financial instruments held at year end that have not been properly recorded or disclosed in the financial statements.

• Except as disclosed in the financial statements, there have been no changes to title, control over assets, liens or assets pledged as security for liabilities or collateral.

• There have been no plans or intentions that may materially affect the recognition, measurement, presentation or disclosure of assets and liabilities (actual and contingent).

• The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.

• There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially
affect the financial statements or financial position of the entity, except as disclosed in the financial statements.

**Other Representations Where the Situation Exists**

- We have informed you of all known actual or possible litigation and claims, whether or not they have been discussed with legal counsel. When applicable, these litigation and claims have been accounted for and disclosed in the financial statements.

- To the extent that our normal procedures and controls related to our financial statement close process at any of our locations were adversely impacted by the COVID-19 outbreak, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with Canadian public sector accounting standards.

- Other than as disclosed in the notes to the financial statements, no other impacts from the COVID-19 outbreak are necessary to be reflected in the financial statements.

- Disclosures included in the financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 outbreak accurately reflect management’s full consideration of such impacts.

Yours truly,

Signature  
Position

Signature  
Position