

The Corporation of the County of Middlesex

Audit Findings Report
for the year ended
December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared June 27, 2022 for
presentation on July 19, 2022

kpmg.ca/audit



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KPMG contacts

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Our refreshed Values

What we believe





Audit Quality: How do we deliver audit quality?

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

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

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

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

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



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

Doing the right thing. Always.

Audit highlights

Purpose of this report¹

The purpose of this report is to assist you, as a member of County Council, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2021. This report builds on the Audit Plan we presented to Council.

Status of the audit

As of June 27, 2022 we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of the signed management representation letter
- Completing our discussions with County Council
- Obtaining evidence of the Council's approval of the financial statements.

We will update County Council, and not solely the Warden, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided in Appendix 2: Draft Auditors' Report, will be dated upon the completion of any remaining procedures.

Significant changes from the audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Going concern

No matters to report.

Significant risks and other significant matters

Refer to pages 6 to 8 for our response and significant findings for the following significant risks and other significant matters:

- Risk of material misstatement due to fraud from fraudulent revenue recognition
- Risk of material misstatement due to fraud resulting from management override of controls
- Accounts receivables, deferred revenue, and revenues
- Accounts payable and expenses
- Payroll and employee future benefit

Uncorrected audit misstatements

No matters to report.

Control deficiencies

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

¹ This report to the audit committee is intended solely for the information and use of Management and County 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.

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.

Independence

We confirm that we are independent of the Corporation of the County of Middlesex and related entities in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

Audit risks and results

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

Significant risk	New or changed?	Estimate?
Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	No	No
Risk of material misstatement due to fraud resulting from management override of controls.	No	No

Our response

Risk of material misstatement due to fraud resulting from fraudulent revenue recognition

- We have rebutted this fraud risk as it is not applicable to the County where performance is not measured based on earnings and a significant portion of revenues can be tied directly to government funding support.

Risk of material misstatement due to fraud resulting from management override of controls.

- As this risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluation of business rationale pertaining to significant unusual transactions.

Significant findings

- No significant issues were noted.

Audit risks and results

We highlight our significant findings in respect of **other areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Other area of focus	New or changed?	Estimate?
Accounts that comprise significant balances for the County. <ul style="list-style-type: none"> – Accounts receivable, deferred revenue, and revenues – Accounts payable and expenses – Tangible capital assets 	No	Yes (Payroll related payables and EFB)

Our response

Accounts receivable, deferred revenue, and revenues

- Total revenues, excluding the loss/gain on disposal of tangible capital assets, were \$128.1 million for fiscal 2021 (2020 – \$118.7 million), with deferred revenues of \$11.1 million (2020 - \$6.8 million), current accounts receivable of \$9.2 million (2020 - \$8.0 million), and long-term account receivable of \$95K as at December 31, 2021 (2020 - \$95K).
- KPMG performed the procedures as indicated in our Audit Planning report.

Accounts payable and expenses

- Total expenditures were \$116.2 million for fiscal 2021 (2020 - \$105.7 million), with accounts payable and accrued liabilities as at December 31, 2021 of \$12.4 million (2020 - \$13.1 million).
- KPMG performed the procedures as indicated in our Audit Planning report.

Tangible capital assets

- Total tangible capital assets were \$154.4 million for fiscal 2021 (2020 - \$152.7 million), with amortization expense for the year ended December 31, 2021 of \$11.5 million (2020 - \$10.9 million).
- KPMG performed the procedures as indicated in our Audit Planning report.

Significant findings

- We did not identify any issues as a result of our testing.

Audit risks and results

We highlight our significant findings in respect of **other areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Other area of focus	New or changed?	Estimate?
Accounts that comprise significant balances for the County. <ul style="list-style-type: none">– Payroll and employee future benefits	No	Yes

Our response

- The County's employee future benefit plan consists of post-employment health, dental, and life insurance benefits. The calculations associated with employee future benefits requires management to rely on an expert to assist with making certain estimates including estimates of discount rate, inflation rate, rate of compensation increase, retirement age and expected health care and dental costs.
- The liability for these future benefits has been determined by a full actuarial valuation performed by Dixon Actuarial Services Inc. as at December 31, 2019 and projected to December 31, 2021. The liability for this was \$3.0 million at December 31, 2021 (2020 - \$2.7 million).
- Assumptions and methods used in the valuation performed by Dixon have been determined by management in accordance with the requirements of PSAB Section 3250 of the CICA Handbook. Management discussed the significant assumptions with Dixon and was provided guidance on the discount rate and other significant assumptions to be utilized as of the valuation date. Dixon recommended a discount rate of 2.9% which is based on the Ontario municipal bond yields as at December 31, 2021 (2020 – 2.9%). The methodology of determining discount rate remains consistent with prior year.
- KPMG performed the procedures as indicated in our Audit Planning report.

Significant findings

- We did not identify any issues as a result of our testing.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Corrected audit misstatements

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

Financial statement presentation and disclosure

Misstatements, including omissions, if any, related to presentation and disclosure items are in the management representation letter.

We also highlight the following:

Financial statement presentation - form, arrangement, and content

The financial statements are, in all material respects, in accordance with the applicable financial accounting framework. The disclosures in the note to the financial statements are appropriate.

Significant qualitative aspects of financial statement presentation and disclosure

There are no concerns at this time regarding future implementation of new and revised standards.

Appendices

Content

Appendix 1: Other required communications

Appendix 2: Draft auditors' report

Appendix 3: Management representation letter

Appendix 4: Technology in the audit

Appendix 5: Upcoming changes to auditing standards

Appendix 6: Audit and assurance insights



Appendix 1: Other required communications

Audit Quality in Canada

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 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Inspections Results](#)

Engagement terms

Engagement terms are outlined in our engagement letter, as provided in prior years. There have been no changes to the terms of our engagement in the current year.

Audit planning report

We have provided our audit planning report.

Representations of management

In accordance with professional standards, a copy of the management representation letter is provided to Council. The management representation letter is attached. *See Appendix 3.*

Audit report

The conclusion of our audit is set out in our draft auditors' report as attached. See Appendix 2.

Appendix 2: Draft auditors' report

INDEPENDENT AUDITORS' REPORT

To the Members of Council of The Corporation of the County of Middlesex

Opinion

We have audited the consolidated financial statements of the Corporation of the County of Middlesex (the Entity), which comprise:

- the consolidated statement of financial position as at end of December 31, 2021
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of December 31, 2021, and its consolidated results of operations, its consolidated remeasurement gains and losses, its consolidated changes in net debt and its 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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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

London, Canada

July 19, 2022

Appendix 3: Management representation letter

(Letterhead of Client)

KPMG LLP
1400-140 Fullarton Street
London, ON N6A 5P2

July 19, 2022

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 County of Middlesex (“the Entity”) as at and for the period ended December 31, 2021.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

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

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 20, 2017, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:
 - the names of all related parties and information regarding all relationships and transactions with related parties;
 - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.

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

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

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

Related parties:

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

Estimates:

- 8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

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

Non-SEC registrants or non-reporting issuers:

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

Yours very truly,

Bill Rayburn, Chief Administrative Officer

Cindy Howard, General Manager, Finance and Community Services

cc: County Council

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it 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 perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Fraud & error

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

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

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

Related parties

In accordance with Canadian accounting standards for private enterprises *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control, or significant influence over the other. Two or more parties are related when they are subject to common control, joint control, or common significant influence. Related parties also include management and immediate family members.

In accordance with Canadian accounting standards for private enterprises 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 4: Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Technology	Areas of the audit where Advance Technology routines were used	Insights
Journal Entry Analysis	<p>We utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts from January 1, 2021 to December 31, 2021.</p> <p>We further utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.</p>	<p>This allowed us to conclude over potential discrepancies in the completeness of the journal entry populations provided to us, and also enabled us to filter journal entries for certain higher risk criteria, thereby making our procedures to cover the risk of management overrides more targeted and effective.</p> <p>As a result of our testing, no material misstatement or issues were identified.</p>

Appendix 5: Upcoming changes to auditing standards

The following changes to auditing standards applicable to our 2022 audit are listed below.

Standard	Key observations
Revised CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i>	<p>Revised CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i> has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021.</p> <p>The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include:</p> <ul style="list-style-type: none">— Enhanced requirements relating to exercising professional skepticism— Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls— Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls— Introduction of scalability— Incorporation of considerations for using automated tools and techniques— New and revised concepts and definitions related to identification and assessment of risk— Strengthened documentation requirements <p>CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.</p>

Appendix 6: Audit and assurance insights

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

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



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

