

**Municipality of Chatham-Kent
AUDIT & RISK COMMITTEE MEETING
Wednesday, July 27, 2022 @ 11:30 AM
M I N U T E S**

Committee Members:

- Mayor Darrin Canniff
- Councillor Melissa Harrigan
- Councillor Karen Kirkwood-Whyte
- Councillor Brock McGregor (absent)
- Councillor Doug Sulman, Chair

Administration:

- Tony Haddad, Interim Chief Administrative Officer
- Gord Quinton, Chief Financial Officer
- Cathy Hoffman, General Manager, Corporate Services
- Dave Taylor, Director, Legal Services
- Matt Torrance, Director, Financial Services
- Brock Priddle, Manager, Corporate Accounting
- Kate Fishleigh, Executive Assistant

Other

- Dale Zorgdrager, Deloitte
- Anthony Dellavedova, Deloitte

1. Call to Order – Chair

The Chair called the meeting to order at 11:34 AM.

2. Approval of Minutes - Chair

MOTION: *That the minutes of the April 25 meeting be approved.*

Moved by Cl. Kirkwood-Whyte / Seconded by Cl. Harrigan. Carried.

3. Presentation of the 2021 Audited Financial Statements - Deloitte

The presentation of the 2021 Audited Financial Statements have been deferred to a future Audit & Risk Committee meeting.

4. Employee Fraud (standing item) – Matt Torrance

The Director, Financial Services confirmed with the Chief Human Resources Officer that there were no cases of employee fraud to report to the committee.

5. Payments to Council-Owned Vendors – Matt Torrance

Payments to Glassroots Media, owned by Cl. Hall's spouse, totaled \$3,101. Payments to John and Kori Wright, owned by Cl. Wright, totaled \$4,607. A formal report will be brought to Council in early 2023 with the full 2022 annual reporting.

6. Next Meeting

The next meeting will be delayed. The exact date is to be determined.

7. Adjournment to Closed Session

MOTION: *That the Audit & Risk Committee move into a Closed Session Meeting pursuant to Section 239 of the Municipal Act, 2001, as amended, for the following reasons:*

- *Personal matters about an identifiable individual, including municipal or local board employees and advice that is subject to solicitor-client privilege, including communications necessary for that purpose in regard to **Allegations regarding Police Services**. Section 239 (2)(b) & (f), Municipal Act, 2001*

Moved by Mayor Canniff / Seconded by Cl. Harrigan. Carried.

8. Adjournment of Closed Session

MOTION: *That the meeting adjourn at 1:26 PM.*

Moved by Cl. Kirkwood-Whyte / Seconded by Mayor Canniff. Carried.

Municipality of Chatham-Kent
AUDIT & RISK COMMITTEE MEETING
Monday, September 19, 2022 @ 11:30 AM
MINUTES

Committee Members:

- Mayor Darrin Canniff (joined at 12:05 PM)
- Councillor Melissa Harrigan
- Councillor Karen Kirkwood-Whyte
- Councillor Brock McGregor
- Councillor Doug Sulman, Chair (joined at 11:58 AM)

Administration:

- Michael Duben, Chief Administrative Officer
- Gord Quinton, Chief Financial Officer
- Cathy Hoffman, General Manager, Corporate Services
- Dave Taylor, Director, Legal Services
- Matt Torrance, Director, Financial Services
- Brock Priddle, Manager, Corporate Accounting
- Kate Fishleigh, Executive Assistant

Other

- Dale Zorgdrager, Deloitte

1. Call to Order – Chair

Cl. Harrigan assumed the role of Chair and called the meeting to order at 11:37 AM.

2. Approval of Minutes - Chair

No errors or omissions were reported.

MOTION: *That the minutes of the July 27 meeting be approved.*

Moved by Cl. McGregor / Seconded by Cl. Kirkwood-Whyte. Carried.

3. Recess to Closed Session

MOTION: *That the Audit & Risk Committee move into a Closed Session Meeting pursuant to Section 239 of the Municipal Act, 2001, as amended, for the following reason:*

- *Personal matters about an identifiable individual, including municipal or local board employees and advice that is subject to solicitor-client privilege, including communications necessary for that purpose in regard to **Allegations regarding Police Services**. Section 239 (2)(b) & (f), Municipal Act, 2001*

Moved by Cl. Kirkwood-Whyte / Seconded by Cl. McGregor. Carried.

4. Adjournment of Closed Session

MOTION: *That the Audit & Risk Committee adjourn the Closed Session meeting of September 19, 2022.*

Moved by Cl. Sulman / Seconded by Cl. Kirkwood-Whyte. Carried.

5. Resumption of Open Session

MOTION: *That the Audit & Risk Committee resume open session.*

Moved by Mayor Canniff / Seconded by Kirkwood-Whyte. Carried.

MOTION: *That the Audit & Risk Committee received information from administration and external auditors in closed session concerning allegations of fraud at the Police Service raised by a local*

citizen. Upon hearing a summary of the allegations, and information pertaining to those allegations, the Committee is satisfied that there were no cases of fraud identified. The Committee finds that final decisions about employment contracts and vehicle use are properly a decision of the Police Board and that some aspects of personnel matters are confidential. The Committee directs Administration to bring forward a report to Council with background information about oversight of Local Boards under the Municipal Act, 2001, and any recommendations regarding application of policies, and any recommended changes to policies or processes.

Moved by Cl. Kirkwood-Whyte / Seconded by Cl. McGregor. Carried.

Cathy logged off the call at 12:36 PM.

6. Presentation of the 2021 Audited Financial Statements – Deloitte

The Audit Report and Draft Financial Statements were circulated to the Committee in advance.

The executive summary identifies uncorrected misstatements in revenue recognition related to contributed assets from developers (e.g. roads, etc.), which impacted the timing of the report. Prior period adjustments were made as detailed in Note 20 of the financial statements. The process has been addressed and rectified by administration moving forward.

As is expected, the report identifies a few outstanding items with reference to completion procedures and receipt of the assigned management representation letter. Once these items are complete, the final report will be issued should Council approve the statements on September 26.

The Chief Financial Officer expressed appreciation to the Financial Services team for their work on the financial statements. Recommendations will be brought to the 2023 budget to better streamline the process, and the team will work with EMT to ensure deadlines are met throughout the organization.

MOTION: *That the 2021 Audited Financial Statements be received.*

Moved by Cl. Sulman / Seconded by Mayor Canniff. Carried.

7. Employee Fraud (standing item) – Matt Torrance

The Director, Financial Services confirmed with the Chief Human Resources Officer that there were no cases of employee fraud to report to the committee.

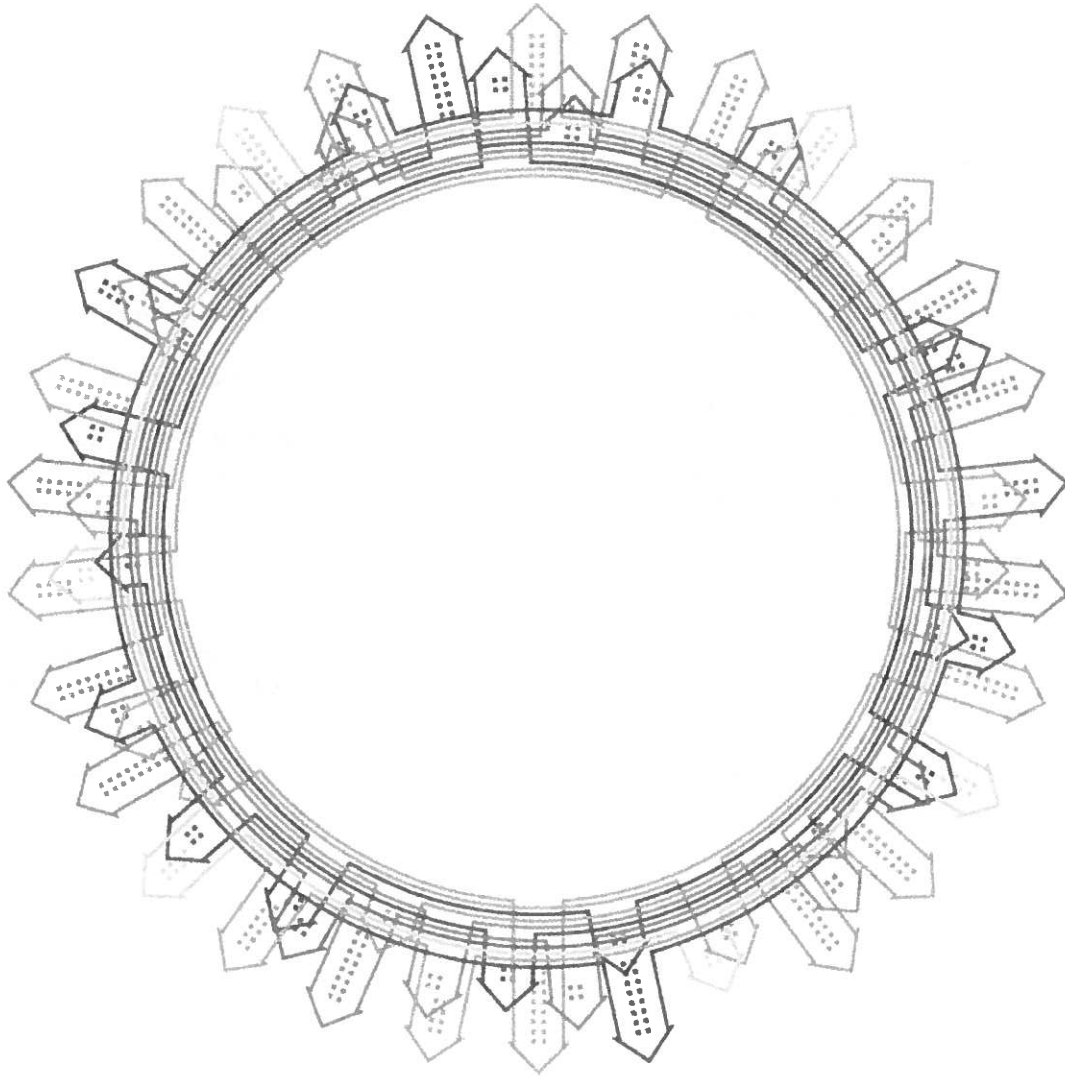
8. Next Meeting

The next meeting will take place September 26, 2022 at 3:45 PM to approve the minutes of this meeting.

9. Adjournment

MOTION: *That the meeting adjourn at 12:53 PM.*

Moved by Cl. McGregor / Seconded by Kirkwood-Whyte. Carried.



Municipality of Chatham-Kent Report to The Audit and Risk Committee on the 2021 audit

September 19, 2022

September 19, 2022

To the Audit and Risk Committee of Municipality of Chatham-Kent

Report on audited annual financial statements

Dear Audit and Risk Committee Members:

We are pleased to submit this report on the status of our audit of Municipality of Chatham-Kent ("the Municipality") for the 2021 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you. We are continuing to work with management to complete the outstanding matters summarized on page 1 of this report.

As agreed in our master service agreement ("MSA") dated February 20, 2019, and any previous confirmation letters issued pursuant to the MSA and all as may be updated or amended from time to time, we have performed an audit of the financial statements of Municipality of Chatham-Kent as at and for the year ended December 31, 2021, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated September 26, 2022.

Our audit has been conducted in accordance with the audit plan that was presented to the Audit and Risk Committee at the meeting on November 30, 2021.

This report is intended solely for the information and use of the Audit and Risk Committee, management and others within the Municipality and is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,



Chartered Professional Accountants
Licensed Public Accountants

Table of contents

Executive summary	1
Significant audit risks and events	3
Appendix 1 – Communication requirements and other reportable matters	5
Appendix 2 – Business insights and recommendations	8
Appendix 3 – Summary of corrected and uncorrected financial statement misstatements	9
Appendix 4 – Deloitte resources a click away	10

Executive summary



Audit scope and terms of engagement

We have been asked to perform an audit of the Municipality's financial statements (the "financial statements") in accordance with Canadian Public Sector Accounting Standards ("PSAS") as at and for the year ending December 31, 2021. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master service agreement, and any previous confirmation letters issued pursuant to the MSA and all as may be updated or amended from time to time. We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.



Significant risks

- 1 Management override of controls
- 2 Presumed risk of fraud relating to revenue recognition
- 3 Council & senior management expenses

Status



Areas of Focus

- 1 Covid-19 Impacts



New from prior year



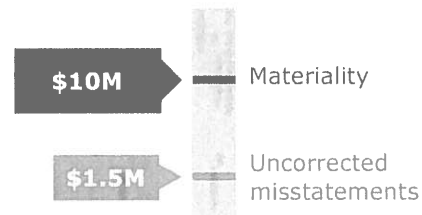
Continued from prior year



Removed from prior year



Uncorrected misstatements



Materiality levels are determined on the basis of budgeted expenses. Our materiality for the year ended December 31, 2021 was \$10,000,000 (2020, \$9,500,000). There were \$1.5M of uncorrected misstatements above our clearly trivial threshold of \$500,000. Refer to Appendix 3 for details.



Outstanding Matters & Next Steps

Receipt of legal letters	Receipt of signed Management representation letter
Completion of our subsequent events procedures	Receipt of outstanding items from management in order to complete substantive procedures.
Final audit partner review of select working papers	Completion of the Engagement Quality Control review



Highlights

Enhanced disclosure related to deferred revenue.	No changes in the significant risks identified



Going Concern

Management has completed its assessment of the ability of the Municipality to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon the Municipality's ability to continue as a going concern. We agree with management's assessment.



Results

No restrictions have been placed on the scope of our audit. We intend to issue an unmodified audit report on the financial statements of the Municipality for the year ended December 31, 2021 once the outstanding items referred to above are completed satisfactorily and the financial statements are recommended for approval by the Audit and Risk Committee and ultimately approved by Council.

Significant audit risks and events

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

Significant risk dashboard

Legend



Significant level of management judgment involved






Minimal/No management judgment involved

D+I: Planned testing of the design and implementation of key controls

OE: Planned testing of the operating effectiveness of key controls

Management override of controls

Fraud Risk	Control Testing Planned	Level of management judgement	Specialist, Expert or Innovation Involvement
YES	D&I		Not Applicable
Analysis of risk <ul style="list-style-type: none"> Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process. Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk. 		Audit Response and Results <ul style="list-style-type: none"> We discussed fraud with management. We asked The Audit and Risk Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Municipality and their role in the oversight of management's antifraud programs. We will further discuss the results of these procedures with you when we meet. We tested a sample of journal entries made throughout the period and across the various aspects of the Municipality, and adjustments made at the end of the reporting period. We evaluated the business rationale for any significant unusual transactions. We determined whether the judgements and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates. We obtained sufficient audit evidence to conclude that there were no material misstatements related to the consideration of management override of controls. 	

Revenue recognition			
Fraud Risk	Control Testing Planned	Level of management judgement	Specialist, Expert or Innovation Involvement
YES	D+I		Not Applicable
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none">Under Canadian GAAS, we are required to evaluate the risk of fraud in revenue recognition. We have evaluated the revenue transactions, and we have concluded that the significant risk is that revenue may have been recorded in the incorrect period.This represents a fraud risk for the 2021 audit.		<ul style="list-style-type: none">We evaluated the design and implementation of the internal controls that address this risk. We did not rely on controls.We tested grant charges, contributions and other monies received during the year and determined whether amounts were appropriately recorded as revenue or deferred revenue.We concluded that the internal controls were designed and implemented appropriately.Material adjustments arose relating to contributed assets from developers – see appendix 3.	
Council and senior management expenses			
Fraud Risk	Control Testing Planned	Level of management judgement	Specialist, Expert or Innovation Involvement
YES	D+I		Not applicable.
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none">Council and senior management may expense items not in line with the Municipality of Chatham-Kent's expense policy.		<ul style="list-style-type: none">We performed specific procedures related to council and senior management expenses for validity and proper approval. Senior management testing this year, consistent with what we have done in the past, has been limited to those expenses of the mayor's office as categorized within your general ledger.We obtained sufficient audit evidence to conclude that there were no material misstatements.We will further discuss the results of these procedures with you when we meet.	
Other Area of Focus (not a Significant Risk) COVID-19 Impacts			
Fraud Risk	Control Testing Planned	Level of management judgement	Specialist, Expert or Innovation Involvement
Not Applicable	Not Applicable		Not applicable.
Analysis of risk		Planned audit response	
<ul style="list-style-type: none">There is a risk that COVID-19 could have an impact on expenditures, funding sources, impairment considerations and other disclosures.		<ul style="list-style-type: none">We worked with management to discuss and monitor this situation on an ongoing basis to continue to determine the impacts on the 2021 financial statements and audit thereon as it relates to considerations of reduced expenditures and decrease in potential funding sources, impairment consideration and disclosure aspects.	

Appendix 1 – Communication requirements and other reportable matters

Required communication	Reference	Refer to this report or document described below
Audit Service Plan		
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS ¹ 260.14	Engagement letter
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit 	CAS 260.15	Audit plan communicated on November 30, 2021.
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments by management concerning measurement or disclosure.
Enquiries of those charged with governance		
4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks	CAS 240.21	We have communicated with management to identify the processes that management has in place to mitigate the risk of fraud within the Municipality.
5. Any known suspected or alleged fraud affecting the Municipality	CAS 240.22	Deloitte looks forward to these discussions in detail with the Audit and Risk committee at the meeting scheduled for September 19, 2022.
6. Whether the Municipality is in compliance with laws and regulations	CAS 250.15	We are not aware of the Municipality being in breach of any laws and regulations

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference	Refer to this report or document described below
Year End Communication		
7. Fraud or possible fraud identified through the audit process	CAS 240.40-.42	Deloitte looks forward to these discussions in detail with the Audit and Risk committee at the meeting scheduled for September 19, 2022.
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.	Financial statement Note 1
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	CAS 260.16 a.	Significant Accounting practices, judgements and estimates
10. Matters related to going concern	CAS 570.25	Executive summary
11. Consultation with other accountants	CAS 260.16(c),(i), A22	Management has informed us that the Municipality has not consulted with other accountants about auditing or accounting matters.
12. Management judgments and accounting estimates	CAS 260.16 a.	Significant Accounting practices, judgements and estimates
13. Significant difficulties, if any, encountered during the audit	CAS 260.16 b.	We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.
15. Material written communications between management and us, including management representation letters	CAS 260.16 c.	Management representation letter
16. Circumstances that affect the form and the content of the auditor's report	CAS 260.16.d.	Master service agreement
17. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16e.	Deloitte looks forward to these discussions in detail with the Audit and Risk committee at the meeting scheduled for September 19, 2022.
18. Modifications to our opinion(s)	CAS 260.A21	Executive summary
19. Other significant matters discussed with management	CAS 260.A.22	<p>Significant matters discussed, or subject to correspondence with management may include such matters as:</p> <ul style="list-style-type: none"> • Significant events or transactions that occurred during the year. • Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. <p>For further details, please see the Significant Risks and Events section.</p>

Required communication	Reference	Refer to this report or document described below
20. Under our professional standards we are required to communicate, unless we are prohibited by a law or regulation, matters involving non-compliance by the Company with applicable laws and regulations, including illegal or possibly illegal acts that come to our attention	CAS 250.23	Our limited procedures did not identify any areas of material non-compliance with laws and regulations by the Municipality, that are not otherwise prohibited to disclosed by law or regulation.
21. Litigation	CAS 260.16(a), A19-20, App. 2	No litigation matters to report.
22. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	CAS 265	One item noted in Appendix 2.
23. Uncorrected misstatements and disclosure items	CAS 450.12-13	In accordance with Canadian GAAS, we request that all misstatements be corrected. Please refer to Appendix 3 for a list of both corrected and uncorrected misstatements identified through the audit process.
Other reportable matters		
24. Changes to the audit plan	CAS 260.A26	The audit was conducted in accordance with our audit plan, which was communicated to the Audit and Risk Committee. We confirm that there have been no significant amendments to the audit scope and approach communicated in the audit plan.
25. Concerns regarding management competence and integrity	CAS 260.11, A38	We have not determined any concerns regarding management competence and integrity.
26. Disagreements with management	CAS 260.16(c)(i), A22	In the course of our audit, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements.
27. Subsequent events	CAS 260.10(a), 260.13(b), 260.14(a), 260.17	At the date of finalizing this report, we are not aware of any significant post balance sheet events.
28. Reliance on service organizations	CAS 402 A39, CAS 265.9-10	Not applicable.
29. Limitations when sending confirmations	CAS 505.9	Not applicable.
30. Other significant matters arising from the audit	CAS 260.16(e), A26-A28	No other significant matters identified

Appendix 2 – Business insights and recommendations

Errors in bank reconciliations

Bank reconciliations of the Municipality are carrying stale-dated cheques significantly older than the six-month grace period (approx. \$212K at December 31, 2021). Additionally, there are a number of transactions that have flowed through the bank in F2021 that have not been recorded in the general ledger, but instead have been included as reconciling items in the bank reconciliations (approx. \$1.5M). Stale-dated cheques should be reversed, and new cheques issued as appropriate. All transactions that flow through the bank statement in a fiscal year should be captured to reflect the proper cash portion of transactions in the correct period.



Management insights

These bank reconciliation errors are related to our Ontario Works bank accounts. Transactions related to these accounts are the responsibility of the decentralized finance staff in Community Human Services. We will ensure better compliance with stale dated cheque policies and procedures.

Transactions impacting bank balances but not the general ledger are related to OW Benefits for January paid in December. These expenses should be paid in the Month they are related to, if this is not possible this transaction should be recorded as a prepaid expense.

It is the opinion of management that these issues are indicative of decentralized finance functions at the Municipality of Chatham-Kent. We recommend Finance meet with EMT after the new CAO is on board to discuss corporate wide financial policies, responsibilities and timelines.



Recommendations

Proper recording of cash transactions.

As the current practice in place when preparing bank reconciliations is prone to errors, we recommend that management implement the practice of removing stale-dated cheques in a timely manner and record all cash transactions in the correct accounting period that they have taken place in.

Appendix 3 – Summary of corrected and uncorrected financial statement misstatements

	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current year misstatements					
Corrected errors					
An EFT was recorded in cash and listed as an outstanding deposit as at December 31, 2021 as it relates to a payment for a December 2021 billing period, however the EFT was not made and deposited until January 6, 2022.	\$519,301 (\$519,301)				
The municipality had not recorded assumed assets from developers since approximately 2016 requiring current year adjustments as well as prior period corrections.	\$22,585,703		(\$11,037,138)		(\$11,548,565)
Total	\$22,585,703		(\$11,037,138)		(\$11,548,565)
Uncorrected errors					
It was noted that there were multiple errors relating to bank reconciliations. There were errors relating to stale-dated cheques not being reversed as well as errors due to items flowing through the bank statement and not being recorded in the general ledger, but rather being included as reconciling items.	(\$1,334,106)	\$1,546,919			(\$212,813)
Total	(\$1,334,106)	\$1,546,919			(\$212,813)

Appendix 4 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

Register [here](#) to receive practical insights, invitations to Deloitte events/webcasts, and newsletters via email and other electronic channels. You will be able to select business topics and industries that align with your interests.

Canada's Best Managed Companies
(www.bestmanagedcompanies.ca)

Target audience
Directors and CEO/CFO

The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.

Centre for financial reporting
(<https://www.iasplus.com/en-ca/standards>)

Target audience

- Directors and CEO/CFO
- Controller and Financial reporting team

Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.

Deloitte Viewpoints
(<https://www.iasplus.com/en-ca/tag-types/deloitte-viewpoints>)

Target audience

- CFO
- Controller and Financial reporting team

Electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.

CFO's corner
(<https://www.iasplus.com/en-ca/cfos-corner>)

Target audience

- CFO and VP Finance
- Controller and Financial reporting team

Editorial providing insights into key trends, developments, issues and challenges executives face, with a Deloitte point of view.

Deloitte Dbriefs
(<https://www.iasplus.com/en-ca/dbriefs/webcasts>)

Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.

Targeted audience

- CFO and VP Finance
- Controller and Financial reporting team

