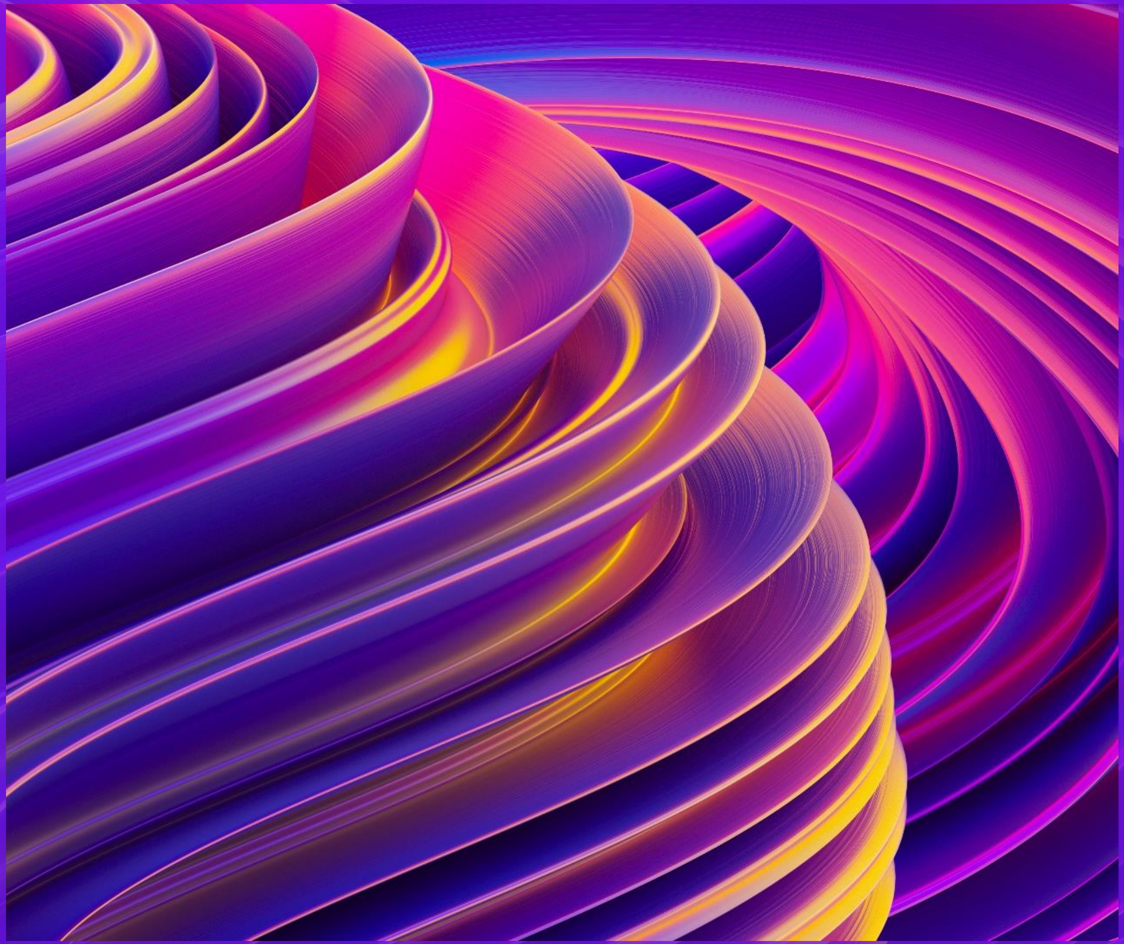
The Corporation of the Town of Essex



Audit Findings Report
for the year ended December 31, 2023

KPMG LLP

July 2, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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Table of contents

The purpose of this report is to assist you, as a member of Town Council, in your review of the results of our audit of the consolidated financial statements. This report is intended solely for the information and use of Management and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

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

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

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

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the consolidated financial statements of the Corporation of the Town of Essex with the exception of certain remaining outstanding procedures, which are highlighted on the 'Status' slide of this report.

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenues. We have determined materiality to be $1,300,000.

Risks and results

Significant risks

- Fraud risk from revenue recognition
- Fraud risk from management override of controls

Other risks of material misstatement

Going concern matters

Policies and practices & Specific topics

Significant unusual transactions

Accounting policies and practices

Other financial reporting matters

Uncorrected and corrected misstatements

Uncorrected misstatements

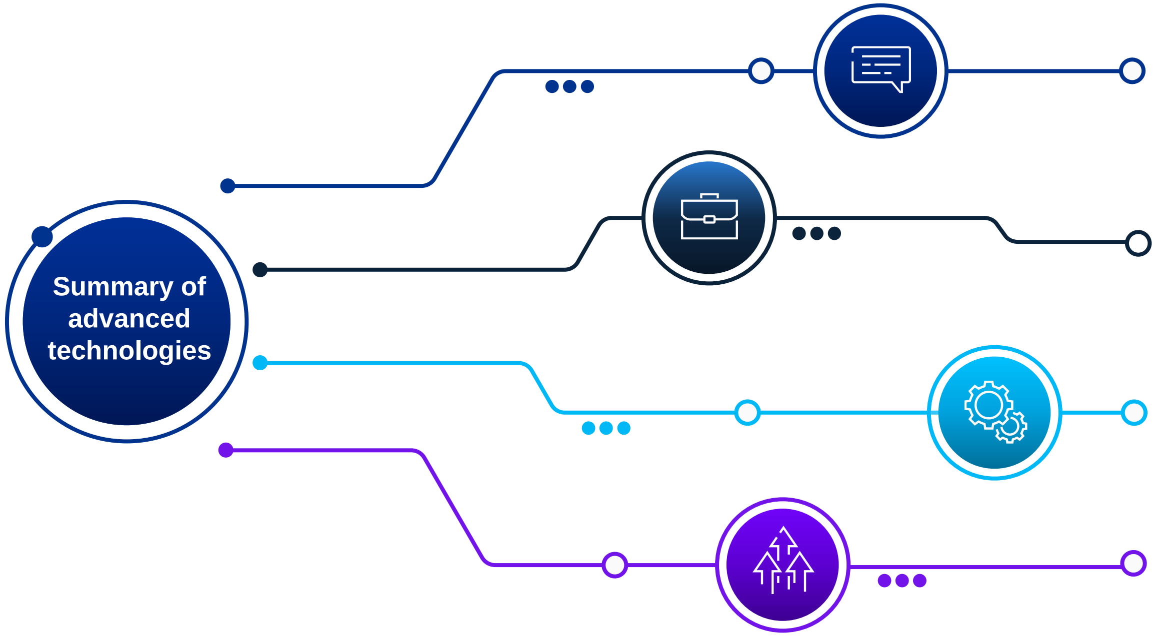
Corrected misstatements

Control deficiencies

Significant deficiencies

Technology highlights

We plan to utilize technology to enhance the quality and effectiveness of the audit.



KPMG Clara Workflow

The KPMG Clara Workflow was utilized as a hub in which all aspects of our audit work was completed.

KPMG Clara for Clients

KPMG Clara for Clients was utilized as a collaboration and share-site tool between KPMG and the Town.

KPMG Clara DataSnipper

KPMG Clara DataSnipper is an automated vouching tool uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts.

KPMG Clara analytics – AI Transaction Scoring (MindBridge)

KPMG Clara Analytics - AI Transaction Scoring, powered by MindBridge AI, is a tool that applies advanced statistical, machine learning, and rules-based analytics technology to analyze transactions on a more granular level and deliver an even higher quality audit.

Status

As of July 2, 2024, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

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

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

Our auditor's report, a draft of which is provided alongside the draft financial statements, will be dated upon the completion of <u>any</u> remaining procedures.

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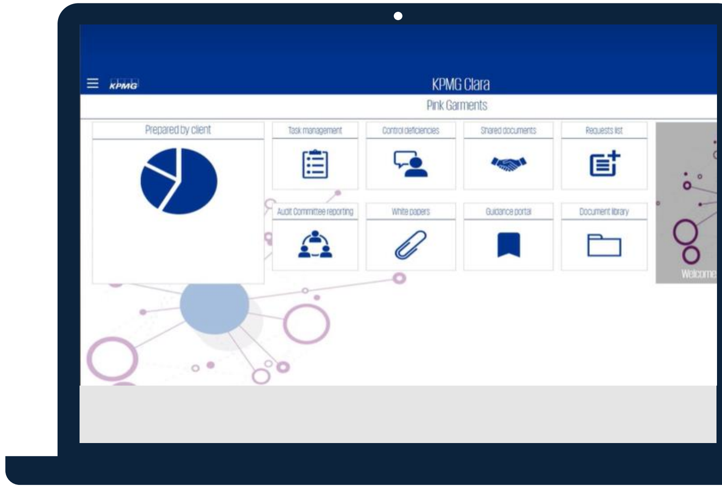
KPMG Clara for Clients (KCfc)



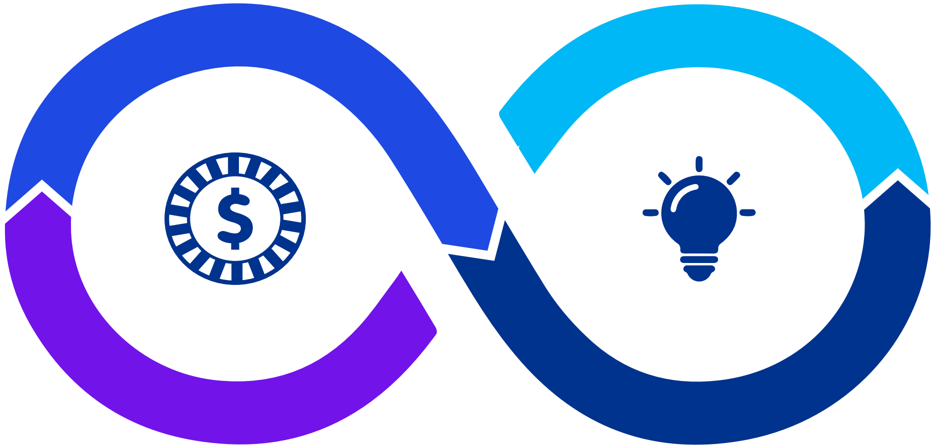
Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with management and provide visual insights into the status of the audit!

In our audit we used KCfc to coordinate our requests from management.

Learn more

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

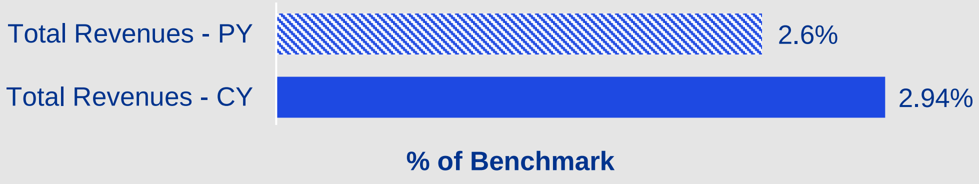
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

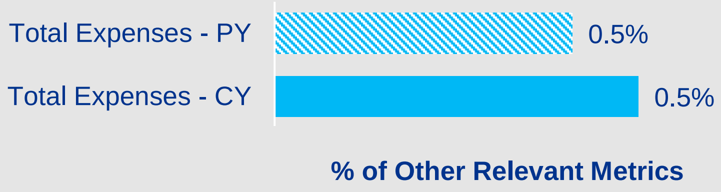
Initial materiality

Materiality

$1,300,000

(2022: $1,100,000)





Total Prior Year Revenues

$50,000,000

Total Assets

$260,000,000

Significant risks

Risk of Fraud Within the Financial Statements

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

As this presumed risk of material misstatement due to fraud 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
- evaluating the business rationale of significant unusual transactions.
- No issues were noted.

Presumption of the risk of fraud resulting from fraudulent revenue recognition

Why is it significant?

This is a presumed risk.

There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year revenue growth or profit.

Our response

We have rebutted the fraud risk over revenue recognition since there are limited perceived opportunities to commit fraud since revenue transactions do not involve elements of significant judgment. We have also not identified any indicators that management possesses the attitude, character or ethical values that would result in intentional dishonesty. The entity is not a high public profile entity and there are no significant third-party expectations in relation to revenue. As a result, there is no risk of material misstatement of revenue due to fraudulent financial reporting by management.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

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

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

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

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

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

Control deficiencies – Significant deficiencies

Significant deficiencies in internal control over financial reporting

Description	Status	Potential effects
1	No significant deficiencies in internal control to report.	

Accounting policies and practices

Initial selection

No items to report.

Revised

The Town adopted Public Accounting Standards PS 3280 – Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated wit the retirement of certain tangible capital assets, such as asbestos removal in buildings owned by the Town. ARO's are an estimate which are derived from available information and required the Town to make judgments and assumptions leveraging available data. As at at December 31, 2023, the Town recorded an ARO liability of $270,472 and used the modified retrospective method. KPMG concurs with the Town's methods used to implement this new standard.

Significant qualitative aspects

No items to report.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content	See Note 2 to the financial statements.
Concerns regarding application of new accounting pronouncements	No matters to report. See slide 12.
Significant qualitative aspects of financial statement presentation and disclosure	No matters to report.

Specific topics

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

Matter	Finding
Illegal acts, including noncompliance with laws and regulations, or fraud	No matters to report.
Other information in documents containing the audited financial statements	No matters to report.
Significant difficulties encountered during the audit	No matters to report.
Difficult or contentious matters for which the auditor consulted	No matters to report.
Management's consultation with other accountants	No matters to report.
Disagreements with management	No matters to report.
Related parties	No matters to report.
Significant issues in connection with our appointment or retention	No matters to report.
Other matters that are relevant matters of governance interest	No matters to report.

Services initiated under finance committee pre-approval policies and procedures

We were engaged by the Corporation of the Town of Essex to perform the services listed below. The services were pre-approved by Town Council pursuant to its Policies and Procedures, and were communicated in our accepted audit proposal dated October 13, 2023.

Engagement description	Fee CDN (estimated)
Audit of the financial statements of the Corporation of the Town of Essex	$29,000

Note: Council was previously provided with a written description of the nature and scope of each service and details of the proposed fee arrangement.

Appendices

1 Required communications

2 Audit quality

3 New auditing standards

4 Insights

5 Environmental, social and governance (ESG)

6 Technology

Appendix 1: Other required communications

Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to Town Council.

CPAB communication protocol

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

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

Appendix 1: Management representation letter

THE CORPORATION OF THE TOWN OF ESSEX
33 TALBOT STREET SOUTH
ESSEX, ON N8M 1A8

KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor, ON N8W 5K8
Canada

July 15, 2024

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 Town of Essex ("the Entity") as at and for the period ended December 31, 2023.

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 2, 2020, 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
- others

where 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 or illegal acts, 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.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

10) 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).

11) 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,

By: Ms. Kate Giurissevich, Director, Corporate Services/Treasurer

cc: Audit Committee

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.

Appendix 2: Audit quality - How do we deliver audit quality?

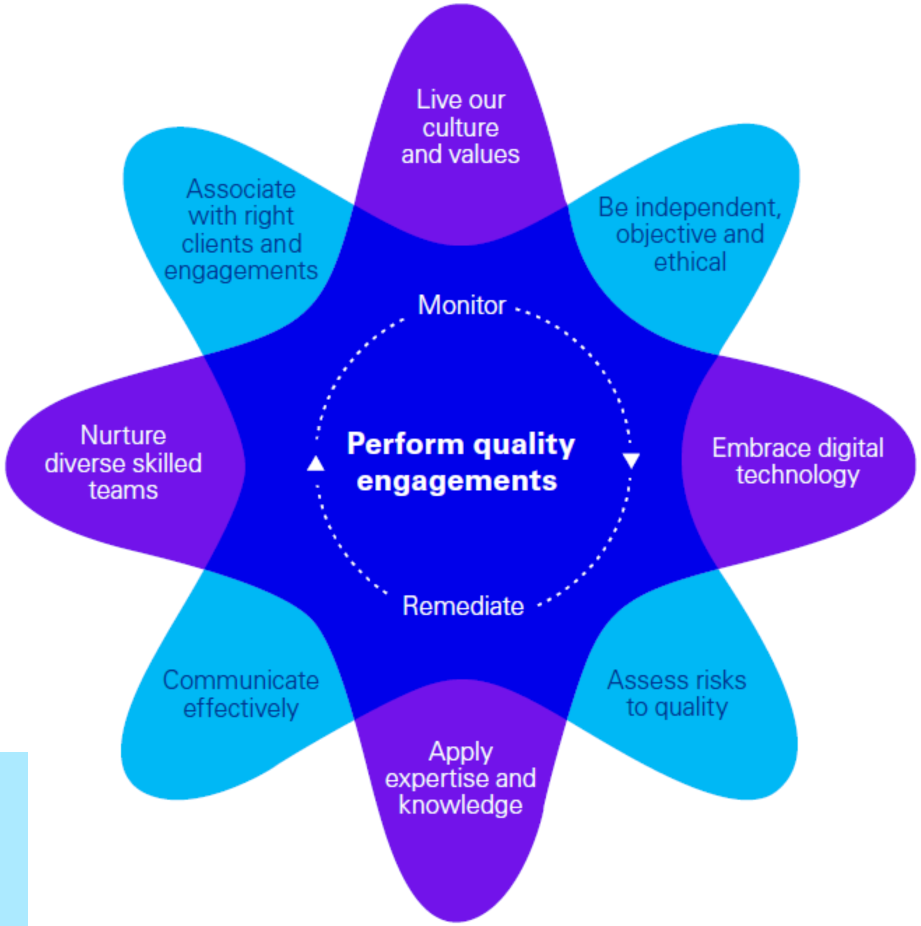
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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

KPMG 2023 Audit Quality and Transparency Report

We define 'audit quality' as being the outcome when:

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



Doing the right thing. Always.

Appendix 3: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

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

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix 4: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

Lean in Audit

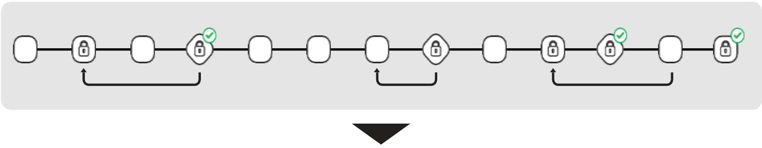
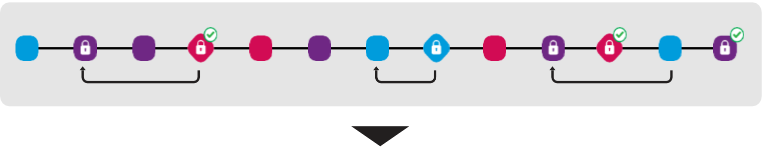
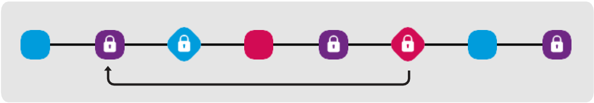
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to working with you to incorporate this approach in your audit.

How it works

Standard Audit	Typical process and how it's audited	
Lean in Audit™	Applying a Lean lens to perform walkthroughs and improve Audit quality while identifying opportunities to minimize risks and redundant steps	
How Lean in Audit helps improve businesses processes	Make the process more streamlined and efficient for all	

Value: what customers want **(maximize)**

Necessary: required activities **(minimize)**

Redundant: non-essential activities **(remove)**

Process controls

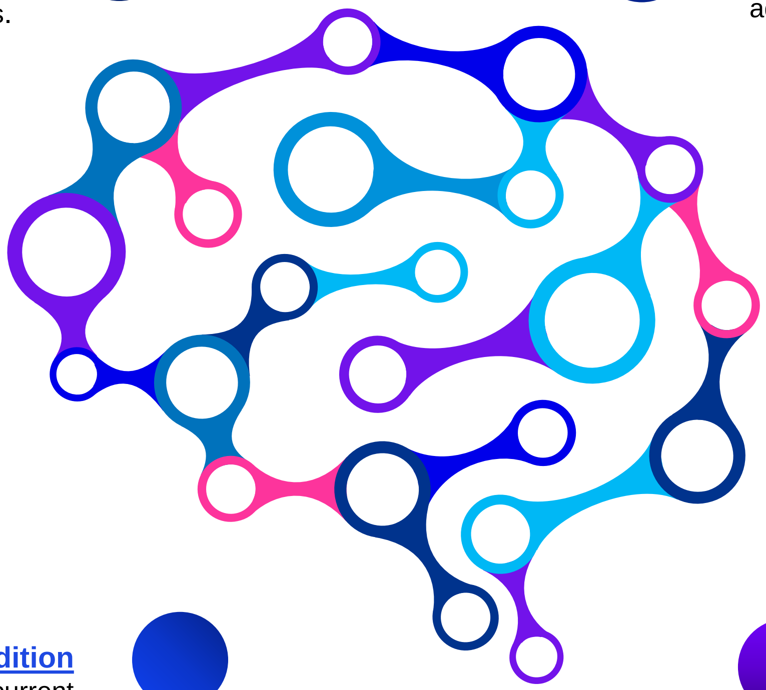
Key controls tested

Appendix 4: Audit and assurance insights

Our latest thinking on the issues that matter most to Finance Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for Finance Committees and boards.

Accelerate 2023
The key issues driving the Finance Committee agenda in 2023.



Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

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

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

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

Finance Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping Finance Committee effectiveness in Canada.

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

Appendix 5: ESG - Global regulatory reporting standards

Recent Activity

ISSB[1] and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters.*
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

US (SEC[2,3] and California[4])

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

EU[5,6]

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies.
- There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

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

Appendix 6: Continuous evolution

Our investment: $5B

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

Responsive delivery model

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

Result: A better experience

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

Standardization

\+

Automation

\+

Centralization

Methodology and Approach

Data and tech enablement + Center for Audit Solutions + Next-gen auditor

Quality Management System

Enhanced audit quality

\+

Increased efficiency

\+

Exceptional experiences

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