

# The Corporation of the Town of Essex

Audit Findings Report  
for the year ended  
December 31, 2020

*KPMG LLP*

Licensed Public Accountants

Prepared May 25, 2021 for  
presentation on June 7, 2021

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



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## Our refreshed Values

### What we believe



# How do we deliver audit quality?

Transparency report



**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**.



**Doing the right thing. Always.**

# Executive summary

## Purpose of this report<sup>1</sup>

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2020.

### What's new in 2020

There have been significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – See pages 6-7
- New CAS auditing standards – See page 8

### Finalizing the audit

As of May 25, 2021, 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 Council
- Obtaining the signed management representation letter
- Obtaining evidence of the Board's approval of the financial statements

We will update Council, and not solely the Chair, 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 attached to the draft consolidated financial statements, will be dated upon the completion of any remaining procedures.

### Uncorrected differences

See pages 17-18 and Appendix 2 for impact of uncorrected differences.

### 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.

### Control deficiencies

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

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<sup>1</sup> This Audit Findings 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 Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## Other observations

We have identified other observations with respect to:

- Payroll Terminations
- Procurement Tracking
- In-Camera Minutes
- Treasurer Approval

See pages 19-20.

## Independence

We are independent with respect to the Town (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.



# What's new in 2020

## COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
<b>Town's financial reporting impacts</b>	<ul style="list-style-type: none"> <li>— We considered impacts to financial reporting due to COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements.</li> <li>— In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty.</li> <li>— The areas of the financial statements most affected included: <ul style="list-style-type: none"> <li>○ Government grants (i.e., Safe Restart Funding) – See page 16 under Audit Risk and Results</li> <li>○ Disclosure – See page 16 under Audit Risk and Results</li> </ul> </li> </ul>
<b>Town's internal control over financial reporting</b>	<ul style="list-style-type: none"> <li>— Along with the Town's remote working environment, the financial reporting impacts above necessitated certain changes to the Town's internal control over financial reporting</li> <li>— As a result of the changes to the components of internal control over financial reporting due to the COVID-19 pandemic, we: <ul style="list-style-type: none"> <li>○ Evaluated the design of the new relevant controls implemented in the control environment, the entity's risk assessment process, information and communication, and monitoring components of internal control over financial reporting</li> </ul> </li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements. Materiality has not been changed from the amount initially calculated due to no reduction to the metrics used to determine materiality.</li> </ul>
<b>Risk Assessment</b>	<ul style="list-style-type: none"> <li>— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).</li> </ul>

## COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
Working remotely	— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.
	— We used secure and innovative technologies to conduct walkthroughs.
	— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and Supervision of the audit	<div>— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the Town's financial reporting and changes in the Town's internal control over financial reporting.</div> <div>— Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.</div>



## New auditing standards

The following new auditing standards that are effective for the current year had an impact on our audit.

Standard	Key observations
<b>CAS 540, Auditing Accounting Estimates and Related Disclosures</b>	<ul style="list-style-type: none"><li>— The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”.</li><li>— The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.</li><li>— We performed more granular risk assessments based on the elements making up <u>each</u> accounting estimate such as the method, the assumptions used, the data used and the application of the method.</li><li>— We considered the potential for management bias.</li><li>— We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed.</li><li>— We involved professionals with appropriate skills and knowledge to assist us in auditing certain estimates as appropriate.</li><li>— We have concluded that management’s approach to establishing estimates is reasonable and appropriate in the circumstances.</li></ul>

# Materiality

Materiality determination	Comments	Amount
<b>Materiality</b>	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.	\$645,000
<b>Benchmark</b>	Based on total revenues for the prior year-ended December 31, 2019.	\$43,063,987
<b>% of Benchmark</b>		1.5%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit.	\$32,000

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

## We will report to Council:



Corrected audit misstatements



Uncorrected audit misstatements

# Audit risks and results

We highlight our significant findings in respect of **significant financial reporting risks**, as well as any additional significant financial reporting risks identified.

## Professional requirements

Fraud risk from revenue recognition:

- This is a presumed fraud risk under Canadian Auditing Standards.
- 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.

We have rebutted the fraud risk from revenue recognition as this is not appropriate when we consider the manner in which performance is measured by the Town.

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Fraud risk from management override of controls

- This is a presumed fraud risk under Canadian Auditing Standards.
- We have not identified any specific additional risks of management override related to the audit of the financial statements of the Town.

## Our response and findings

- As the risk of management override of controls is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address the risk. This included requisite testing over journal entries considered “high risk” and a retrospective review over complex estimates.
- No audit differences or control deficiencies were found.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

Taxes, trade and other receivables, including allowance for uncollectible taxes

We focused here due to the size of the balances in these accounts and the risk of material misstatement related to the existence, accuracy and valuation of the receivable balances.

## Our response

- Our procedures included:
  - Perform subsequent receipt testing over taxes receivable and accounts receivable
  - Evaluate the reasonability of the allowance for doubtful accounts based on historical trends

## Significant findings

- No adjustments or differences were identified.
- The allowance for doubtful accounts was considered reasonable given the nature of the tax sale process on properties in arrears. Collections for fiscal 2020 were comparable to prior year despite the COVID-19 pandemic, therefore it is reasonable that the allowance was relatively consistent year over year.
- We identified a significant credit balance in one of the taxes receivable rolls due to customer overpayments and proposed a reclass adjustment to move this balance to deferred revenue. See page 17-18 for the summary of uncorrected differences.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

Accounts payable and expenses

We focused here due to the volume of activity in these accounts and the risk of material misstatement related to the completeness and accuracy of accounts payable and expenses.

## Our response

- Our procedures included:
  - Test adherence of the procurement process to the procurement policy including selecting a sample of projects from the year and ensuring appropriate authorization was obtained based on the policy.
  - Substantively test a sample of expenditures to verify the classification and accuracy of recorded amounts.
  - Vouch significant accruals and payables to supporting documentation.
  - Perform a search for unrecorded liabilities to test the completeness of payables and expenses.

## Significant findings

- No adjustments or differences were identified.
- KPMG identified a process improvement observation associated with tracking of procurements throughout the year, see page 19.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

Reserves/reserve fund balances

We focused here due to the size of the balances and large volume of activity in these accounts.

## Our response

- Our procedures included:
  - Discuss with management the process for establishing reserves and determining balances to record in reserves.
  - Obtain the reserve fund continuity schedule and identifying activity recorded in reserves in the current year.
  - Substantively test the reserve fund activity to ensure the appropriate amounts have been include in reserves at year-end.

## Significant findings

- No adjustments or differences were identified.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

### Salaries and benefits

We focused here due to the size of the balance and the risk of material misstatement related to the completeness and accuracy of the expenses.

### Employee future benefits

We focused here as employee future benefits are based on a number of actuarial assumptions and computations subject to measurement uncertainty.

## Our response

- Our procedures included:
  - Perform a substantive analytical procedure over salaries and benefits expenses.
  - Test the completeness of employee headcount by selecting a sample of hires and terminations from the year and ensuring they were appropriately added/removed from payroll and viewing supporting documentation.
- Our procedures included:
  - Obtain the valuation report directly from the third-party actuary.
  - Evaluate the reasonability of the discount rate and assumptions by benchmarking against the internal borrowing rate and industry standards.
  - Test the underlying census data for the full valuation performed for December 31, 2020.

## Significant findings

- No adjustments or differences were identified.
- KPMG identified a process improvement observation associated with tracking terminations, please see discussion on page 19.
- No adjustments or differences were identified.



# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

Tangible capital assets ("TCA")

We focused here due to the risk of material misstatement related to the classification, completeness and accuracy of tangible capital assets.

## Our response

- Our procedures included:
  - Perform substantive tests of details over additions, disposals and assets in progress, where significant.
  - Test the completeness of TCA by sampling repairs & maintenance expenses and determining if they were classified correctly as expenses.
  - Perform substantive analytical procedures over depreciation.
  - Discuss impairment with management.

## Significant findings

- No adjustments or differences were identified.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus**, as well as any additional areas of focus identified.

## Area of focus

Impacts of COVID-19 including “Safe Restart” government funding and related expenses

We focused here as these balances are new in 2020 due to the COVID-19 pandemic and due to the size of the balances.

## Our response

- Our procedures included:
  - Perform COVID-19-specific inquiries with management to identify areas requiring disclosure and/or additional testing.
  - Test grants received for COVID-19 to verify existence. Ensure appropriate amounts were deferred or recognized as revenue based on funding guidance.

## Significant findings

- KPMG has included a disclosure on COVID-19 in the financial statement notes based on discussions with management.
- A total of \$773,800 of funding was allocated to the Town of Essex by the Ministry of Municipal Affairs and Housing as part of the federal-provincial Safe Restart Agreement to cover operating costs and pressures related to COVID-19. KPMG tested the cash receipt of 100% of the funding and did not identify any differences or adjustments.
- Additionally, KPMG obtained management’s COVID-19 impact report and tested incremental costs and lost revenue directly associated with COVID-19, which were incurred in 2020 and had a corresponding amount recognized as revenue in the year. The remaining balance of funding received of \$230,000 related to 2021 and was recorded as deferred revenue in accordance with the funding letter received.
- No adjustment or differences were identified.

# Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

## Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected differences considered to be other than clearly trivial.

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

## Corrected adjustments

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

# Uncorrected differences summary

## Uncorrected differences

As at and year ended December 31, 2020	Income effect	Financial position		
Description of differences greater than \$30,000 individually	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
The sum of tax rolls receivable in an overall credit position due to overpayments on account is greater than our posting threshold. The customer can request a refund cheque for these, otherwise it will be applied against a future billing. Therefore, we have proposed an entry to reclassify this amount to liabilities as deferred revenue.	—	180,464	180,464	—
Total pre-tax differences	—	180,464	180,464	—
Tax effect of differences	—	—	—	—
<b>Total differences</b>	<b>—</b>	<b>180,464</b>	<b>180,464</b>	<b>—</b>

# Other observations

Item	Observation
<b>Employee Terminations</b>	<ul style="list-style-type: none"><li>- During employee headcount testing, we identified that no documentation is prepared by Human Resources or payroll when employees are terminated or resign.</li><li>- This lack of documentation may result in employees not being removed from the pay register after resigning from the Town, which could result in an overstatement of payroll and benefit expenses. KPMG notes that we did not identify any instances of employees being paid subsequent to termination/resignation in the sample we tested.</li><li>- KPMG recommends that the Town updates their termination process such that staff are required to submit a signed and dated letter to HR to document that they are resigning.</li><li>- Additionally, payroll staff should complete a payroll termination form upon an employee's resignation to summarize the changes that will need to be made for the next pay period. This form should be reviewed by a second person before the changes are made in the system to ensure proper segregation of duties are in place over this process.</li></ul>
<b>Procurement Tracking</b>	<ul style="list-style-type: none"><li>- During procurement testing, we identified that the Town does not track the items that go through the procurement process throughout the year in an automated/computerized module.</li><li>- This may result in the accounting records being incomplete as the assets going through this process are manually tracked. Also, this could result in improper approval or adherence to the procurement policy. It also makes it more difficult for management and Council to monitor that the procurement process is being implemented and followed correctly.</li><li>- We recommend that a system module be used to track procurement to ensure all items are being tracked and to save the time of the employee preparing the manual listing.</li></ul>
<b>In-Camera Minutes</b>	<ul style="list-style-type: none"><li>- Through our review of the Council minutes from the year, we noted that the in-camera minutes were not available for Closed Council Meetings occurring in 2020 and subsequent to year-end.</li><li>- Due to this, there is no formal detailed record of items discussed in-camera, which are typically sensitive in nature. Accordingly, there could be lack of follow-up or communication on important topics such as legal matters, land sales, etc. which could result in errors in the financial records.</li><li>- We recommend that all in-camera minutes are completed in draft format prior to the subsequent meeting to allow for approval at the following meeting.</li></ul>

## Other observations (continued)

Item	Observation
<b>Treasurer Approval</b>	<ul style="list-style-type: none"><li>- Through our review of the minutes, we noted that certain reports indicate that they were approved by the Treasurer, however, his signature is not included in the report to indicate his approval.</li><li>- If the preparers of the reports do not discuss items with financial implications with the Treasurer, this may result in errors in the financial information such that Council cannot rely on the information for making decisions.</li><li>- We recommend that all reports with financial implications are approved by the Treasurer as required by the Municipal Act and that his signature is included in the appropriate section of the report.</li></ul>

# Appendices

## Content

**Appendix 1: Other Required communications**

**Appendix 2: Management Representation Letter**

**Appendix 3: Technology in the Audit**

**Appendix 4: Lean in Audit™**

**Appendix 5: Audit and Assurance Insights**





# Appendix 1: Other Required Communications

<b>Report</b>	<b>Engagement terms</b>
Refer to the draft report attached to the draft financial statements.	A copy of the engagement letter and any subsequent amendments has been provided to management.
<b>Matters pertaining to independence</b>	<b>Representations of management</b>
We confirm our independence to Council.	A copy of the management representation letter is attached.
<b>Audit Quality in Canada</b>	<b>Control deficiencies</b>
<p>The reports available through the following links were published by the Canadian Public Accountability Board to inform Council and other stakeholders about the results of quality inspections conducted over the past year:</p> <ul style="list-style-type: none"> <li>• <a href="#">CPAB Audit Quality Insights Report: 2020 Interim Inspection Results</a></li> <li>• <a href="#">CPAB Audit Quality Insights Report: 2019 Annual Inspections Results</a></li> </ul> <p>Visit our <a href="#">Audit Quality Resources page</a> for more information including access to our <a href="#">Transparency report</a></p>	Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency have been, communicated to management.

# Appendix 2: Management Representation Letter

See management representation letter attached.

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

Approval date

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, 2020.

**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 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

**MISSTATEMENTS:**

- 11) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- 12) We approve the corrected misstatements identified by you during the audit described in Attachment II.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 13) 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).
- 14) 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,

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By: Mr. Jeffrey Morrison, Director of Business and Financial Services and 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.

Refno	Description	Assets	Liabilities	Equity	Income	Expenses	Annotation
Unrecorded - factual							
2	To reclass tax receivable credits	<u>180,464.00</u>	<u>(180,464.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
		<u>180,464.00</u>	<u>(180,464.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
	Understated/(Overstated)	<u><u>180,464.00</u></u>	<u><u>(180,464.00)</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	



# The Corporation of the Town of Essex

G3

Year End: December 31, 2020

## Attachment II

### Adjusting Journal Entries

Date: 1/1/2020 To 12/31/2020

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
1	12/31/2020	Equity Investment - ELK	1-0-01-500-15100			940,699.56			
1	12/31/2020	Equity in ELK	1-0-03-300-30700				940,699.56		
1	12/31/2020	Equity Investment - ELK	9-0-01-500-15100			281,461.44			
1	12/31/2020	Equity in ELK	9-0-03-300-30700				281,461.44		
		Entry to record ELK investment for F20							
5	12/31/2020	UWSS Cash	1111			741,424.57			
5	12/31/2020	UWSS AR	1112			78,254.76			
5	12/31/2020	UWSS AP	2222				111,817.50		
5	12/31/2020	Long-Term Debt - Principal UWSS	2223			68,931.89			
5	12/31/2020	Equity Investment - Union Water	1-0-01-500-15800				707,861.83		
5	12/31/2020	Due to Reserve Fund	1-0-02-990-29900			213,036.00			
5	12/31/2020	Due from General Fund	9-0-01-990-19100				213,036.00		
5	12/31/2020	Miscellaneous Services	9-8-89-891-53900				68,931.89		
		Entry to record UWSS Investment for the year							
									Factual
6	12/31/2020	Accrued Vacation Pay	1-0-02-500-25810			2,615.77			
6	12/31/2020	Salaries & Wages - Full-Time	1-1-12-121-50100				2,041.93		
6	12/31/2020	Salaries & Wages - Full-Time	1-2-27-270-50100			453.88			
6	12/31/2020	Salaries & Wages - Full-Time	1-3-30-300-50100			3,698.31			
6	12/31/2020	Salaries & Wages - Full-Time	1-3-36-367-50100			1,112.65			
6	12/31/2020	Salaries & Wages - Full-Time	1-5-52-520-50100				5,046.64		
6	12/31/2020	Salaries & Wages - Full-Time	1-5-55-550-50100			29.00			
6	12/31/2020	Salaries & Wages - Full-Time	1-6-60-600-50100				362.47		
6	12/31/2020	Salaries & Wages - Full-Time	1-7-70-700-50100				209.65		
6	12/31/2020	Salaries & Wages - Full-Time	1-7-70-700-50100				248.92		
		Entry to record change in vacation accrual in current year							
8	12/31/2020	Reserve Fund - Surplus/Deficit	9-0-03-300-30500			546,257.39			
8	12/31/2020	January 1 Opening Balance	9-8-85-850-49990				176,125.99		
8	12/31/2020	January 1 Opening Balance	9-8-85-851-49990				184,946.43		
8	12/31/2020	January 1 Opening Balance	9-8-85-852-49990				204,984.50		
8	12/31/2020	January 1 Opening Balance	9-8-85-853-49990				779,826.50		
8	12/31/2020	January 1 Opening Balance	9-8-85-854-49990				1,040,713.72		
8	12/31/2020	January 1 Opening Balance	9-8-85-855-49990			2,143,837.79			
8	12/31/2020	January 1 Opening Balance	9-8-85-856-49990				24,433.83		
8	12/31/2020	January 1 Opening Balance	9-8-85-857-49990				411,356.57		
8	12/31/2020	January 1 Opening Balance	9-8-85-858-49990			132,292.36			
		Entry to reclassify opening development charge balances to deferred revenue for FS presentation							
									Factual
10	12/31/2020	Deferred revenue development charges	1-0-02-250-23150			472,229.88			
10	12/31/2020	Deferred revenue development charges	1-0-02-250-23150			300,207.54			
10	12/31/2020	Reserve Fund - Surplus/Deficit	9-0-03-300-30500				772,437.42		
		Entry to record prior year reserve reclass entries that affect current year as well (loan from reserve fund to development charges)							
									Factual
11	12/31/2020	Reserve Fund - Surplus/Deficit	9-0-03-300-30500			353,042.11			
11	12/31/2020	January 1 Opening Balance	9-8-84-840-49990				331,060.25		
11	12/31/2020	January 1 Opening Balance	9-8-84-841-49990				21,981.86		
		Entry to record opening balances in cemetery reserve							
									Factual
12	12/31/2020	Due from (to) Cemetery and OHRP reserve	1-0-01-000-00000			9,953.08			
12	12/31/2020	Rev Contrib from Reserve Fund	1-4-45-450-49900			8,428.42			
12	12/31/2020	Contributions to Reserve Funds	1-4-45-450-59900				18,381.50		
12	12/31/2020	Interest Earned - Bank/One Investment	9-8-84-840-48100			8,098.47			
12	12/31/2020	Rev Contrib from General Fund	9-8-84-840-49100			18,381.50			
12	12/31/2020	January 1 Opening Balance	9-8-84-840-49990				14,059.10		
12	12/31/2020	Contributions to General Fund	9-8-84-840-59100				8,428.42		
12	12/31/2020	Interest Earned - Bank/One Investment	9-8-84-841-48100			329.95			
12	12/31/2020	January 1 Opening Balance	9-8-84-841-49990				4,322.40		

The Corporation of the Town of Essex

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Year End: December 31, 2020

Attachment II

Adjusting Journal Entries

Date: 1/1/2020 To 12/31/2020

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
Entry to reclass cemetery reserve activity to proper accounts for PSAB									Factual
13	12/31/2020	Due to Reserve Fund	1-0-02-990-29900				1,242,588.58		
13	12/31/2020	Ontario Conditional Grants	1-1-11-111-44100			236,311.00			
13	12/31/2020	General Fund-General Government- - -Contribut	1-1-11-111-59900				236,311.00		
13	12/31/2020	Canada Conditional Grants	1-1-12-120-44500			356,495.96			
13	12/31/2020	Canada Conditional Grants	1-1-12-120-44500			1,021,173.00			
13	12/31/2020	Contributions to Reserve Funds	1-1-12-120-59900				356,495.96		
13	12/31/2020	Contributions to Reserve Funds	1-1-12-120-59900				1,021,173.00		
13	12/31/2020	Capital Fund-General Governm- -General G-Ont	2-1-11-110-44100			150,000.00			
13	12/31/2020	Capital Fund-General Governm- -General G-Cor	2-1-11-110-59900				150,000.00		
13	12/31/2020	Due from General Fund	9-0-01-990-19100			1,242,588.58			
13	12/31/2020	Reserve Fund - Surplus/Deficit	9-0-03-300-30500						
13	12/31/2020	Reserve Fund - Surplus/Deficit	9-0-03-300-30500						
13	12/31/2020	Ontario Conditional Grant	9-8-80-800-44100				150,000.00		
13	12/31/2020	Ontario Conditional Grant	9-8-80-800-44100				236,311.00		
13	12/31/2020	Canada Conditional Grant	9-8-80-800-44500				356,495.96		
13	12/31/2020	Rev Contrib from General Fund	9-8-80-800-49100			356,495.96			
13	12/31/2020	Rev Contrib from General Fund	9-8-80-800-49100			236,311.00			
13	12/31/2020	Rev Contrib from Capital Fund	9-8-80-800-49200			150,000.00			
13	12/31/2020	Canada Conditional Grant	9-8-83-832-44500				1,021,173.00		
13	12/31/2020	Revenue Contrubution from General	9-8-83-832-49100			1,021,173.00			
Entry to reclassify deferred grants to reserves									Factual
14	12/31/2020	Contributions to Reserve Funds	1-1-10-100-59900						
14	12/31/2020	Contributions to Reserve Funds	1-1-12-120-59900			991,485.25			
14	12/31/2020	Rev Contrib from General Fund	9-8-80-800-49100						
14	12/31/2020	Revenue Contrubution from General	9-8-83-832-49100				991,485.25		
Entry to record gas tax balances to proper reserve contribution accounts									Factual
19	12/31/2020	Canada Conditional Grants	1-1-12-120-44500				991,485.25		
19	12/31/2020	Canada Conditional Grant	9-8-83-832-44500			991,485.25			
Entry to reclassify gas tax revenue for 2020 recorded to wrong account									Factual
20	12/31/2020	Miscellaneous Revenue	1-1-12-120-47800						
20	12/31/2020	Contributions to Reserves	2-1-12-120-59900				152.00		
20	12/31/2020	Contributions to Capital Fund	9-8-80-801-59200			152.00			
20	12/31/2020	Donations	9-8-87-878-48500						
Entry to balance reserve funds									Factual
						13,078,447.32	13,078,447.32		
Net Income (Loss)			6,684,007.06						

# The Corporation of the Town of Essex

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Year End: December 31, 2020

Attachment II

PSAB Entries

Date: 1/1/2020 To 12/31/2020

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
7	12/31/2020	Amts to be Recv'd in Future Yrs - Post Employ B	1-0-01-800-16250			32,900.00			
7	12/31/2020	Employee Future Benefits Payable	1-0-02-500-25850				32,900.00		
		Entry to record change in EFB for the current year for PSAB							
9	12/31/2020	Deferred revenue development charges	1-0-02-250-23150			1,290,572.00			
9	12/31/2020	Deferred revenue development charges	1-0-02-250-23150				1,291,990.46		
9	12/31/2020	Development Chgs - Ward 1- Admin	1-2-27-275-47100						
9	12/31/2020	Development Chgs - Ward 1 - Roads	1-2-27-275-47105						
9	12/31/2020	Development Chgs - Ward 1 - San Sewer	1-2-27-275-47110						
9	12/31/2020	Development Chgs - Ward 1 - Fire	1-2-27-275-47115			75,080.84			
9	12/31/2020	Development Chgs - Ward 1 - Police	1-2-27-275-47120			40,117.20			
9	12/31/2020	Development Chgs - Ward 1 - Library	1-2-27-275-47125			17,905.36			
9	12/31/2020	Development Chgs - Ward 1 - Parks	1-2-27-275-47130			117,249.16			
9	12/31/2020	Development Chgs - Ward 1 - Recreation	1-2-27-275-47135			257,716.96			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Admin	1-2-27-275-47200			394.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Roads	1-2-27-275-47205			3,206.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Fire	1-2-27-275-47215			2,022.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Police	1-2-27-275-47220			882.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Library	1-2-27-275-47225			464.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Parks	1-2-27-275-47230			3,044.00			
9	12/31/2020	Development Chgs - Wd 2 (SS) - Recreation	1-2-27-275-47235			6,710.00			
9	12/31/2020	Development Chgs - Ward 3 - Admin	1-2-27-275-47300			3,743.00			
9	12/31/2020	Development Chgs - Ward 3 - Roads	1-2-27-275-47305			30,457.00			
9	12/31/2020	Development Chgs - Ward 3 - San Sewer	1-2-27-275-47310			10,675.00			
9	12/31/2020	Development Chgs - Ward 3 - Fire	1-2-27-275-47315			19,209.00			
9	12/31/2020	Development Chgs - Ward 3 - Police	1-2-27-275-47320			8,379.00			
9	12/31/2020	Development Chgs - Ward 3 - Library	1-2-27-275-47325			4,408.00			
9	12/31/2020	Development Chgs - Ward 3 - Parks	1-2-27-275-47330			28,918.00			
9	12/31/2020	Development Chgs - Ward 3 - Recreation	1-2-27-275-47335			63,745.00			
9	12/31/2020	Development Chgs - Ward 4 - Admin	1-2-27-275-47400			5,122.00			
9	12/31/2020	Development Chgs - Ward 4 - Roads	1-2-27-275-47405			41,678.00			
9	12/31/2020	Development Chgs - Ward 4 - San Sewer	1-2-27-275-47410			69,282.00			
9	12/31/2020	Development Chgs - Ward 4 - Fire	1-2-27-275-47415			26,286.00			
9	12/31/2020	Development Chgs - Ward 4 - Police	1-2-27-275-47420			11,466.00			
9	12/31/2020	Development Chgs - Ward 4 - Library	1-2-27-275-47425			6,032.00			
9	12/31/2020	Development Chgs - Ward 4 - Parks	1-2-27-275-47430			39,572.00			
9	12/31/2020	Development Chgs - Ward 4 - Recreation	1-2-27-275-47435			87,230.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Admin	1-2-27-275-47500			14,597.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Roads	1-2-27-275-47505			121,603.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Fire	1-2-27-275-47515			77,811.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Police	1-2-27-275-47520			32,441.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Library	1-2-27-275-47525			1,832.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Parks	1-2-27-275-47530			1,522.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Recreation	1-2-27-275-47535			20,955.00			
9	12/31/2020	Development Chgs - Wd 2 (NSS) - Parks	1-2-27-275-47550			9,600.00			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Admin	1-2-27-275-47600			1,130.13			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Roads	1-2-27-275-47605			9,417.75			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Fire	1-2-27-275-47615			6,027.37			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Police	1-2-27-275-47620			2,511.40			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Library	1-2-27-275-47625			251.14			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Parks	1-2-27-275-47630			753.42			
9	12/31/2020	Development Chgs - Wd 3 (NSS) - Recreation	1-2-27-275-47635			1,381.27			
9	12/31/2020	Contributions to Reserve Funds	1-2-27-275-59900				1,282,827.00		
9	12/31/2020	Contributions to Reserve Funds	1-2-27-275-59900				518,364.28		
9	12/31/2020	Development charges income	1-6-65-650-47850				1,290,572.00		
9	12/31/2020	Rev Contrib from Reserve Fund	1-6-65-650-49900			1,290,572.00			
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-850-48100			2,307.62			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-850-49100			42,931.37			
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-851-48100			2,475.75			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-851-49100			110,461.60			
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-852-48100			2,862.03			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-852-49100			224,048.65			
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-853-48100			10,382.13			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-853-49100			337,851.75			
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-854-48100			14,449.71			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-854-49100			669,730.31			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-855-49100			324,450.60			
9	12/31/2020	Bank Service Charges	9-8-85-855-56550				27,235.88		
9	12/31/2020	Contributions to General Fund	9-8-85-855-59100				1,290,572.00		
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-856-48100			313.99			

The Corporation of the Town of Essex

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Year End: December 31, 2020

Attachment II

PSAB Entries

Date: 1/1/2020 To 12/31/2020

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
9	12/31/2020	Interest Earned - Bank/One Investment	9-8-85-857-48100			5,308.18			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-857-49100			10,675.00			
9	12/31/2020	Rev Contrib from General Fund	9-8-85-858-49100			81,042.00			
9	12/31/2020	Bank Service Charges	9-8-85-858-56550				1,700.07		
		Entry to reclass 2020 development charges activity for PSAB							
15	12/31/2020	Change in amounts to be recovered in future	0-0-00-000-00001				32,900.00		
15	12/31/2020	Salaries & Wages - Full-Time	1-1-12-120-50100				15,900.00		
15	12/31/2020	Salaries & Wages - Full-Time	1-2-20-200-50100				46,400.00		
15	12/31/2020	Salaries & Wages - Full-Time	1-2-22-220-50100			21,100.00			
15	12/31/2020	Salaries & Wages - Full-Time	1-2-27-270-50100				13,200.00		
15	12/31/2020	Salaries & Wages - Full-Time	1-3-30-300-50100			8,700.00			
15	12/31/2020	Salaries & Wages - Full-Time	1-5-52-520-50100			86,000.00			
15	12/31/2020	Salaries & Wages - Full-Time	1-6-60-600-50100				5,700.00		
15	12/31/2020	Salaries & Wages - Full-Time	1-7-70-700-50100				1,700.00		
		Entry to record change in amounts recovered for employee future benefits for PSAB (from wp CC15)							
						5,851,961.69	5,851,961.69		
		Net Income (Loss)	4,373,753.06						

# Appendix 3: Technology in the audit

We have utilized technology to enhance the quality and effectiveness of the audit.

Technology	Our results and insights
<b>KPMG Clara Client Collaboration</b>	<ul style="list-style-type: none"><li>– We have introduced the KPMG Clara Client Collaboration site to bring the best of KPMG to you. The site allows teams to work smarter, connect and collaborate, share insights and updates, and provide advanced solutions to communication. The new tool allows us to track the progress and completion of audit work and facilitate safer and more efficient transfer of documents by our respective teams, especially given the virtual audit environment.</li></ul>
<b>Journal Entry Analysis</b>	<ul style="list-style-type: none"><li>– The list of accounts provided, and journal entry details provided resulted in a successful roll of the accounts, concluding that the population of journal entries is complete, and the financial statements capture all entries and transactions throughout the year.</li><li>– All high-risk journal entries selected for testing were appropriate and authorized by management. All entries tested reflected the underlying events and transactions and were recorded correctly.</li></ul>

# Appendix 4: Lean in Audit™

## An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

## How it works

Lean in Audit employs three key Lean techniques:

### 1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

### 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

### 3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

# Appendix 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Council and Management.

Featured insight	Summary	Reference
<b>Audit &amp; Assurance Insights</b>	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada.	<a href="#"><u>Learn more</u></a>
<b>The business implications of coronavirus (COVID-19)</b>	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.	<a href="#"><u>Learn more</u></a>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<a href="#"><u>Learn more</u></a>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	<a href="#"><u>Learn more</u></a>
<b>Accelerate 2020</b>	Perspective on the key issues driving the Council agenda.	<a href="#"><u>Learn more</u></a>
<b>Momentum</b>	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.	<a href="#"><u>Sign-up now</u></a>
<b>Current Developments</b>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.	<a href="#"><u>Learn more</u></a>
<b>Board Leadership Centre</b>	Leading insights to help board members maximize boardroom opportunities.	<a href="#"><u>Learn more</u></a>





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

