



**THE CORPORATION OF THE
TOWN OF COBOURG**

55 King Street West
Cobourg, ON, K9A 2M2

☎ 905-372-4301
🌐 cobourg.ca

October 15, 2026

Max LeMarchant
Town of Cobourg
hello@votemax.ca
www.votemax.ca

Re: November 2024 Financial Update – Response to Questions

Dear Mr. LeMarchant:

Thank you for your September 28, 2026, correspondence regarding the Financial Update presented to Council on November 26, 2024.

The Town agrees that residents should have access to clear and accurate information regarding the Town's financial position and the actions taken to address historical financial matters.

As requested, the Town has reviewed the questions raised in your correspondence and has provided responses below. Supporting documentation, including relevant management reports and audit information, is provided in the appendices where applicable.

Although the Closed Report was issued in November 2024, it is important to note that the issues identified in that report have subsequently been addressed and reported to Council and the public through the following:

- Report no. COR-2025-010 May 5, 2025 – Financial Sustainability Plan
- Report no. COR-2025-027 December 17, 2025 - Reserve and Reserve Fund Policy
- Report no. COR- 2025-018 September 24, 2025 – Long-term Debt Policy
- Report no. COR-2026-002 – March 25, 2026 – Financial Status Update

Many of the matters identified in the November 2024 Financial Update relate to historical financial practices and transactions spanning multiple years prior to at least 2012. Accordingly, the Town's response focuses on establishing the factual record and distinguishing between matters that were identified for further review, matters that required corrective action, and matters that have since been reconciled or addressed. The Town recognizes the importance of transparency regarding the financial matters identified in the November 2024 Financial Update. The subsequent work has demonstrated that the report contained a combination of historical financial practices, accounting and reconciliation matters, audit observations, preliminary



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estimates and matters requiring corrective action. It would therefore be inaccurate to characterize every item as an unresolved financial issue.

At the same time, the Town acknowledges that the historical circumstances identified opportunities to strengthen financial controls, documentation, capital monitoring, reserve reconciliation, financial reporting, and audit processes. Significant work has been undertaken since 2020 up to and including the November 2024 report to address those matters, and have continued since that report. The completion of the 2024 and 2025 audited financial statements will provide additional independent assurance and a more current financial baseline from which the Town can assess its financial position.

The Town's objective is to ensure that Council and residents have access to reliable, audited and understandable financial information and that historical issues are addressed through appropriate financial controls and reporting processes. We look forward to releasing a comprehensive summary report that details the chronology since 2020 until today.

We appreciate your questions and your interest in the Town's financial management. The Town will continue to provide financial information publicly as it becomes finalized and appropriate for release.

Sincerely,

Tracy Vaughan, CAO
Chief Administrative Officer
Town of Cobourg

Adam Giddings, CPA, CA
Director of Corporate Services / Treasurer
Town of Cobourg

Max LeMarchant, Candidate for Mayor of the Town of Cobourg, www.votemax.ca
email: hello@votemax.ca

September 28, 2026

To: Corporation of the Town of Cobourg

Attention: Tracy Vaughan CAO, Adam Giddings Director of Corporate Finance

Dear Ms. Vaughan and Mr. Giddings,

I am writing regarding the **Financial Update presented to Council in closed session on November 26, 2024**, which the Town has now made publicly available following the September 23, 2026 Council meeting.

Having reviewed the report, the subsequent May 2025 Financial Sustainability Plan and other publicly available financial information, I believe Cobourg residents deserve a clear accounting of the financial issues identified, the corrective actions subsequently taken, and the Town's present financial position.

The November 2024 report identified significant concerns involving unfinanced capital, cash flow, Development Charge funds, obligatory reserves, debt financing, financial reporting, compliance with Town policies and required provincial and federal reporting.

Some of these issues clearly developed over many years and under previous Councils and administrations. My purpose in writing is therefore not to prejudge responsibility, but to establish the facts: **what happened, when it was identified, what Council and senior administration knew, what has been corrected, and what remains outstanding.**

I respectfully request that the Town provide a public response to the following questions.

1. Unfinanced capital

The November 2024 report identified **\$9,975,260 of unfinanced capital as of December 31, 2022**. The subsequent Financial Sustainability Plan referred to approximately \$14 million, while the Community Led Budget Task Force reported approximately \$11.6 million based on the 2023 Financial Information Return.

Please provide:

- the actual unfinanced capital balance at December 31 for each year from 2022 through the most recently available period;
 - an explanation of the differences between the \$9.975 million, \$11.6 million and approximately \$14 million figures;
 - the amount that has subsequently been financed, funded or otherwise eliminated;
 - the current outstanding balance; and
 - the Town's schedule for eliminating the remaining balance.
-

Town of Cobourg Response

Each year the Capital Budget is presented to Council for approval. The format of the Capital Budget is based on the estimation of the cost (expenditures) of the project and the corresponding funding which will cover/fund the expenditures. A Capital Budget has an equal amount of expenditures and funding. Unfinanced capital can occur if:

- the expenditures exceed the Council approved funding
- where capital expenditures have been incurred but the funding source is in whole, or part, debenture funding which has not been issued
- Funding/contributions are recorded/received in excess of the expenditures to date – this is a reduction and netted to unfinanced capital

The main driver of the Town's unfinanced capital is projects have been undertaken and funded by debenture that has never been issued. As of December 31, 2022, these projects date back as far as 2014.

Year End	Unfinanced Capital	Source
December 31, 2022	9,975,260	Audited financial statement
December 31, 2023	11,603,189	Audited financial statement
December 31, 2024	12,571,401	Audited financial statement
December 31, 2025	Not yet audited	2025 audit fieldwork scheduled for November 2026

The audited balances increase reflects changes in the underlying capital project balances and the accounting treatment of projects that had previously been authorized for debt financing but for which debenture proceeds had not been obtained.

The figures referenced in the question relate to different reporting periods:

\$9.75 million – 2022 Year end balance

\$11.6 million – 2023 year end balance

The approximately \$14 million figure was included in the May 5, 2025 Financial Sustainability Plan as a management estimate based on information available at the time the report was prepared. At that point, the Town's 2023 audit had not yet been completed. The estimate was therefore not intended to replace the eventual audited balance.

The Town is addressing the issue through the reconciliation and closure of historical capital projects and by ending the historical practice that created the unfinanced capital balances. The approach is to:

1. Reconcile the historical capital projects comprising the balance.
2. Identify projects that have been completed and determine the appropriate accounting treatment.
3. Identify any remaining funding requirements or project balances.
4. Determine which balances can be appropriately funded from existing approved sources.

5. Ensure that future capital projects are financed in accordance with the approved funding source; and
6. Incorporate the resulting balances into the Town's audited financial reporting.

The capital reconciliation process is arduous as each project reconciliation had to be built from scratch with the review of extensive data, researching approvals and awards, while going back over a number of years. As some of the projects identified in the November 2024 report remain incomplete, the final financing requirements have not been fully established. There is not currently a Council-approved schedule that commits the Town to eliminating the entire balance through a specific annual tax levy, debenture issuance or by a specific date. Establishing such a schedule before the underlying capital project reconciliation is complete could result in an inaccurate funding requirement. Once that work is complete, Council will have reliable information upon which to determine whether and how any remaining amount should be funded.

Regarding amounts that have subsequently been financed, funded, or otherwise eliminated, staff are currently in the process of reconciling the outstanding balances. This work is ongoing, and staff are continuing to determine and implement the appropriate next steps to complete the process.

2. Current cash position

The November 2024 report calculated that, after accounting for obligatory reserves, the Town's operating cash position at December 31, 2022 was overdrawn by approximately **\$8.306 million**.

Please provide the equivalent calculation for December 31, 2023, 2024 and 2025, together with the Town's most current available position for 2026.

Town of Cobourg Response

The balances are as follows:

2022 - \$8,305,628

2023 - \$10,697,801

2024 - \$9,653,627

The balance for 2025 is subject to audit cannot be provided at this time.

3. Development Charge funds

The report indicated that the overdrawn operating cash position was an indication that Development Charge funds had been used to support general operating activities.

Please advise:

- whether the Town agrees with that finding;
- the maximum amount of Development Charge funds affected;
- whether all Development Charge reserve funds are now fully represented by cash or investments;
- what corrective action was taken; and
- when that correction was completed.

Town of Cobourg Response

The Town does not agree that the overdrawn operating cash position, standing alone, establishes that DC funds were used to support general operating activities. Any conclusion regarding the use of restricted funds must be based on the underlying transactions, reserve continuity, and the amounts owing between funds, rather than the consolidated bank balance alone.

DC reserves are restricted for the purposes established under the Development Charges Act and the applicable development charge bylaws. The Town's financial records track these restricted balances independently of the consolidated cash account. Accordingly, the Town would not characterize the entire DC reserve balance as having been used for general operating purposes simply because the consolidated operating cash position was overdrawn. The Town's DC reserves are recorded as restricted reserve funds in the Town's financial records.

At issue at the time of the report was the lack of proper reconciliation of the development charges since 2019. The reconciliations had to be updated to ensure the integrity of the funds.

As such, the Finance Department has undertaken a reconciliation of the DC reserve balances, including the related cash and interfund balances, as part of the Town's broader financial reconciliation work. Corrective action has included:

- Reconciling the DC reserve balances to the underlying financial records.
- Ensuring that expenditures are charged to the appropriate funding source.
- Strengthening the reconciliation of restricted reserves.
- Improving the monitoring and reporting of reserve balances; and
- Incorporating the reconciliation of restricted funds into the Town's ongoing year-end financial reporting and audit processes.

The Town is also continuing to strengthen its cash-flow and reserve monitoring processes so that restricted funding sources are clearly identified and monitored throughout the year.

The reconciliation and corrective work have been undertaken as part of the Town's broader financial cleanup and year-end processes. The Town's most recent audited financial statements and ongoing audit work provide the appropriate mechanism for confirming the final balances.

4. Approximately \$6.3 million in Development Charge transfers

The report states that approximately \$4.1 million of eligible Development Charge transfers identified through the 2016 DC study had not been completed and that this amount had increased to approximately **\$6.3 million by the 2021 study**.

Please provide a reconciliation explaining what happened to these amounts, what transfers were ultimately completed, and the current status.

Town of Cobourg Response

The amounts identified in the 2016 and 2021 Development Charge (DC) studies require some clarification. The approximately \$4.1 million identified in the 2016 DC study and the approximately \$6.3 million identified in the 2021 study were not amounts of cash that had been collected and were required to be physically transferred from one bank account to another. Rather, these amounts represented eligible DC funding requirements associated with capital projects identified in the respective DC studies. The studies establish the projects and the portion of their costs that could appropriately be funded through development charges. The actual transfer of funds occurs through the Town's capital and reserve accounting processes as eligible expenditures are incurred and the applicable funding is applied.

Since the 2016 study, the identified projects have generally fallen into the following categories:

- Projects for which the eligible DC portion was subsequently funded/transferred from the applicable DC reserve.
- Projects that proceeded at a different cost or scope than originally contemplated.
- Projects that were deferred or have not proceeded.
- Projects where the timing of the expenditure differed from the timing anticipated in the DC study.
- Projects for which another funding source was ultimately used; and
- Projects that remain in the capital program and continue to have DC funding eligibility.

The Town's Finance Department has been reconciling the historical DC-funded projects and reserve balances as part of its broader financial cleanup and audit work. Where an eligible capital expenditure has been incurred, the applicable DC reserve is used as a funding source in accordance with the Development Charges Act and the Town's DC bylaws. Where a project has not proceeded, there is no expenditure requiring a corresponding transfer.

The reconciliation therefore needs to be considered against the actual project expenditures and funding sources rather than treating the amounts identified in the DC studies as automatic transfers.

The current DC reserve balances are reported separately from the Town's operating funds and continue to be available for eligible development-charge purposes, subject to the requirements of the Development Charges Act and the applicable bylaws.

In summary, the approximately \$4.1 million identified in the 2016 study and approximately \$6.3 million identified in the 2021 study should not be added together or treated as cumulative uncompleted transfers. They represent the results of two separate DC capital and funding analyses conducted at different points in time. The increase primarily reflects the subsequent DC study's updated assessment of eligible capital requirements, rather than evidence that approximately \$6.3 million of required transfers were outstanding.

The final project-by-project reconciliation will establish which eligible transfers have been completed, which projects remain outstanding or deferred, and the amount of DC funding currently available for eligible future expenditures.

5. Missing Development Charge annual reports

The Treasurer reported that required Development Charge annual reports for **2020, 2021 and 2022** had not been completed.

Have all outstanding reports now been completed and submitted or presented as required?

If so, please provide the completion dates and links to the reports.

Town of Cobourg Response

The 2023 Development Charge Annual Report was presented to the Corporate, Finance, and Legislative Standing Committee on October 9, 2025, and approved by Council on October 29, 2025.

The 2024 Annual Report has been drafted and is anticipated to be presented to Council in Q1 2027. The 2025 Annual Report will be completed once the 2025 year-end audit is substantially completed.

The reporting timelines have been impacted by the need to complete the underlying reconciliations of both capital projects and reserves/reserve funds. These reconciliations are necessary to ensure that the Development Charge Annual Reports are supported by accurate and complete information and that the balances reported are properly substantiated.

Given the need to prioritize the most current reporting and complete the associated reconciliations, the 2020 to 2022 Annual Reports have not yet been completed. Staff have prioritized bringing the current reporting up to date and will complete the outstanding prior-year reconciliations and reports as resources permit.

6. OCIF and Canada Community Building Fund reporting

The November report identified inaccuracies in provincial and federal infrastructure-funding reporting, including approximately **\$328,657 of OCIF funds that had been transferred and utilized but had not been reported as of December 31, 2022.**

Have all inaccurate or incomplete filings now been corrected?

Please identify the affected reporting years, correction dates and whether the relevant provincial or federal authorities have accepted the corrected information.

Town of Cobourg Response

The November report identified historical discrepancies between the Town's financial records and certain provincial and federal infrastructure-funding reporting. These matters arose primarily from the timing of expenditures, funding receipts, and the submission of program reporting. The approximately \$328,657 of OCIF funding referenced in the report relates to funding that had been received and utilized but had not been reflected in the applicable reporting as at December 31, 2022. This was a reporting and reconciliation issue and did not represent a loss of OCIF funding.

The Finance Department has subsequently reviewed the applicable infrastructure funding programs and reconciled the funding recorded in the Town's financial system to the related project expenditures, funding agreements and reporting requirements. The historical reporting issues have been addressed through the Town's ongoing financial reconciliation and audit work. Where amendments or additional information were required, the Town has updated its records and reporting accordingly.

The approximately \$328,657 identified in the November report was subsequently incorporated into the Town's reconciliation of OCIF funding and related capital expenditures. The issue was not that the Town had failed to receive the funding or that the funds were unavailable. Rather, the funding and related project activity had not been completely reflected in the reporting position as at December 31, 2022. The Town has reconciled the funding to the applicable capital projects and financial records. The correction forms part of the broader financial cleanup undertaken by Finance and the Town's auditors.

The Town will continue to retain supporting documentation for each funding program, including funding agreements, claims, project expenditures, receipts and correspondence with the applicable funding authorities, as part of the Town's financial records.

7. Obligatory reserve funds

The Treasurer recommended that obligatory reserve funds be segregated beginning January 1, 2025.

Was this recommendation implemented?

Please provide the present balances of the Town's major obligatory reserve funds and confirmation that these balances are fully supported by segregated cash or investments.

Town of Cobourg Response

The recommendation to segregate the obligatory reserve funds has been implemented. The obligatory reserve balances are noted in the audited financial statements.

8. \$1.87 million adjustment

The November report identified an approximately **\$1.87 million adjustment to unfinanced capital** for which the Treasurer stated that no explanation or evidence of reporting to Council had been located.

Has the Town subsequently determined:

- why this adjustment was made;
- who authorized it;
- whether Council authorization was required;
- whether Council was informed; and
- whether any corrective accounting entry was required?

Town of Cobourg Response

The approximately \$1.87 million adjustment identified in the November report was subsequently reviewed as part of the Town's reconciliation of historical capital projects, financing, and unfinanced capital balances. The review confirmed that the adjustment was a historical accounting adjustment associated with the reconciliation of capital project and financing balances.

The \$1.87 million was an allocation from the 2022 year end surplus to unfinanced capital. The transaction is acceptable assuming Council resolution, however the review did not identify the \$1.87 million adjustment as being approved by Council.

The November report correctly noted that, at the time of that review, Finance had not located documentation establishing how the specific \$1.87 million adjustment had been reported to Council.

The subsequent review has not identified a separate Council report specifically approving or authorizing the journal entry and the audited statements were complete and approved prior to the November 2024 report.

9. Debt financing and Council-approved policy

The report identified capital projects shown in budgets as being debt financed even though debt was not subsequently issued and found projects that apparently did not comply with the Town's debt policy.

Has this practice now ended completely?

Please explain the controls now in place to ensure that Council-approved debt financing is implemented as represented in the budget and complies with Town policy.

Town of Cobourg Response

Yes. The Town has discontinued the historical practice of carrying debt-financed capital projects forward without reconciling the approved debt financing to the actual financing obtained.

The Town's current approach is that a capital project approved with debt as a funding source must be actively monitored through the capital program and the associated debt financing must either be obtained in accordance with the approved authorization or the funding strategy must be formally reviewed and changed through the appropriate approval process. A project being included in the budget with debt as a funding source is therefore no longer treated as sufficient evidence that the debt financing will simply remain outstanding indefinitely.

The Town has strengthened the controls around debt-funded capital projects in several areas. Debt financing must be supported by the appropriate Council authorization and must comply with the requirements of the Municipal Act, applicable regulations, and the Town's debt policy. Capital projects are reconciled to their approved funding sources as part of the Town's capital monitoring and year-end processes. Where a project has been completed or substantially completed without the anticipated debt being issued, Finance reviews the project to determine the appropriate treatment rather than allowing the project to remain indefinitely as an unresolved debt-financed project.

The Town has resumed more regular capital project monitoring and reporting. This provides Finance and departments with an opportunity to identify funding variances, project savings, overruns, funding shortfalls, and outstanding financing requirements before year-end. This is particularly important for debt-funded projects because it allows the Town to identify a project where the actual financing requirement differs from the original budget.

At year-end, Finance reviews outstanding capital projects and their funding sources. Projects that remain open, have been completed, or have not required the debt originally contemplated are reviewed to ensure that the accounting treatment and funding source are appropriate.

The key change is that debt is now treated as an active financing requirement rather than simply a budget line. Where Council approves a capital project on the basis that debt will be issued, Finance monitors the project through to the actual financing event. If the project ultimately does not require the anticipated debt, the project and its funding are reconciled rather than allowing the approved debt amount to remain indefinitely as an unresolved financing requirement. This

provides a clear distinction between: Council approving a project and an intended debt funding source, and the Town actually issuing debt and recording the resulting financing obligation. The historical review also identified opportunities to improve documentation and audit trails. Finance has incorporated those lessons into its capital and financial reporting processes.

10. Auditor warnings

The report indicates that external auditors had been raising concerns regarding unfinanced capital since at least the 2017 year-end audit.

Please provide the relevant auditor management letters, recommendations or Audit Committee reports from 2017 onward concerning unfinanced capital, cash management, reserves, Development Charges or related financial-control matters.

I would also appreciate clarification regarding what corrective action was requested following each warning and when it was undertaken.

Town of Cobourg Response

The management letter reports have been provided in Appendix A.

The auditor management letters themselves provide updates and commentaries from the external auditors regarding matters identified through the audit process, including matters relating to financial controls, capital financing, reserves and related processes.

11. Senior administration's knowledge and response

The November report indicates that the CAO had instructed Finance to address the unfinanced-capital issue, but that the subsequent review found no plan or evidence of work in progress.

Please advise:

- when senior administration first became aware of the auditor's concerns;
- when Finance was directed to develop a corrective plan;
- what follow-up occurred; and
- why the matter remained unresolved.

Town of Cobourg Response

Following the CAO's appointment in October 2020, the issue of unfinanced capital was identified and discussed with the previous Finance staff. Direction was provided to Finance to review the outstanding unfinanced capital balances, determine the appropriate treatment, and develop an action plan, consistent with the matters identified through the audit management process.

The CAO continued to follow up with Finance staff and raised concerns through the appropriate internal and governance channels, and recommended measures to strengthen financial management. While some recommendations were implemented and others remained outstanding, efforts continued within the CAO's authority and through established governance processes to obtain reliable information, reconcile historical capital projects and funding sources, and address related reserve and reserve fund balances.

In 2023, the CAO recruited a new Treasurer and directed a comprehensive examination of the Town's financial position and historical financial practices. Recognizing staffing pressures within Finance and the need for municipal treasury expertise, the CAO also secured temporary support funded through staff-gapping savings. These measures were intended to establish a reliable understanding of the Town's financial position and identify the corrective work required.

The review found that historical records and supporting documentation were dispersed, incomplete, or insufficient to readily trace and verify balances. Establishing the Town's financial position therefore required a detailed reconstruction and reconciliation of capital projects and financing, reserves, Development Charges, cash management, debt, and statutory reporting. This was an extensive investigative process, not a single accounting adjustment.

The Town is correcting the historical practice of proceeding with capital projects without fully securing or implementing the associated financing. Through reconciliation of historical capital and financing balances, stronger monitoring of approved funding sources, and more disciplined capital and debt financing processes, the Town is working to ensure that capital expenditures are matched with appropriate financing and that financing arrangements are tracked through to completion. The introduction of a dedicated infrastructure levy, increased reserve contributions

and the funding of the 2026 capital program through existing reserves represent important steps toward ending reliance on unfinanced capital as a financing practice and ensuring future capital investments are supported by planned, sustainable funding sources.

12. Council's knowledge

Please identify when Council, or its Audit Committee, was first specifically advised not simply of the amount of unfinanced capital but of its **cash-flow, reserve, policy and long-term financial implications**.

Please identify the relevant reports and meetings.

Town of Cobourg Response

Council was first advised of the noted items in the November 26, 2024 Financial Update report. A Financial Sustainability Plan was presented to Council and the public on May 5, 2025. An additional update was provided in the Financial Status Report issued publicly on March 12, 2026.

13. November 26, 2024 closed-session report

The November 2024 Financial Update contains personnel-related information that may appropriately have required confidential consideration. It also contains extensive corporate financial information concerning unfinanced capital, cash flow, reserves, Development Charges, financial policies and statutory reporting.

Please explain:

- the statutory basis under the *Municipal Act* upon which the November 26, 2024 discussion was closed;
- which portions of the report required confidentiality;
- whether consideration was given to publicly releasing a redacted version containing the financial information at that time; and
- why the redacted report was not publicly released until September 2026.

Town of Cobourg Response

The November 26, 2024 Financial Update was considered by Council in closed session as recommended by a lawyer because the report contained information relating to identifiable municipal employees. The statutory authority for that portion of the discussion was section 239(2)(b) of the *Municipal Act*, 2001, which permits a meeting or part of a meeting to be closed to the public where the subject matter involves “personal matters about an identifiable individual, including municipal or local board employees.” The fact that the Financial Update also contained substantial financial information does not, in itself, make all of that financial information subject to the closed-meeting exemption. The authority to meet in closed session must be considered in relation to the subject matter that falls within the statutory exemption.

The subsequent review of the report indicates that the financial information could ultimately be separated from the personnel-related information. However, at the time of the November 2024 meeting, the report had been prepared as a comprehensive internal financial update for Council's consideration and was presented in the context of the closed-session discussion. Since that time, a public reports have been prepared and presented that isolated the non-confidential financial information from the personnel-related material. This reports included the May 2025 Financial Sustainability Plan, 2025 Reserve and Reserve Fund Policy, September 2025 Long-term debt policy, and March 2026 Financial Status Update.

Following Council's September 23, 2026 direction, the Town published the November 26, 2024 Financial Update, together with other financial information, on its Treasurer's Financial Updates webpage.

14. Corrective-action status

I request that the Town prepare a straightforward public reconciliation of every recommendation contained in the November 2024 Financial Update showing:

Issue identified → corrective action required → responsible department → action taken → completion date → present status → independent/auditor verification, where applicable.

This would provide residents with a much clearer understanding of what has been corrected and what remains outstanding.

Town of Cobourg Response

The Town supports providing Council and residents with clear information regarding the issues identified in the November 2024 Financial Update and the actions subsequently taken.

It is important, however, to distinguish between recommendations formally made by the Town or its auditors and observations, financial information, historical practices, and matters identified for further review within the November 2024 Financial Update. Finance has subsequently undertaken significant work to reconcile and address the financial matters identified, including historical capital and financing balances, reserves, Development Charges, cash-flow management, financial reporting, and capital project monitoring. Some matters have been resolved, while others form part of ongoing financial reporting, audit, policy, or process improvements.

Many of the issues identified have subsequently been addressed through ongoing Finance and senior administration work and have been reported to Council through an open and transparent process, including the following reports:

- Report no. COR-2025-010 May 5, 2025 – Financial Sustainability Plan
- Report no. COR-2025-027 December 17, 2025 - Reserve and Reserve Fund Policy
- Report no. COR- 2025-018 September 24 2025 – Long-term Debt Policy
- Report no. COR-2026-002 – March 25, 2026 – Financial Status Update

These reports provided substantive updates on a number of long-standing financial matters, including unfinanced capital, financial controls, and updates to relevant policies and procedures. The reports also outlined the steps being taken by staff to strengthen financial management practices and address historical issues.

In particular, the March 2026 Financial Update provided Council with a comprehensive summary of the areas of concern that had been identified, the actions undertaken by staff, and the status of each item, including whether the matter had been addressed or remained subject to further work.

This reporting demonstrates that the matters identified have not been ignored or left without follow-up. Staff have continued to work through the underlying historical issues, implement corrective measures, strengthen financial processes and provide Council with regular updates on progress and outstanding items.

Task	Completed	Notes
Not issuing debt when using as a funding tool	✓	Debt is issued if identified in capital budgets and meets the revised debt policy.
Not following debt management policy	✓	Updated debt policy being followed.
Unfinanced capital	Partially	With the adoption of the updated Debt Policy and the shift toward funding capital projects through reserves, no additional projects are anticipated to be added to the unfinanced capital program.
Missing or outdated policies - debenture	✓	Updated debt policy.
Missing or outdated policies - reserves and reserve funds	✓	Reserve fund policy updated. Report provided to Council that analyzed reserves and set targets.
No separate bank accounts for DC, CCBF, Parkland in Lieu, and Prov. Gas Tax	✓	Separate bank accounts created, however funding strategy needs to be determined.
DC annual reporting not completed	Partially	2023 report provided to Council. 2024 is reconciled however waiting for year end to be completed.
OCIF and CCBF reporting not accurate to activity	✓	Reporting updated to include actuals.

15. Outstanding audited financial statements

The Town's website presently provides audited Town financial statements through 2023.

Please advise:

- the present status of the Town's 2024 audited financial statements;
- when they will be publicly released;
- the anticipated schedule for completion of the 2025 audited statements; and
- the reason the Town's audited financial reporting is presently this far behind.

This last point is particularly important. Without current audited financial statements, Council and the public have limited ability to independently verify the Town's present cash position, reserve balances, unfinanced capital and the effectiveness of the corrective measures undertaken since 2024.

I recognize that the current Finance Department has undertaken substantial work to identify and correct historical issues and that some of these problems extend back many years and across several Councils and administrations.

That makes a complete public accounting even more important.

The November 2024 report raises serious questions concerning the Town's historical financial controls, management oversight, compliance and reporting. Council was formally presented with that report in November 2024. The public is entitled to understand what happened subsequently and whether the problems identified have now been fully corrected.

I therefore respectfully request that these questions be answered publicly and that the supporting financial information be made readily available to residents.

This should not be about assigning responsibility before the facts are known. It should be about **transparency, accountability and restoring confidence in the financial management of the Town of Cobourg.**

Thank you. I look forward to your response.

Sincerely,

Max LeMarchant

Candidate for Mayor of the Town of Cobourg

www.votemax.ca

email: hello@votemax.ca

Town of Cobourg Response

The 2024 audited financial statements have been drafted. Updates have been provided to the Audit and Risk Committee, and a meeting has been scheduled for October 6, 2026, for the Committee to review the financial statements. Town staff have completed the internal audit preparation for the 2025 financial statements. Audit fieldwork has been scheduled with the auditors for the week of November 23, 2026, and staff anticipate that draft 2025 financial statements will be available for review in Q1 2027. Once the 2024 and 2025 year-ends have been completed, staff will focus on the 2026 year-end process with the objective of returning to a more consistent and timely annual audit and financial reporting cycle.

A summary of the timeline and delays are noted as follows:

2023: The initial delay of the 2023 Audited Financial Statements was due to staff attention required to reconciling issues brought forward in the closed session report CM-2024-15.

Further delays resulted from auditor availability as the Town's previous auditor, KPMG was unable to begin the field work until July 2025 with further delays due to auditor vacations and communication issues.

The 2023 Audited Financial Statements were submitted to Council in May 2026 for their approval.

2024: The 2024 statements were not being prepared in isolation. Staff were simultaneously trying to complete the outstanding 2023 work while undertaking the next year-end.

Further, the issues noted with KPMG resulted in a staff report to the Audit and Risk Committee on April 14, 2026. The approval of Baker Tilly as auditor was not officially approved by Council until May 27, 2026. Subsequent to the approval of Baker Tilly, staff scheduled the 2024 year end audit for the week of July 6, 2026.

2025: Staff began working on the 2025 Audited Financial Statements in 2026. At this point, staff were managing a two-year accumulated backlog and working toward correcting an annual audit cycle. That means the 2025 statements are being completed while the Town is simultaneously brought the 2023 and 2024 reporting cycle back into order.

This timeline outlines key municipal financial governance milestones, key staff transitions, and the schedule for bringing outstanding year-end audit filings current from late 2023 through early 2027:

Date	Details
October 2023	Onboarding of new Treasurer/Director of Corporate Services.
November 2024	Report CM-2024-15 provided Council to discussing various financial and accounting issues.
July 2025	Beginning of 2023 year end field work by KPMG.
April 2026	Review of 2023 financial statement by Audit and Risk Committee. Recommendation from staff to change auditors (report AR-2026-003).
May 2026	Appointment of Baker Tilly as auditor.
July 2026	Beginning of 2024 year end field work by Baker Tilly.
October 2026	Review of 2024 financial statement by Audit and Risk Committee.
November 2026	Beginning of 2025 year end field work by Baker Tilly.
Q1 2027	Anticipated date of completion of the draft 2025 audited financial statement.

Appendix A – Management Reports

Corporation of the Town of Cobourg

Audit Findings Report
for the year ended December 31, 2018

Prepared June 27, 2019 for Audit Committee
meeting on July 9, 2019

kpmg.ca/audit



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The contacts at KPMG in connection with this report are:

Lori Huber, CPA, CA, LPA
Lead Audit Engagement Partner
Tel: 613-541-7320
lahuber@kpmg.ca

Caitlyn Cox, CPA, CA
Audit Manager
Tel: 780-429-6088
caitlyncox@kpmg.ca

Echo Chan
Senior Accountant
Tel: 613-541-7358
echochan@kpmg.ca

Executive summary



Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements as at and for the year ended December 31, 2018 of the Corporation of the Town of Cobourg ("the Town").

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on January 23, 2019.



Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.



Finalizing the audit

As of June 27, 2019, 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 the Audit Committee;
- obtaining evidence of Council's approval of the consolidated financial statements on July 22, 2019;
- receipt of signed management representation letter;
- completion of subsequent event review procedures.

We will update the Audit Committee, and not solely the Chair (as required by professional standards), on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. 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.



Executive summary



Audit risks and results

We discussed with you at the start of the audit a number of significant financial reporting risks, including:

- Fraud risk from revenue recognition and management override of controls.
- Specific accounts considered as other areas of focus.

These risks have been addressed in our audit. See page 3.



Critical accounting estimates

We have identified a critical accounting estimate within the Town's consolidated financial statements related to the employee future benefit obligations. See page 4.



Significant accounting policies and practices

On January 1, 2018, the Town adopted PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual rights.

The adoption of these standards did not result in an accounting policy change or adjustment to the consolidated financial statements. See page 7.



Adjustments and differences

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

We did not identify any differences that remain uncorrected. See page 9.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR. See page 10.





Audit Plan Debrief

We provide a summary debrief of items included in the Audit Plan presented to the Audit Committee on January 23, 2019 to aid in discussion on changes to or deviations from the Audit Plan.

Item	Our response and significant findings
Your audit team	There were no changes in your KPMG Partner or Manager from the Audit Plan. The year-end on-site audit team included three KPMG municipal team members, including a manager and senior accountant who had worked on the year-end audit in the prior years.
Group materiality	Group materiality remained at \$1,200,000, which represented approximately 2.7% of prior year total expenses of \$44,504,992. Current year total expenses increased to \$48,565,597, and therefore, group materiality represents approximately 2.5% of current year expenses, which falls within range of our required benchmark of between 0.5% - 3.0%.
Group audit	We have completed our group audit requirements related to the individually financially significant components within the Town's consolidated financial statements: Town of Cobourg Holdings Inc. and Waterworks of the Town of Cobourg. This work includes reliance on a component auditor, Baker Tilly LLP.
Significant financial reporting risks	In the audit plan, we did not identify any significant financial reporting risks other than the presumed fraud risks noted below. We did not identify any additional significant financial reporting risks that required additional audit procedures.
Areas of audit focus	There were no changes from the Audit Plan relating to areas of audit focus, or to methods of testing performed over each area of audit focus.
Fraud Risk	We performed our required audit procedures in professional standards over fraud risk as communicated to the Audit Committee in the Audit Plan, related to the management override of controls which is a presumed fraud risk. We did not uncover any issues during the audit nor did we identify any additional fraud risks from our audit work.
Additional audit-related work – required to support audit opinion	We performed the audit of the Downtown Business Improvement Area and Cobourg Public Library. Our separate audit and assurance work is completed.
New Independent Auditors' Report	The new auditors' report came in to effect for the 2018 fiscal year of the Town. The draft auditors' report reflects the new requirements. See Appendix 1.





Critical accounting estimates

Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas.

Asset / liability	Balance (\$'000s)
Employee Future Benefit Obligations	2018 – \$2,683 (2017 - \$2,641)
KPMG comment	
– KPMG obtained and reviewed the actuarial accounting valuation report for WSIB liabilities and extended health care, dental, life insurance and sick leave benefits, obtained from the Town’s third party actuary, Nexus Actuarial Consultants, in fiscal 2018. The employee data provided to the actuary was tested in 2017, the year of the full valuation. – As management utilized an expert in preparing the actuarial valuations, KPMG assessed the professional competence and objectivity of management’s expert. – KPMG reviewed the disclosures in the notes to the consolidated financial statements. – We believe management’s process for estimating the Employee Future Benefit Obligations is appropriate. Based on our audit procedures, KPMG believes that the account balance is reasonable as at year-end.	

Data & Analytics in the audit

We have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit.

We have summarized areas of the audit where D&A tools and routines were used.

Area of focus	D&A tools and routines	Our results
Journal Entry Testing	- Utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts. - Utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing).	Journal entries were found to be complete. No exceptions were noted.
DataShare	- Utilized the push technology of DataShare to gain read-only access to the Town's accounting data. - Extracted a copy of the general ledger and trial balance to assist in the performance of our substantive audit procedures.	No exceptions were noted.

A connected and collaborative experience

The world is changing – and KPMG's audit capabilities are changing with it. Automation, the disruption of analytics and the need to be more relevant in financial reporting are driving a transformation at KPMG. We're bringing together our existing powerful Data & Analytics capabilities, innovative new technologies, and our proven audit workflow into a new Smart Audit Platform – KPMG Clara. See Appendix 6 and 7 for more detail.



Significant accounting policies and practices

Significant accounting policies and practices are disclosed in Note 1 to the consolidated financial statements. There are no accounting policies with qualitative aspects that have a pervasive impact on the user’s understanding of the consolidated financial statements.

Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the Town’s relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the consolidated financial statements	We believe the financial statement presentation and disclosure are adequate including the adoption and application of new Canadian public sector accounting standards: PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual rights. See Note 17 in the consolidated financial statements.
Application of accounting pronouncements issued but not yet effective	This disclosure is optional for the Town as there are no immediate concerns at this time regarding future implementation. The most significant pronouncement in the near term relates to Asset Retirement Obligations.

Significant accounting estimates

Management’s process for identification and making accounting estimates is made on a reasonable and rational basis. Other than the critical accounting estimates previously noted, the Town does not have any significant accounting estimates within the consolidated financial statements. Other accounting estimates in the consolidated financial statements include, but are not limited to, the carrying value of tangible capital assets and the completeness and accuracy of the provisions for accrued liabilities at December 31, 2018.

No indicators of possible management bias have been identified.



Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements between MD&A and the audited consolidated financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Town's related parties, significant difficulties encountered during the audit, and disagreements with management.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG Comment
Adoption of new Canadian public sector accounting standards	• Effective January 1, 2018, the Town adopted PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual rights. • KPMG reviewed and discussed the implication of the accounting standard change with management. • The adoption of these standards did not result in any adjustments to the consolidated financial statements as at January 1, 2018. • The impact of the adoption of these new accounting policies has been appropriately disclosed in the notes to the consolidated financial statements.



Other matters (continued)

Matter	KPMG Comment
PSAB Non-Traditional Pension Plans	• In October 2018, an invitation to comment was put out by the Public Sector Accounting Board (PSAB) regarding the Employer Benefits: Non-Traditional Pension Plans. • Non-traditional pension plans are plans that involve employers sharing different degrees of risk related to pension benefits with other parties, including employees and other employers. The accounting principles and guidance explored in the Invitation to Comment may have significant effect on the accrued benefit obligation reported by public sector entities. • KPMG responded to the Invitation to Comment and is in support of the matter on a principle basis, whereby paragraph .100 of the document states “The entity should recognize its share of the accrued benefit obligation of the pension plan in its financial statements, reflecting the substance of the terms in the plan and taking into consideration relevant factors, facts, events and circumstances.” • We are concerned with significant inconsistencies that will likely arise across entities within a pension plan regarding the economic substance of the plan, and how it should be accounted for. This inconsistency across entities within a plan, and more broadly across the public sector would undermine the anticipated benefits of these standards. We are also concerned with the impact year to year swings in accrued benefit obligations could have on public sector entity compliance with accountability agreements. • Further, where a pension plan is in a surplus position, we also question whether a public sector entity's proportionate share of the surplus would meet the definition of an asset under PS3210, since the public sector entity itself does not necessarily control access to that proportionate share. • KPMG will remain actively engaged in the development of this proposed accounting standard change and ensure Management is aware of this emerging issue.

Adjustments and differences



As you will recall from our Audit Planning Report, group materiality for fiscal 2018 was set at \$1,200,000 which translated into an audit misstatement posting threshold of \$60,000. As such, all misstatements identified during the audit greater than \$60,000 would be recorded on our summary of adjustments and differences.

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected, if any.

Corrected adjustments

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Control observations



In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be material weaknesses or significant deficiencies in ICFR.

Significant deficiencies

We have not identified any material weaknesses or significant deficiencies in ICFR in the course of our audit.

Other deficiencies

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency. Please refer to Appendix 2 for our management letter with respect to control and other observations noted through the course of the audit as well as our follow up to matters raised in prior years.



Appendices

-  **Appendix 1: Required communications**
-  **Appendix 2: Management letter**
-  **Appendix 3: How we deliver audit quality**
-  **Appendix 4: Audit quality and risk management**
-  **Appendix 5: Background and professional standards**
-  **Appendix 6: Lean in Audit™**
-  **Appendix 7: KPMG's audit approach and methodology**
-  **Appendix 8: Data & analytics in audit**
-  **Appendix 9: KPMG's Cyber Security Protocol**



Appendix 1: Required Communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:



Auditors' Report

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



Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.



Annual independence letter

A cornerstone of our auditing relationship with your organization is our independence. We maintain procedures to ensure we are independent and objective when it comes to our approach to the audit of your consolidated financial statements. Under the new Canadian Auditing Standards which were adopted by all auditing firms in Canada in 2010, we are only required to issue a separate independence letter if we identify potential independence issues relating to our audit of your consolidated financial statements. As of the date of this report, we have not identified any potential independence matters which need to be communicated to you.

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of the Corporation of the Town of Cobourg (the "Town"), which comprise:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Town as at December 31, 2018, and its consolidated results of operations, its consolidated change in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Town's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Town to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
863 Princess Street, Suite 400
Kingston, Ontario K7L 5N4
Canada

July 22, 2019

Ladies and Gentlemen:

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 Cobourg ("the Entity") as at and for the period ended December 31, 2018.

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 January 21, 2019, 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 relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of the Council that may affect the financial statements, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements



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 management is 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 and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others
 - 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 and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 7) 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). We also confirm that the financial statements of the Entity will not be included in the consolidated 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,

CORPORATION OF THE TOWN OF COBOURG

By: Mr. Ian Davey

Director of Corporate Services/Treasurer

By: Mr. Stephen Peacock

Chief Administrative Officer

cc: Audit Committee



Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

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

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

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

RELATED PARTIES

In accordance with Public Sector Accounting Standards *related party* is defined as:

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

In accordance with Public Sector Accounting Standards a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Appendix 2: Management letter



KPMG LLP
863 Princess Street,
Suite 400 Kingston
ON K7L 5N4 Canada
Telephone 613-549-1550
Fax 613-549-6349

Mr. Ian Davey
Director of Corporate Services/Treasurer
The Corporation of the Town of Cobourg
55 King Street West
Cobourg ON K9A 2L9

July 22, 2019

Dear Mr. Davey:

In planning and performing our audit of the financial statements of the Corporation of the Town of Cobourg ("the Entity") for the period ended March 31, 2019, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our consideration of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

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

IDENTIFICATION

We did not identify control deficiencies that we determined to be significant deficiencies in ICFR.

Refer to the Appendix A for the definitions of various control deficiencies.



OTHER CONTROL DEFICIENCIES

In Appendix B, we have included a follow up on prior year observations.

In Appendix C, we have identified certain control deficiencies in the current year that we determined to be other control deficiencies in ICFR that have been brought to management's attention.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or anyone other than management and those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the right end.

Chartered Professional Accountants, Licensed Public Accountants

cc: Audit Committee

Appendix A - Definitions of Various Control Deficiencies

Terminology	Definition
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control 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 the person performing the control does not possess the necessary authority or competence to perform the control effectively.
SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix B – Update to Prior Year Control Deficiencies

2017 Observation and Recommendation	2018 Update
Employee Future Benefits In order to have the actuarial valuation of the employee future benefit liabilities completed by the actuary, the Town provides certain census and payroll data to the actuary. Our detail test work indicated that the census data provided to the actuary did not contain accurate information in 3 out of 30 instances. We recommend that the Town ensure the accuracy of census data provided to the actuary by establishing the appropriate level of review before the information is submitted. This will help ensure the accuracy of the actuarial valuation and resultant financial statement effects. The Town corresponded with the actuary and was able to quantify the impact of the issues noted and conclude it was not significant.	The current year was not a full valuation year, and as such, there were no census data submissions to the actuary that KPMG was required to test as part of the audit. KPMG will keep this item open until the next full valuation year, at which time the data will be tested and the observation updated.
Unfinanced Capital Unfinanced capital is a component of accumulated surplus on the Town's consolidated financial statements. When reviewing unfinanced capital, we noted that the balance includes capital acquisitions totaling \$1.6 million where the funding of these expenditures has not been determined. We recommend that the Town formalize a plan to fund these aged, unfinanced capital expenditures over the next fiscal year.	In 2018, KPMG noted that unfinanced capital increased by \$921,330. Through discussions with management, it was noted that plans are continuing to be developed to fund aged, unfinanced capital expenditures, however, there continues to be significant expenditures that have not been funded. We will continue to monitor the unfinanced capital expenditures in the next fiscal year.

Appendix C – Current Year Control Deficiencies

2018 Observation	2018 Recommendation
Vacation During the audit, KPMG tested the vacation accrual and noted that there are employees with significant balances. Specifically, there are 25 non-union employees with vacation balances in excess of two weeks as the policy for non-union employees is unlimited. The risk to the Town is the financial liability and potential weakening of internal controls.	KPMG recommends that management develop plans to reduce the vacation banks that non-union staff have accumulated. Such a plan may include the implementation of a non-union employee vacation policy that restricts the vacation that can be carried forward each year.

Appendix 3: How we deliver audit quality



Appendix 4: Audit Quality and Risk Management



KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the six key elements of our quality control system.

Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality Report](#).

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



We do not offer services that would impair our independence.

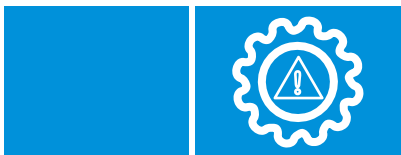
The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 5: Background and professional standards



Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

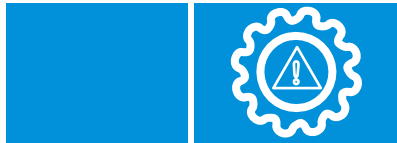
Documents containing or referring to the audited consolidated financial statements

We are required by our professional standards to read only documents containing or referring to audited consolidated financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited consolidated financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

Management has represented to us that the Town does not produce an annual report containing or referring to audited consolidated financial statements.

We are also required by our professional standards when the consolidated financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 6: Lean in Audit™



1) 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.

KPMG and management held a Lean in Audit™ session to document the procedures within the Cash Handling processes for the Town on November 22, 2018. Our Lean in Audit™ methodology uses LEAN's Value Stream Mapping techniques to document processes and identify challenges and improvement ideas. KPMG provided management with a report of the session including documentation of the cash handling process, and the challenges and ideas for improvement identified in the session by the Town's personnel, management and KPMG. As part of our audit for fiscal 2018, we performed follow up inquiries and note the opportunities identified are being considered by management.



2) How it works

Lean in Audit employs three key Lean techniques:



– Lean training

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



– 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.

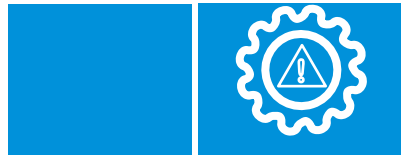


– Insight reporting

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



Appendix 7: KPMG's audit approach and methodology



As a firm, we will continue to expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions



Appendix 8: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.

For the audit

Audit quality

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For your business

Actionable insight

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?



Appendix 8: Data & analytics in audit (continued)

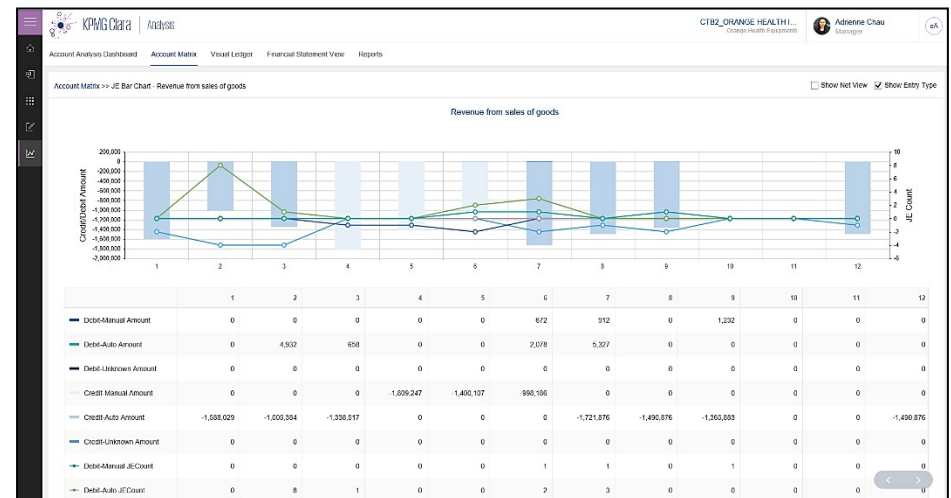
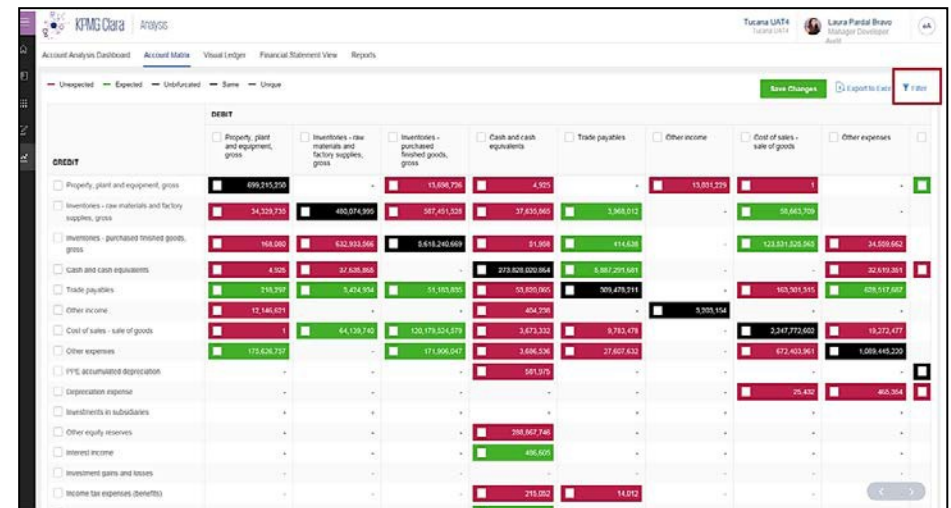
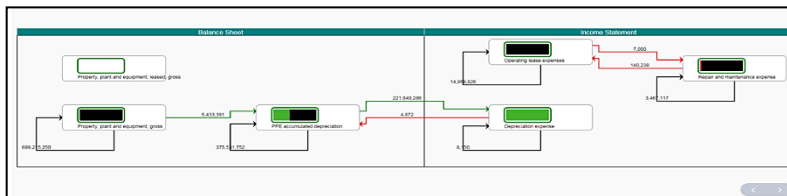
KPMG Clara Advanced Data & Analytic Capabilities

“Our Smart Audit Platform is the gateway to bringing today’s and tomorrow’s technologies to KPMG’s Dynamic Audit.”

KPMG Clara, will seamlessly integrate all of our advanced capabilities and knowledge and allow the engagement team to engage with you *like never before* delivering not only instant audit status updates but incredible insights by accessing data *like never before*.

Utilizing KPMG’s Advanced Data and Analytic Capabilities will allow the following:

- **A fresh perspective:** Our technology provides teams with a risk-based understanding of significant accounts to help them build the audit approach- it’s fundamental to our audit.
- **Analysis of complete populations:** KPMG’s teams apply powerful analysis to quickly screen, sort and filter 100 percent of your journal entries based on high-risk attributes
- **Data-driven risk assessment:** Automated identification of transactions with unexpected or unusual account combinations- helping focus on higher risk transactions and outliers.



Appendix 9: KPMG's Cyber Security Protocol

This summary is intended to provide management and Finance and Audit Committee members with some insight into KPMG's strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. "Good housekeeping" is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote "good housekeeping," and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

- KPMG Canada does not currently use Office 365 or Cloud based email.
- Cloud environments provide robust security when properly configured, with proper password management.
- The Canadian firm's email servers are hosted in Canada and controlled and managed by KPMG Canada.
- In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
- We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
- KPMG's Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
- KPMG's security requirements are set out in Global Information Security Policies and Standards (GISP).
- The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
- Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.





kpmg.ca/audit



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KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

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Corporation of the Town of Cobourg

Audit Findings Report
for the year ended December 31, 2019

KPMG LLP

Prepared September 2, 2020 for Audit Committee
meeting on TBD

kpmg.ca/audit



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Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the Town of Cobourg ("Town") as at and for the year ended December 31, 2019. This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on January 23, 2020.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you

Finalizing the Audit

As of September 2, 2020 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Obtaining the final reserve journal entry from management
- Completing our discussions with the Audit Committee
- Obtaining evidence of the Council's approval of the financial statements
- Receipt of signed management representation letter
- Completion of subsequent event review procedures

We will update the Audit Committee, 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 will be dated upon the completion of any remaining procedures.

Audit risks and results

We discussed with you at the start of the audit a number of significant financial reporting risks, including:

- Fraud risk from revenue recognition and management override of controls.
- Specific accounts considered as other areas of focus.

These risks have been addressed in our audit.

See page 3.

Critical accounting estimates

We have identified critical accounting estimates within the Town's consolidated financial statements related to the employee future benefit obligations.

See page 4.

Significant accounting policies and practices

On January 1, 2019, the Town adopted PS 3430 Restructuring transactions. The adoption of this standard did not result in an accounting policy change or adjustment to the consolidated financial statements.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. 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.

Executive summary (continued)

Adjustments and differences

Materiality for fiscal 2019 was set at \$1,300,000.

During our audit, we did not identify any adjustments or audit differences.

See page 12.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

See page 13.

Independence

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

Audit response to COVID-19 Pandemic

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and dislocating impact. As such, enhanced contingency and subsequent events procedures were warranted as at December 31, 2019.

See page 5.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



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

1 Significant Risk Fraud risk from management override of controls

Significant financial reporting risk	Why is it significant?
Risk of management override of controls	This is a presumed risk.

Our response and significant findings

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

We took the following steps to address this risk as required under professional standards:

- Evaluated the design and implementation of controls surrounding journal entries and other adjustments;
- Determined criteria to identify high-risk journal entries and other adjustments;
- Tested high-risk journal entries and other adjustments made at the end of the reporting period.

We did not uncover any issues during performance of the procedures described above.

Critical accounting estimates

Management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas.

Asset / Liability	Balance (\$'000's)	KPMG Comment
Employee Future Benefit Liabilities	\$2,733 (2018 - \$2,683)	• KPMG obtained and reviewed the actuarial accounting valuation report for WSIB liabilities and extended health care, dental, life insurance and sick leave benefits, obtained from the Town's third party actuary, Nexus Actuarial Consultants, in fiscal 2017. The employee data provided to the actuary was tested in 2017 as it was the year of the full valuation. • As management utilized an expert in preparing the actuarial valuations, KPMG assessed the professional competence and objectivity of management's expert. • KPMG reviewed the disclosures in the notes to the consolidated financial statements. • We believe management's process for estimating the Employee Future Benefits Liabilities is appropriate. Based on our audit procedures, KPMG believes that the account balance is reasonable as at year-end.

Audit Response to COVID-19 Pandemic

Contingencies & subsequent events	Our audit approach
-----------------------------------	--------------------

Contingencies

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social dislocating impact. As such enhanced subsequent events procedures are warranted.

There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows:

- Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures.
- Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made.

Audit response:

- Management worked with the audit team to customize language for a subsequent events note.
- An assessment for any financial indicators of financial implications was undertaken and documented by management and reviewed by the audit team.
- A list of any financial implications and actions undertaken by the Town should be disclosed in the notes, examples may include:
 - o Temporarily closed all Town buildings, with some staff setup to work remotely, and new hiring's were deferred.
 - o Incurred additional costs for enhanced facility cleaning, PPE acquisition, signage, and other safety measures to promote physical distancing for public and Town staff.
 - o Implemented support measures for residents, including, waiving interest charges on property taxes, providing extensions on property tax billing, offering free transit, and providing free parking in the downtown core.
 - o Expected decline in some revenues, such as user fees for recreation facilities and special events, interest and investment income
- A statement as to whether or not these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. Along with measurement of an estimated impact on the financial effect or indication if one is not practicable at this time.

Management has included a subsequent events note in its financial statements that appropriately describes and responds to the above matter.

Resources for Management and Audit Committee members

Please visit our COVID-19 website for resources. This site is being updated daily based on information being released by Federal, Provincial and Municipal news releases. <https://home.kpmg/ca/en/home/insights/2020/03/the-business-implications-of-coronavirus.html>

Technology in the audit

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



Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
KPMG Clara Client Collaboration	— We utilized our online data transfer site; allowing us to track, update and share electronic information securely and efficient. — Enabled the audit team and management to complete the audit remotely with minimal disruption.
Journal Entry Analysis	— We utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of all accounts. Journal entries were found to be complete. — We utilized computer-assisted audit techniques (CAATs) and KPMG application software to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. No exceptions were noted.
Data Extraction Tools	— We utilized KPMG extraction tool DataShare to extract the financial information directly from the Town's accounting system. The data extracted was used to support the execution of the audit procedures.

Journal entry analysis results

The graphs and tables below provide a statistical representation of the complete journal entry population for the year ended December 31, 2019 which was used by KPMG in our review of journal entries to address the risk of management override of controls.

Summary

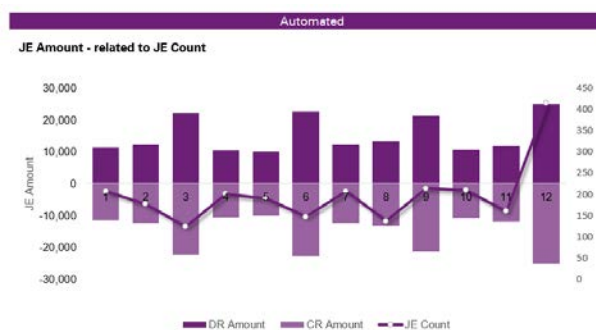
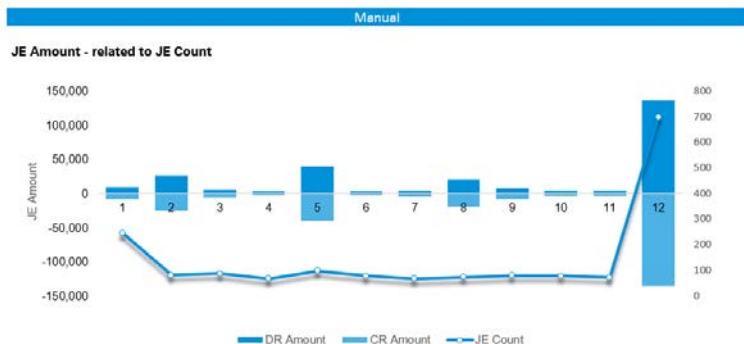
Category	All	Manual	Automated
Total JE Count	4,108	1,719	2,389
Total JE Amount - debit	447,073,810	263,226,905	183,846,906
Total JE Amount - credit	-447,073,810	-263,226,905	-183,846,906
Total JE Line Count	50,765	5,826	44,939
Maximum JE Line Amount	① 46,037,055	46,037,055	5,972,156
Minimum JE Line Amount	0	0	0
Maximum Number of JE Lines	291	43	291
Minimum Number of JE Lines	2	2	2
Average Number of JE Lines	12	3	19
JE with Missing Description (JE count)	4,108	1,719	2,389
JE with Missing Description (JE count ratio)	100.0%	100.0%	100.0%
JE with Missing Description (JE debit amount)	447,073,810	263,226,905	183,846,906
JE with Missing Description (JE debit amount ratio)	100.0%	100.0%	100.0%
JE with Missing Description (JE credit amount)	-447,073,810	-263,226,905	-183,846,906
JE with Missing Description (JE credit amount ratio)	100.0%	100.0%	100.0%
JE with Rounded Line Item (JE count)	237	75	162
JE with Rounded Line Item (JE count ratio)	5.8%	4.4%	6.8%
JE with Rounded Line Item (JE debit amount)	77,294,249	25,316,925	51,977,324
JE with Rounded Line Item (JE debit amount ratio)	17.3%	9.6%	28.3%
JE with Rounded Line Item (JE credit amount)	-77,294,249	-25,316,925	-51,977,324
JE with Rounded Line Item (JE credit amount ratio)	17.3%	9.6%	28.3%
JE with Missing User ID Line Item (JE count)	4,108	1,719	2,389
JE with Missing User ID Line Item (JE debit amount)	447,073,810	263,226,905	183,846,906
JE with Missing User ID Line Item (JE credit amount)	-447,073,810	-263,226,905	-183,846,906

Journal entry analysis results (continued)

Stratification of Journal Entry Amounts & Number of Lines

		Manual		Automated	
		JE Amount (debit)	JE Amount share %	JE Amount (debit)	JE Amount share %
A	Lower - 200,000	35,363,904	7.91%	38,333,007	8.57%
B	200,000 - 400,000	14,722,094	3.29%	31,779,140	7.11%
C	400,000 - 600,000	11,646,100	2.60%	31,771,070	7.11%
D	600,000 - 1,200,000	16,244,303	3.63%	35,291,736	7.89%
E	1,200,000 - 2,500,000	27,825,271	6.22%	7,786,966	1.74%
F	2,500,000 - 5,000,000		0.00%	15,479,911	3.46%
G	5,000,000 - 10,000,000	14,431,691	3.23%	23,405,075	5.24%
H	10,000,000 - Above	142,993,542	31.98%		0.00%
Total		263,226,905	58.88%	183,846,906	41.12%

		Manual		Automated	
		JE Count	JE %	JE Count	JE %
A	Lower - 200,000	1,602	39.00%	2,152	52.39%
B	200,000 - 400,000	51	1.24%	115	2.80%
C	400,000 - 600,000	24	0.58%	67	1.63%
D	600,000 - 1,200,000	19	0.46%	43	1.05%
E	1,200,000 - 2,500,000	15	0.37%	4	0.10%
F	2,500,000 - 5,000,000		0.00%	4	0.10%
G	5,000,000 - 10,000,000	2	0.05%	4	0.10%
H	10,000,000 - Above	6	0.15%		0.00%
Total		1,719	41.85%	2,389	58.15%



Significant accounting policies and practices



Initial selections

On January 1, 2019, the Town adopted PS 3430 Restructuring transactions. The adoption of this standard did not result in an accounting policy change or adjustment to the consolidated financial statements.



Changes

There were no changes to significant accounting policies and practices that impacted the financial statements for the year ended December 31, 2019.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Town's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and
content of the financial
statements

We believe the financial statement presentation and disclosure are adequate.

Application of accounting
pronouncements issued
but not yet effective

This disclosure is optional for the Town as there are no immediate concerns at this time regarding future implementation. The most significant pronouncement in the near term relates to Asset Retirement Obligations ("AROs").

Please refer to Appendix 4 for guidance on preparing for AROs and other upcoming accounting standard changes.

Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements between MD&A and the audited financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Town's related parties, significant difficulties encountered during the audit, and disagreements with management.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Reliance on Component Auditors	- Included in the consolidated financial statements are the following entities: i. Corporation of the Town of Cobourg ii. Waterworks of the Town of Cobourg iii. Town of Cobourg Holdings Inc. iv. Corporation of the Town of Cobourg Public Library Board v. Downtown Business Improvement Area of Cobourg - The audits of Waterworks of the Town of Cobourg and Town of Cobourg Holdings Inc. are performed by another auditor. As such, we completed the following procedures as required under professional standards: - Communicated with the component auditor of our intent to use their work; - Received and evaluated the Memorandum of Work Performed completed by the component auditor; - Confirmed receipt of written representations; - Re-calculated the consolidation performed by management using the audited financial statements provided to us by the component auditor. - We did not uncover any issues during performance of the procedures described above.

Other matters (continued)

Matter	KPMG comment
Accounting Standards: Contaminated Sites and Asset Retirement Obligations	• The Town assumed ownership of the Tannery in 2010, performing a Phase II Environment Site Assessment which indicated the site was contaminated, with levels of contamination exceeding the Ministry of Environment Standards. • The current accounting standard, PS 3260 Liability for Contaminated Sites, indicates that a liability for remediation of contaminated sites should be recognized when, as at the financial reporting date, an environmental standard exists, contamination exceeds the environmental standard, the entity is directly responsible (or accepts responsibility), it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. • Based upon discussions with management, there is no intention or requirement to remediate the Tannery site at the present time. The Town continues to monitor the site by having the groundwater and chemicals on site sampled. • Given the uncertainty of remediation, no liability has been accounted for in the consolidated financial statements. • In light of a new accounting standard, PS 3280 Asset Retirement Obligations, that comes into effect in fiscal 2022, management will need to reconsider the current accounting treatment. • Please refer to Appendix 4 for more information on upcoming accounting standards.

Uncorrected differences and Corrected Adjustments

Materiality for fiscal 2019 was set at \$1,300,000 (2018 - \$1,200,000) which translated into an audit misstatement posting threshold of \$65,000 (2018 - \$60,000). As such, all misstatements identified during the audit greater than \$65,000 have been recorded on our summary of adjustments and differences.

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

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



Uncorrected differences

We did not identify differences that remain uncorrected.



Corrected adjustments

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

Control deficiencies and Other observations

In accordance with professional standards, we are required to communicate to the Audit Committee significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of ICFR in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICFR. The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the Audit Committee.



Significant deficiencies

We have not identified any material weaknesses or significant deficiencies in ICFR in the course of our audit.



Other observations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency. Please refer to Appendix 3 for our management letter with respect to control observations noted though the course of the audit as well as our follow up to matters raised in prior years.

Appendices

Content

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Management letter

Appendix 4: Preparing for upcoming PSAB Standard Changes

Appendix 5: Audit and Assurance Insights



Appendix 1: Other Required Communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report as attached.	In accordance with professional standards, a copy of the management representation letter is provided to the Audit Committee as attached.
Audit quality	
Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.	

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Corporation of the Town of Cobourg (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements, present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

Date

MANAGEMENT REPRESENTATION LETTER

KPMG LLP
863 Princess Street, Suite 400
Kingston, Ontario K7L 5N4
Canada

Date

Ladies and Gentlemen:

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 Cobourg ("the Entity") as at and for the period ended December 31, 2019.

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 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 January 16, 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 Members of Council and committees of Council 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.

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) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Going concern:

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

Non-SEC registrants or non-reporting issuers:

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

Yours very truly,

CORPORATION OF THE TOWN OF COBOURG

By: Mr. Ian Davey, Acting Chief Administrative Officer/Treasurer

cc: Audit Committee

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

Fraud & error

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

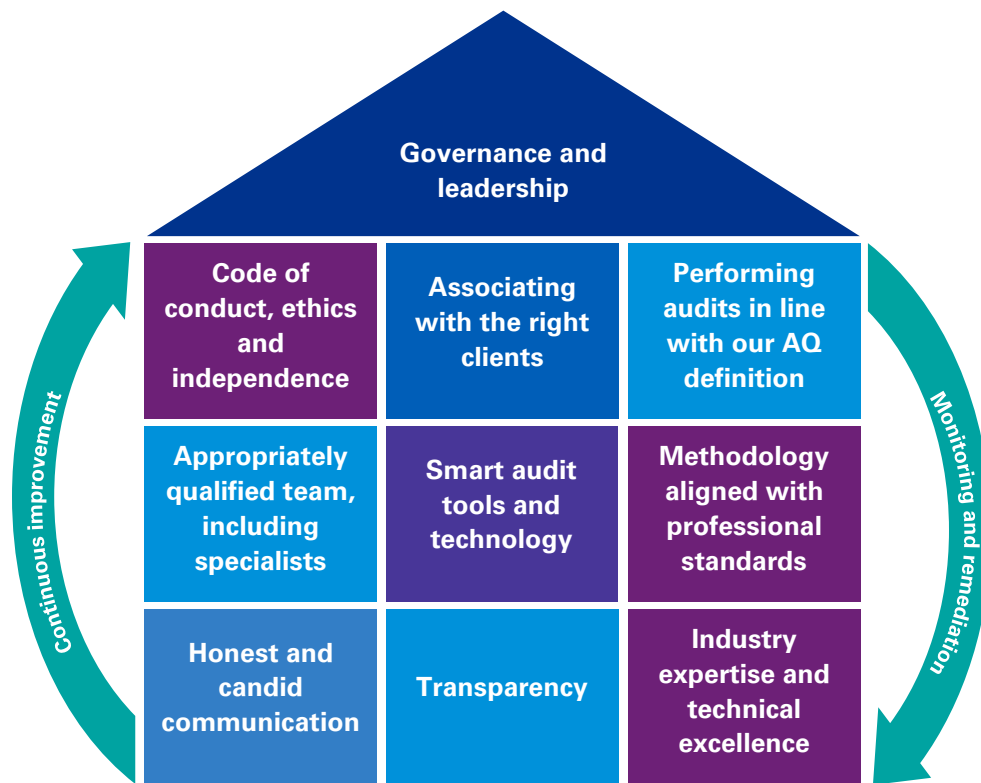
Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

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

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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**.

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Appendix 3: Management Letter



KPMG LLP
863 Princess Street,
Suite 400 Kingston
ON K7L 5N4 Canada
Telephone 613-549-1550
Fax 613-549-6349

Mr. Ian Davey
Acting Chief Administrative Officer/Treasurer
Corporation of the Town of Cobourg
55 King Street West
Cobourg ON K9A 2L9

Date

Dear Mr. Davey:

In planning and performing our audit of the consolidated financial statements of the Corporation of the Town of Cobourg ("the Entity") for the period ended December 31, 2019, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our consideration of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

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



IDENTIFICATION

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Refer to the Appendix A for the definitions of various control deficiencies.

Refer to Appendix B for our observations and recommendations from the prior year, along with current year updates.

Refer to Appendix C for our observations and recommendations for the current year.

OTHER CONTROL DEFICIENCIES

We have not identified any new control deficiencies that we determined to be other control deficiencies in ICFR that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or anyone other than management and those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

cc: Audit Committee

Appendix A - Definitions of Various Control Deficiencies

Terminology	Definition
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control 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 the person performing the control does not possess the necessary authority or competence to perform the control effectively.
SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix B – Update to Prior Year Observations

Description & Recommendation	2019 Update
Employee Future Benefits In order to have the actuarial valuation of the employee future benefit liabilities completed by the actuary, the Town provides certain census and payroll data to the actuary. Our detail test work indicated that the census data provided to the actuary did not contain accurate information in 3 out of 30 instances. We recommend that the Town ensure the accuracy of census data provided to the actuary by establishing the appropriate level of review before the information is submitted. This will help ensure the accuracy of the actuarial valuation and resultant financial statement effects. The Town corresponded with the actuary and was able to quantify the impact of the issues noted and conclude it was not significant.	The current year was not a full valuation year, and as such, there were no census data submissions to the actuary that KPMG was required to test as part of the audit. KPMG will keep this item open until the next full valuation year in 2020, at which time the data will be tested and the observation updated.
Unfinanced Capital Unfinanced capital is a component of accumulated surplus on the Town's consolidated financial statements. When reviewing unfinanced capital, we noted that the balance had increased in 2018 from the prior year in the amount of \$921,330. Through discussions with management, it was noted that plans are continuing to be developed to fund aged, unfinanced capital expenditures, however, there continues to be significant expenditures that have not been funded.	The unfinanced capital balance as of December 31, 2019 amounted to \$13,067,007, which represents a slight decrease from the prior year of \$1,023,335. Due to the magnitude of the balance, we will continue to monitor the unfinanced capital expenditures in the 2020 fiscal year.

Appendix B – Update to Prior Year Observations (continued)

Description & Recommendation	2019 Update
Vacation During the audit, KPMG tested the vacation accrual and noted that there are employees with significant balances as there is no formal policy for non-union employees in place. The risk to the Town is the financial liability that grows on the consolidated statement of financial position. KPMG recommends that management develop plans to reduce the vacation banks that non-union staff have accumulated. Such a plan may include the implementation of a non-union employee vacation policy that restricts the vacation that can be carried forward each year.	KPMG continued to note significant balances in the vacation payable accounts. We continue to recommend management develop a plan to reduce the vacation banks in order to reduce the overall liability to the Town.

Appendix C – Current Year Observations

Description	Impact and Recommendation
Cyber Security During the audit, KPMG completed a cyber security questionnaire with management. The following areas were highlighted as potential gaps in the IT systems that may expose the Town to heightened risk: - There is no formal cyber security and refresh training for new and existing employees - There is no dedicated cyber incident response team or cyber incident response plan; IT and the Emergency planner cover scenarios on a real time basis - Audit Committee does not receive reports on cybersecurity activities on a periodic basis <i>KPMG notes this was not a complete cyber security assessment and no IT specialists were involved in this questionnaire as it was completed as part of a value-add to the financial statement audit.</i>	With increased transition to digital and online processes, the susceptibility to cyber security threats is increasing. As a result, KPMG recommends that the Town implement formalized procedures to address these gaps identified in the upcoming fiscal year. This will enable the Town to appropriately respond to and mitigate the risk of cyber security breaches going forward.

Appendix 4: Preparing for PSAB Standard Changes



Preparing for PSAB Standard Changes

Are you ready to implement PSAB's impactful series of new standards?



Public sector entities are preparing to implement three significant Public Sector Accounting standards through 2022. These standards will impact not only your accounting policies, but also how Finance engages key stakeholders.

Asset Retirement Obligations

PS3280 addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.

PS3280 will apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. Three transition options are available – retroactive, modified retroactive, prospective.

Asset retirement activities are defined to include all activities related to an asset retirement obligation. These may include but are not limited to:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed
- decontamination created by the normal use of the tangible capital asset
- post-retirement activities such as monitoring
- constructing other tangible capital assets in order to perform postretirement activities

With the introduction of PS3280 PSAB has withdrawn existing Section PS3270, solid waste landfill closure and post-closure liability.

Some examples of asset retirement obligations which fall under scope of proposed PS3280 include:

- end of lease provisions (from a lessee perspective)
- removal of radiologically contaminated medical equipment
- wastewater or sewage treatment facilities
- firewater holding tanks
- closure and post-closure obligations associated with landfills
- septic beds
- fuel storage tank removal

Under PS3280, an asset retirement obligation should be recognized when, as at the financial reporting date, ALL of the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset
- the past transaction or event giving rise to the liability has occurred
- it is expected that future economic benefits will be given up
- a reasonable estimate of the amount can be made

Whether you are an education or health institution or a government entity (federal, provincial, municipal or Indigenous) this accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.

Are You Ready?

1. *Has a project plan been developed for the implementation of this section?*
2. *Has Finance communicated with key stakeholders, including Council or Board on the impact of this section?*
3. *Does Finance communicate with representatives of the Public Works, Asset Management, Facilities Management or Legal functions through the financial reporting process?*
4. *Has a complete inventory been developed of all inactive or active assets or sites, to provide a baseline for scoping of potential retirement obligations?*
5. *If a complete inventory has been developed, does it reconcile back to information currently reported in the entity's financial statements for tangible capital assets or contaminated sites?*
6. *Does your entity have data on non-recorded assets or sites (ie: assets which were originally expensed on purchase, or recorded at no book value) which could have retirement obligations?*
7. *Does your entity have an active solid waste landfill site?*
8. *If yes, does your entity have an existing estimate of the full costs to retire and monitor the landfill site?*
9. *Is your entity aware of any of its buildings which have asbestos?*
10. *If so, does your entity have information to inform a cost estimate to remove/ treat the asbestos?*
11. *Is your entity aware of underground fuel storage tanks or boilers which must be removed at end of life?*
12. *If so, does your entity have information to inform a cost estimate to remove the tanks?*
13. *Is your entity aware of any lease arrangements where it will be required to incur costs to return the premises to pre-existing conditions at the end of the lease?*
14. *Has your entity determined if it has any sewage or wastewater treatment plants which have closure plans or environmental approvals which require full or partial retirement of the plant at the end of its life?*
15. *Is your entity aware of any other contractual or legal obligations to retire or otherwise dismantle or remove an asset at the end of its life?*

Revenues

PS3400 outlines a framework describing two categories of revenue – transactions with performance obligations (exchange transactions) and transactions without performance obligations (unilateral transactions).

- This section will apply to fiscal years beginning on or after April 1, 2022, with earlier adoption permitted.
- This Section may be applied retroactively or prospectively.
- This section will not impact the present accounting for taxation revenues and government transfers.

Transactions which give rise to one or more performance obligations are considered to be exchange transactions. Performance obligations are defined as enforceable promises to provide goods or services to a payer as a result of exchange transactions. Revenue from an exchange transaction would be recognized when the public sector entity has satisfied the performance obligation(s), at a point in time or over a period of time.

If no performance obligations are present, the transaction would represent unilateral revenue, and be recognized when the public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources.

Public sector entities will need to review their revenue recognition policies for in-scope transaction types. Impacted areas may include:

- Development charges
- Permits
- Licences
- Advertising programs

Are You Ready?

1. *Has the entity identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (ie: the entity is required to provide a good or service to earn that revenue)?*
2. *If so, has the entity reviewed its accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met?*
3. *Has the entity quantified the impact of any change in accounting policy, or determined that there is no impact?*

Financial Instruments

PS3450 establishes standards on how to account for and report all types of financial instruments including derivatives.

- This Section applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
- Government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook applied this Section to fiscal years beginning on or after April 1, 2012.
- This section must be adopted with Section PS 2601, Foreign Currency Translation.
- Specific transition requirements are outlined in the section.

This section prescribes a fair value measurement framework for derivatives, and equity instruments that are quoted in an active market.

Where an entity manages risks, the investment strategy, or performance of a group of financial assets, financial liabilities or both on a fair value basis, they may also be measured at fair value.

Other financial instruments are measured at cost/ amortized cost.

Changes in the fair value of a financial instrument in the fair value category are recognized in the Statement of Remeasurement Gains and Losses as a remeasurement gain or loss until the financial instrument is derecognized.

- Upon derecognition, the remeasurement gain or loss is realized in the Statement of Operations.

Are You Ready?

1. *Does the entity hold any financial assets which are equity or derivative instruments?*
2. *Has the entity determined if it has any embedded derivatives that might arise from existing contractual arrangements?*
3. *Does the entity have other financial assets which it assesses performance of based on fair value, and for which it might elect a fair value measure?*
4. *If yes to any of the above three questions, does the entity have readily observable market data to inform a fair value measure?*
5. *Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section?*
6. *Does the entity enter into transactions involving foreign exchange?*
7. *Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?*

Enhance Finance Capacity with KPMG Learning

Meet the CPD requirements for your Finance team, and have on demand access to public sector accounting specialists. All your Finance capacity needs addressed at once. Flexible options. One low fixed price.

10 hours of in-depth CPD-eligible training tailored to your Finance team. Go beyond the standards to get the latest on technical interpretations, financial reporting and more. Collaborate with your peers across the public sector on best practices. In class sessions in certain locations, or available by video on demand.

Appendix 5: Audit and Assurance Insights

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

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	Learn more
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	Learn more
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	Learn more
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	Learn more
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	Learn more
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	Learn more
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	Sign-up now
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more



kpmg.ca/audit



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Corporation of the Town of Cobourg

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared as of August 5, 2021 for the August 13, 2021
Audit Committee Meeting

kpmg.ca/audit



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KPMG contacts

The contacts at KPMG in connection with this report are:



Lori Huber, CPA, CA, LPA

Lead Audit Engagement Partner

Tel: 613-541-7320

lahuber@kpmg.ca



Katie Mahon, CPA, CA, CITP

Audit Manager

Tel: 613-541-7327

kmahon@kpmg.ca



Amalshia Shaji, CPA

Audit Senior Accountant

Tel: 613-541-7338

amalshiashaji@kpmg.ca

Our refreshed Values

What we believe



We do what is right.



We never stop learning
and improving.



We think and act boldly.



We respect each other
and draw strength from
our differences.



We do what matters.

Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements as at and for the year ended December 31, 2020 for the Corporation of the Town of Cobourg (“Town”).

What’s new in 2020

There have been significant changes in 2020, impacting the Town’s business and financial reporting, as well as our audit:

- COVID-19 pandemic
- New CAS auditing standards

Changes from the audit plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Finalizing the audit

As of August 5, 2021, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Legal response letter from the Town’s solicitor
- Completion of subsequent event procedures up to the date of our auditors’ report
- Obtaining signed management representation letters
- Completing our discussions with the Audit Committee
- Obtaining evidence of the Council’s approval of the consolidated financial statements

We will update the Audit Committee, 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 will be dated upon the completion of any remaining procedures.

¹ This Audit Findings Report is intended solely for the information and use of Management and the Audit Committee 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.

Executive summary (continued)

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.

Audit quality indicators

We have reviewed the audit quality indicators. We have not identified any areas of concern.

Independence

We are independent with respect to the Town, in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada.

What's new in 2020

COVID-19 pandemic

In our Audit Planning Report we delivered in October 2020, we communicated our audit plan in light of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your operations, including the impacts on financial reporting.

Area of Impact	Key Observations
The Town's financial reporting impacts	— We considered impacts to financial reporting due to the COVID-19 pandemic and the additional disclosures needed in the consolidated financial statements. This relates mainly to new sources of funding and related expenses. — We enhanced our analysis and assessment around the collection risk of receivables including taxation as well as the impact to certain revenue streams.
Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the consolidated financial statements. — Materiality has remained unchanged from the amount communicated in our audit planning report. Materiality has a direct impact on our identification and assessment of risks of material misstatement and our response to such risks.
Risk assessment	— 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). — We did not identify any additional risks for material misstatement as a result of impacts to financial reporting, which required an audit response compared to the prior year.
Working remotely	— We completed all of the audit fieldwork entirely remote. We also used 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, perform tests of controls. — We increased our professional skepticism when evaluating electronic evidence received to validate the authenticity and reliability of electronic information used as audit evidence.

What's new in 2020 (continued)

COVID-19 pandemic

In our Audit Planning Report, we communicated our audit plan in light of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your operations, including the impacts on financial reporting.

Area of Impact	Key Observations
Direction and supervision of the audit	— The manager, senior 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. — The manager and partner 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.
Direction and supervision of the audit – Group audits	— We increased our level of involvement in the work of component auditors by increasing the extent and frequency of our two-way communication to: ○ identify risks of material misstatements to the group ○ plan and execute responses to such risks ○ complete subsequent event review procedures, given the different audit reporting dates of significant components — We increased our involvement in the review of audit documentation prepared by KPMG component auditors. We held more detailed discussions with KPMG component auditors to gain the appropriate level of comfort with respect to the group audit.

What's new in 2020 (continued)

COVID-19 pandemic

In our Audit Planning Report, we communicated our audit plan in light of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your operations, including the impacts on financial reporting.

Area of Impact	Key Observations
Substantive testing response	— KPMG obtained the COVID-19 related funding agreements and examined revenue recognized and amounts receivable and payable as at year-end based on substantive test of details on the underlying costs driving the revenue recognition. — As a result of the significant changes to the entity's operations during the year as a result of COVID-19, we increased the precision of the acceptable difference in our substantive analytical procedures to address the decrease in user charges. We performed detailed testing over the inputs in building our expectations given trend analysis was not expected to be predictive of current year results. — We assessed the adequacy of the property tax allowance for doubtful accounts in relation to the increased property tax receivable balances. — We decreased our vouching threshold in testing payments made and processed subsequent to year-end to validate the completeness of accounts payable and accrued liabilities as at year-end to ensure a proper cut-off was achieved.

What's new in 2020 (continued)

New auditing standards

The following new auditing standard was effective for the current year had an impact on our audit.

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	— The new standard was applied on all estimates within the consolidated 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”. — 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. — We performed more granular risk assessments based on the elements making up accounting estimates such as the method, the assumptions used, the data used and the application of the method. — We considered the potential for management bias. — We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response. — In light of this new standard, we assessed the Town’s employee future benefit obligations and landfill closure and post closure liabilities as complex estimates which required the most effort. Further detail has been provided on the following slide. — Based on the results of the work completed, there are no significant findings to note in relation to this new auditing standard.

Complex accounting estimates

Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas.

Asset / Liability	Balance (\$'000's)	KPMG Comment
Employee Future Benefit Obligations	\$2,756 (2019 – \$2,734)	— KPMG obtained and reviewed the actuarial accounting valuation report for WSIB liabilities and extended health care, dental, life insurance and sick leave benefits, obtained from the Town's third-party actuary, Nexus Actuarial Consultants Ltd. (“Nexus”), in fiscal 2019. The employee data provided to the actuary was tested as part of the 2020 audit, subsequent to the year of full valuation since the valuation was done post 2019 audit. — As KPMG places a reliance on the full valuation performed in 2019, a confirmation letter was prepared and response received from Nexus in relation to the current year as to the 2020 extrapolation and reliance in connection with our audit. — As management utilized an expert in preparing the actuarial valuations, KPMG assessed the professional competence and objectivity of management's expert. — KPMG reviewed the disclosures in the notes to the consolidated financial statements. — We believe management's process for estimating the Employee Future Benefit Obligations is appropriate. Based on our audit procedures, KPMG believes that the account balance is reasonable as at year-end.

Audit risks and results

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

Significant financial reporting risk	New or changed audit risk?	Estimate?
Fraud risk from management override of controls	No	No
Our response		
Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent consolidated financial statements by overriding controls that otherwise appear to be operating effectively. Although the risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. We took the following steps to address this risk as required under professional standards: — Evaluated the design and implementation of controls surrounding journal entries and other adjustments; — Determined criteria to identify high-risk journal entries and other adjustments; and — Tested high-risk journal entries and other adjustments made at the end of the reporting period.		
Significant findings		
We did not uncover any issues during performance of the procedures described above.		

Audit risks and results (continued)

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

Area of focus	New or changed audit risk?	Estimate?	Key audit matter for audit report?
COVID-19 Government Grants	No	No	No

Our response

- We completed substantive audit procedures to address the relevant assertions, including review of the funding agreements.
- We completed analytical and substantive procedures to ensure the appropriate recognition of revenue and related payables, deferrals and receivables as required.
- During the year, the provincial government provided COVID relief in the form of below funding:
 - Safe Restart Operating Funding
- As part of the audit, we completed substantive procedures to address the eligibility of costs incurred.

Significant findings

We did not uncover any issues during performance of the procedures described above.

Significant accounting policies and practices



Initial selections

There were no new significant accounting policies and practices that were selected and applied during the period.



Changes

There were no changes to significant accounting policies and practices. As a result, there was no impact on the consolidated financial statements.



Future Implementation

Accounting pronouncements issued but not yet effective have not been disclosed in the notes to the consolidated financial statements. However, the most significant pronouncement in the near term relates to Asset Retirement Obligations (“AROs”) that will be applicable for fiscal 2023.



Significant qualitative aspects of the Town’s accounting policies and practices

There are no items to report.

Financial statement presentation and disclosure

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

We also highlight the following:

Form, arrangement, and
content of the
consolidated financial
statements

We believe the financial statement presentation and disclosure are adequate. We worked with management on the financial statement note disclosures related to the COVID-19 pandemic included in note 17.

Significant qualitative
aspects of financial
statement presentation
and disclosure

Nothing to report.

Other matters

Professional standards require us to communicate to the Audit Committee other matters.

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

Matter	KPMG comment
Reliance on Component Auditors	— Included in the consolidated financial statements are the following entities: • Corporation of the Town of Cobourg • Waterworks of the Town of Cobourg • Town of Cobourg Holdings Inc. • Corporation of the Town of Cobourg Public Library Board • Downtown Business Improvement Area of Cobourg — The audits of Waterworks of the Town of Cobourg and Town of Cobourg Holdings Inc. are performed by another auditor. As such, we completed the following procedures as required under professional standards: • Communicated with the component auditor of our intent to use their work; • Received and evaluated the Memorandum of Work Performed completed by the component auditor; • Confirmed receipt of written representations; • Re-calculated the consolidation performed by management using the audited financial statements provided to us by the component auditor. — We did not uncover any issues during performance of the procedures described above.

Other matters (continued)

Matter	KPMG comment
Accounting Standards: Contaminated Sites and Asset Retirement Obligations	— The Town assumed ownership of the Tannery in 2010, performing a Phase II Environment Site Assessment which indicated the site was contaminated, with levels of contamination exceeding the Ministry of Environment Standards. — The current accounting standard, PS 3260 Liability for Contaminated Sites, indicates that a liability for remediation of contaminated sites should be recognized when, as at the financial reporting date, an environmental standard exists, contamination exceeds the environmental standard, the entity is directly responsible (or accepts responsibility), it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. — Based upon discussions with management, there is no intention or requirement to remediate the Tannery site at the present time. The Town continues to monitor the site by having the groundwater and chemicals on site sampled. — Given the uncertainty of remediation, no liability has been accounted for in the consolidated financial statements. — In light of a new accounting standard, PS 3280 Asset Retirement Obligations, that comes into effect in fiscal 2023, management will need to reconsider the current accounting treatment in light of the new standard. — Please refer to Appendix 5 for more information on upcoming accounting standards.

Uncorrected differences and corrected adjustments

As you will recall from our Audit Planning Report, materiality for fiscal 2020 was set at \$1,300,000 which translated into an audit misstatement posting threshold of \$65,000. As such, all misstatements identified during the audit greater than \$1,300,000 have been recorded on our summary of adjustments and differences.

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected, if any. We have already made this request of management.

Uncorrected differences

We did not identify any differences that remain uncorrected.

Corrected adjustments

We did not identify differences that were corrected.

Additional audit-related work

KPMG performed the following services in addition to the audit of the consolidated financial statements of the Town, either as a required deliverable per the engagement letter, management, or per request from the Audit Committee.

Other audit and assurance work

Other audits

KPMG has completed additional audits of the following:

- Corporation of the Town of Cobourg Public Library Board
- Downtown Business Improvement Area of Cobourg

Control deficiencies

In accordance with professional standards, we are required to communicate to those charged with governance significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the consolidated financial statements.

Our audit included consideration of ICFR in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICFR.

The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance and to meet professional standards.

Significant deficiencies

Description	Potential effect
We have not identified any significant deficiencies.	N/A

Other observations

Description	Potential effect
Please refer to Appendix 3 for our management letter with respect to control observations noted in previous years along with current year updates.	N/A

Appendices

Content

Appendix 1: Other Required Communications

Appendix 2: How do we deliver quality?

Appendix 3: Management Letter

Appendix 4: Public Sector Accounting Update

Appendix 5: Insights to enhance your business

Appendix 6: Audit and Assurance Insights



Appendix 1: Other Required Communications

Auditors' Report

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

Representations of management

In accordance with professional standards, copies of the management representation letter is provided to the Audit Committee. The management representation letter is attached for your review.

Audit Quality in Canada

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

- [CPAB Audit Quality Insights Report: 2020 Interim Inspection Results](#)
- [CPAB Audit Quality Insights Report: 2019 Annual Inspections Results](#)

Visit our [Audit Quality Resources page](#) for more information including access to our [Transparency report](#)

Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of the Corporation of the Town of Cobourg (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated schedule of municipal equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group of the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants
Kingston, Canada
Date



Management representation letter

KPMG LLP
863 Princess Street, Suite 400
Kingston, Ontario K7L 5N4
Canada

DATE

Ladies and Gentlemen:

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 Cobourg ("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 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 January 16, 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 Council and committees of Council 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.

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

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

Subsequent events:

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

Related parties:

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

Estimates:

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

Going concern:

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

Non-SEC registrants or non-reporting issuers:

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

Yours very truly,

CORPORATION OF THE TOWN OF COBOURG

By: Mr. Ian Davey, Director of 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.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

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: 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.

Appendix 3: Management Letter



KPMG LLP
863 Princess Street, Suite
400 Kingston ON K7L 5N4
Canada
Telephone 613-549-1550
Fax 613-549-6349

Mr. Ian Davey
Director of Corporate Services/Treasurer
Corporation of the Town of Cobourg
55 King Street West
Cobourg ON K9A 2L9

August 5, 2021

Dear Mr. Davey:

In planning and performing our audit of the consolidated financial statements of the Corporation of the Town of Cobourg ("the Entity") for the period ended December 31, 2020, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our consideration of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

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

IDENTIFICATION

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Refer to the Appendix A for the definitions of various control deficiencies.



Refer to Appendix B for our observations and recommendations from the prior year, along with current year updates.

OTHER CONTROL DEFICIENCIES

We have not identified any new control deficiencies that we determined to be other control deficiencies in ICFR that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or anyone other than management and those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Professional Accountants, Licensed Public Accountants

cc: Audit Committee

Appendix A - Definitions of Various Control Deficiencies

Terminology	Definition
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control 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 the person performing the control does not possess the necessary authority or competence to perform the control effectively.
SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix B – Update to Prior Year Observations

Description & Recommendation	2020 Update
Employee Future Benefits In order to have the actuarial valuation of the employee future benefit liabilities completed by the actuary, the Town provides certain census and payroll data to the actuary. In 2019, our detail test work indicated that the census data provided to the actuary did not contain accurate information in 3 out of 30 instances. We recommend that the Town ensure the accuracy of census data provided to the actuary by establishing the appropriate level of review before the information is submitted. This will help ensure the accuracy of the actuarial valuation and resultant financial statement effects. The Town corresponded with the actuary and was able to quantify the impact of the issues noted and conclude it was not significant.	KPMG noted that the valuation for 2019 was completed post 2019 audit. In 2020, KPMG obtained the valuation report from the actuary and performed test of details on the data provided to the actuary. KPMG did not note any exceptions. KPMG considers this matter to be closed.
Unfinanced Capital Unfinanced capital is a component of accumulated surplus on the Town's consolidated financial statements. When reviewing unfinanced capital, we noted that the balance had decreased in 2019 from the prior year in the amount of \$1,023,355. Through discussions with management, it was noted that plans are continuing to be developed to fund aged, unfinanced capital expenditures, however, there continues to be significant expenditures that have not been funded.	The unfinanced capital balance as of December 31, 2020 amounted to \$14,705,120, which represents an increase from the prior year of \$1,638,113. We understand that a debenture is currently in process for approximately \$7 million which will reduce this balance.

Appendix B – Update to Prior Year Observations (continued)

Description & Recommendation	2020 Update
Vacation During the 2019 audit, KPMG tested the vacation accrual and noted that there are employees with significant balances as there is no formal policy for non-union employees in place. The risk to the Town is the financial liability that grows on the consolidated statement of financial position. KPMG recommends that management develop plans to reduce the vacation banks that non-union staff have accumulated. Such a plan may include the implementation of a non-union employee vacation policy that restricts the vacation that can be carried forward each year.	KPMG continued to note significant balances in the vacation payable accounts with balances in excess of allowable carryforward. We continue to recommend management develop a plan to reduce the vacation banks in order to reduce the overall liability to the Town.
Cyber Security During the 2019 audit, KPMG completed a cyber security questionnaire with management that was developed for the public sector. Areas were highlighted as potential gaps in the IT systems that may expose the Town to heightened risk including formal cyber security and refresh training for new and existing employees, dedicated cyber incident response team or response plan and regular reporting of cybersecurity activities on a periodic basis to those charged with governance. <i>KPMG notes this was not a complete cyber security assessment and no IT specialists were involved in this questionnaire as it was completed as part of a value-add to the financial statement audit.</i>	With increased transition to digital and online processes, the susceptibility to cyber security threats is increasing. In 2020, we noted that although informal, management has implemented new procedures to mitigate certain of these risks. We continue to recommend that the Town continue to formalize procedures related to cyber risk.

Appendix 4: Public Sector Accounting Update

Asset Retirement Obligations

The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.

The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligation to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life.

As a result of the new standard, the public sector entity will have to:

- Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
- Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;
- Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Are You Ready Checklist	Potential Impact Areas
1. Have you formed a project team for ARO implementation? If so, who outside of Finance is on that team? 2. Have you developed a policy or guideline, with clear roles and responsibilities? 3. Have you identified asset types considered in scope? If so, what assumptions have you used? 4. Does your scoping consider both capital assets, and other asset type items? 5. What assessment has been done of active landfill sites – particularly those early in their lifespan? 6. Are you applying a risk-based approach to scoping and assessment? 7. How are you identifying legislation, regulations or contracts creating legal obligations? 8. Are you applying discounting to measure the retirement obligation? If so, what estimates are you applying for discount rate? 9. What data sources do you have for measurement? 10. Have you identified a transition method?	1. Facilities with asbestos or other contaminated substances. 2. Underground fuel storage tanks 3. Radiological medical equipment such as MRI's and CT-scanners 4. Septic tanks 5. Drinking wells 6. Firewater holding tanks 7. Leases with end of lease retirement clauses. 8. Land leases

Revenues

The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.

The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.

The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.

The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Are You Ready Checklist	Potential Impact Areas
1. Have you identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (i.e.: the entity is required to provide a good or service to earn that revenue)? 2. Did you review accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met? 3. Have you quantified the impact of any change in accounting policy, or determined that there is no impact?	1. User charges such as transit fees, utility charges, licensing fees and fees for programs or activities. 2. Revenues linked to the provision of a good or service.

Employee Future Benefits

PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan.

PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.

Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

Financial Instruments and Foreign Currency Translation

The accounting standards, PS3450 Financial Instruments, PS2601 Foreign Currency Translation, PS1201 Financial Statement Presentation and PS3041 Portfolio Investments are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.

Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. Hedge accounting is not permitted.

A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 Financial Instruments which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 Financial Instruments. The exposure drafts will be released in summer 2021 with a 90-day comment period.

Are You Ready Checklist	Potential Impact Areas
1. What process have you followed to determine if you have any embedded derivatives that might arise from existing contractual arrangements? Has a contract review been conducted? 2. Does the entity have other financial assets which it assesses performance based on fair value, and for which it might elect a fair value measure? 3. Where the entity holds equity or derivative instruments, does it have readily observable market data to inform a fair value measure? 4. Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section (particularly the required risk disclosures)? 5. Does the entity enter foreign exchange transactions? Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?	1. Equity instruments 2. Derivatives such as futures, forwards, interest rate swaps and currency swaps. 3. Contracts with embedded derivatives 4. Other financial instruments for which performance is assessed on a fair value basis

Appendix 5: 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.

An innovative audit approach to improve quality and value

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.

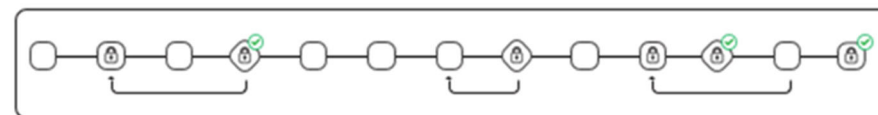
Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to discussing this approach for your audit this year and selecting the relevant processes. We have also pivoted our approach during the pandemic and are pleased to offer these sessions to our clients in a virtual forum.

How it works

Standard Audit

Typical process and how it's audited



Lean in Audit™

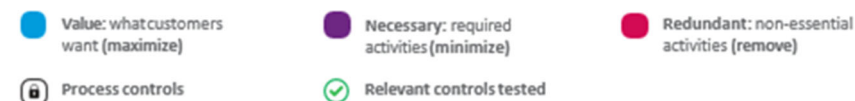
Applying a Lean lens to perform walkthroughs

Typically 95%+ is considered redundant through a customer's lens



How Lean in Audit helps businesses improve processes

Make the process more streamlined and efficient for all



Appendix 6: Audit and Assurance Insights

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

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>COVID-19 Financial Reporting Resource Centre</u>	Resource center on the financial reporting impacts of coronavirus
<u>Accelerate</u>	The key issues driving the audit committee agenda in the time of COVID-19
<u>Board Leadership Centre</u>	Supporting you in your Director role
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>KPMG Global IFRS Institute</u>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.



kpmg.ca/audit

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



Corporation of the Town of Cobourg

Audit Findings Report
for the year ended December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared as of November 29, 2022 for the Audit
Committee meeting on December 1, 2022

kpmg.ca/audit



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KPMG contacts

The contacts at KPMG in connection with this report are:



Lori Huber, CPA, CA, LPA

Lead Audit Engagement Partner

Tel: 613-541-7320

lahuber@kpmg.ca



Caitlyn Cox, CPA, CA

Audit Senior Manager

Tel: 613-541-7401

caitlyncox@kpmg.ca



Amalshia Shaji, CPA, ACCA

Audit Manager

Tel: 613-541-7338

amalshiashaji@kpmg.ca

Our refreshed Values

What we believe



Audit highlights

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee (the “Committee”), in your review of the results of our audit of the consolidated financial statements of the Corporation of the Town of Cobourg (the “Town”) for the year ended December 31, 2021.

Changes from the audit plan

There have been no significant changes regarding our audit plan, which was originally communicated to you in the audit planning report.

Status of the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of the responses to our legal inquiry letters;
- Completing our discussions with the Audit Committee
- Completion of subsequent event procedures up to the date of our auditors’ report;
- Receipt of the signed management representation letter; and
- Obtaining evidence of Council’s approval of the consolidated financial statements.

We will update the Audit Committee, 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 provided in Appendix 1, will be dated upon the completion of any remaining procedures.

Going concern

No matters to report.

Significant risks and other significant matters

There are no significant findings to communicate related to significant risks or other significant matters.

Uncorrected differences and corrected adjustments

We did not identify any differences that remain uncorrected. We identified one adjustment that was communicated to management and subsequently corrected in the financial statements. See page 6.

Control deficiencies

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

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Independence

We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

¹ This report to the Audit Committee is intended solely for the information and use of Management and the Audit Committee and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Significant changes from our audit plan

We have not made any significant changes to our Audit Plan which was communicated to you in the audit planning report, and note that:

Consideration from Audit Plan	Our Response
Your Audit Team	The senior team remained consistent from the team presented in the Audit Plan.
Materiality	Materiality was set at \$1,300,000, which represented approximately 2.7% of prior year total expenses. Current year actual total expenses increased to \$50.8M, therefore, materiality represented 2.6% of current year expenses. This falls within the acceptable range of our required benchmark of between 0.5% - 3.0%. No changes to materiality were required.
Significant financial reporting risks	In the Audit Plan, we did not identify any significant financial reporting risk other than the presumed risks of fraud noted below. We did not identify any additional significant financial reporting risks that required additional audit procedures.
Areas of audit focus	We identified certain areas of audit focus in our Audit Plan. We did not identify any additional areas of audit focus and have no significant findings to report as a result of these procedures.
Fraud Risk	We performed our required audit procedures in professional standards over fraud risk as communicated to the Committee in the Audit Plan and did not identify any additional fraud risks from our audit work. As part of our unpredictable procedure, we reviewed the bank reconciliations throughout the year to ensure existence of appropriate reviews and segregation of duties on a timely basis. Please see our management letter in Appendix 3 for an observation related to bank reconciliations.
Additional audit related work – requests of the Committee	No additional audit-related work was requested by the Committee.

Audit risks and results

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

Significant financial reporting risk	New or changed audit risk?	Estimate?
Presumed risk of fraud risk from management override of controls.	No	No

Our response

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

We took the following steps to address this risk as required under professional standards:

- Evaluated the design and implementation of controls surrounding journal entries and other adjustments;
- Determined criteria to identify high-risk journal entries and other adjustments; and
- Tested high-risk journal entries and other adjustments made at the end of the reporting period.

Significant findings

We did not uncover any issues during performance of the procedures described above.

Audit risks and results (continued)

We highlight our significant findings in respect of certain **areas of focus** as identified in our discussion with you in the Audit Plan.

Area of focus	New or changed audit risk?	Estimate?
Government grants, including related receivables, deferrals and payables	No	No
Our response		
— We completed substantive audit procedures to address the relevant assertions, including review of the funding agreements. — We completed analytical and substantive procedures to ensure the appropriate recognition of revenue and related payables, deferrals and receivables, as required. — We performed substantive procedures to address the eligibility of costs incurred under the government grants.		
Significant findings		
We did not uncover any issues during performance of the procedures described above.		

Significant accounting estimates

Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates”.

We have summarized our assessment of the subjective areas related to significant accounting estimates.

Asset / Liability	Balance (\$'000's)	KPMG Comment
Employee Future Benefit Liability	\$2,903 (2020 - \$2,756)	— KPMG obtained and reviewed the actuarial accounting valuation report for WSIB liabilities and retirement benefit liabilities for extended health care, dental, life insurance and sick leave benefits, obtained from the Town's third-party actuary, Nexus Actuarial Consultants, in fiscal 2019. The employee data provided to the actuary was tested as part of the 2019 audit, which was the year of the full valuation. — As management utilized an expert in preparing the actuarial valuations, KPMG assessed the professional competence and objectivity of management's expert. — KPMG reviewed the disclosures in the notes to the consolidated financial statements. — We believe management's process for estimating the Employee Future Benefit Liability is appropriate. Based on our audit procedures, KPMG believes that the account balance is reasonable as at year-end.

Uncorrected and corrected audit misstatements

As previously noted, materiality for fiscal 2021 was set at \$1,300,000 which translated into an audit misstatement posting threshold of \$65,000. As such, all misstatements identified during the audit greater than \$65,000 have been recorded on our summary of adjustments and differences.

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected, if any.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Corrected audit misstatements

We identified one adjustment that was communicated to management and subsequently corrected in the consolidated financial statements. Please see Attachment II to the management representation letter in the Appendix 1 of this report for more detail.

Control deficiencies

Consideration of internal control over financial reporting

A significant deficiency in internal control over financial reporting (“ICFR”) is a deficiency, or combination of deficiencies, in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

In planning and performing our audit, we considered ICFR relevant to the Town’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.

Significant deficiencies in internal control over financial reporting

We did not identify any significant deficiencies in internal control over financial reporting.

Other observations

Please refer to Appendix 3 for our management letter with respect to control observations noted in the current year along with our updates to previous years’ observations.

Other matters

Professional standards require us to communicate to the Audit Committee other matters.

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

Matter	KPMG comment
Reliance on Component Auditors	— Included in the consolidated financial statements are the following entities: • Corporation of the Town of Cobourg • Waterworks of the Town of Cobourg • Town of Cobourg Holdings Inc. • Corporation of the Town of Cobourg Public Library Board • Downtown Business Improvement Area of Cobourg — The audits of Waterworks of the Town of Cobourg and Town of Cobourg Holdings Inc. are performed by another auditor. As such, we completed the following procedures as required under professional standards: • Communicated with the component auditor of our intent to use their work; • Received and evaluated the Memorandum of Work Performed completed by the component auditor; • Confirmed receipt of written representations; • Re-calculated the consolidation performed by management using the audited financial statements provided to us by the component auditor. — We did not uncover any issues during performance of the procedures described above.

Financial statement presentation and disclosure

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

We also highlight the following:

Financial statement presentation -
form, arrangement, and content

We believe the consolidated financial statement presentation and disclosure is adequate.

Significant qualitative aspects of
financial statement presentation
and disclosure

Nothing identified to report.

Significant accounting policies and practices



Initial selections of significant accounting policies and practices

There were no new significant accounting policies and practices that were selected and applied during the period.



Description of new or revised significant accounting policies and practices

There were no changes to significant accounting policies and practices. As a result, there was no impact on the consolidated financial statements.



Future Implementation

The most significant pronouncement in the near term relates to Asset Retirement Obligations (“AROs”) that will be applicable for fiscal 2023. Refer to [Appendix 4](#).



Significant qualitative aspects of the Town’s accounting policies and practices

There are no items to report.

Additional audit-related work

KPMG performed the following services in addition to the audit of the consolidated financial statements of the Town, either as a required deliverable per the engagement letter, management, or per request from the Audit Committee.

Other audit and assurance work

Other audits

KPMG has completed additional audits of the following:

- Corporation of the Town of Cobourg Public Library Board
- Downtown Business Improvement Area of Cobourg

Appendices

Content

Appendix 1: Other required communications

Appendix 2: How do we deliver audit quality?

Appendix 3: Management letter

Appendix 4: Asset retirement obligations

Appendix 5: Audit and assurance insights



Appendix 1: Other required communications

Auditors' Report

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

Representations of management

In accordance with professional standards, a copy of the management representation letter is provided to the Audit Committee. The management representation letter is attached for your review.

Audit Quality in Canada

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

- [CPAB Audit Quality Insights Report: 2021 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Inspections Results](#)

Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of the Corporation of Town of Cobourg (the "Entity"), which comprise:

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

January 9, 2023

Management representation letter

KPMG LLP
863 Princess Street, Suite 400
Kingston, Ontario K7L 5N4
Canada

January 9, 2023

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 Town of Cobourg ("the Entity") as at and for the period ended December 31, 2021.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

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

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 11, 2022, 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 Council and committees of Council 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, 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) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Non-SEC registrants or non-reporting issuers:

- 12) 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).
- 13) 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.

Consolidated financial statements:

- 14) All relationships with related parties have been communicated to you and appropriately reflected in the consolidated financial statements.

Yours very truly,

CORPORATION OF THE TOWN OF COBOURG

By: Mr. Ian Davey, Director of 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.

Attachment II – Summary of Audit Misstatements Schedule

Summary of corrected audit misstatements:

<u>Description</u>	<u>Consolidated Statement of Financial Position effect¹</u>			<u>Consolidated Statement of Operations effect¹</u>
	<u>Assets</u> \$	<u>Liabilities</u> \$	<u>Accumulated Surplus</u> \$	
Audit misstatements greater than \$65,000 individually				
Dr. Investment in Town of Cobourg Holdings Inc.	78,649	–	–	–
Cr. Net equity increase in investment in Town of Cobourg Holdings Inc.	–	–	(78,649)	(78,649)
To adjust the equity increase to actual.				
TOTAL CORRECTED AUDIT MISSTATEMENTS	78,649	–	(78,649)	(78,649)

¹ Debit (Credit)

Appendix 2: 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.

Appendix 3: Management letter



KPMG LLP
863 Princess Street,
Suite 400 Kingston
ON K7L 5N4 Canada
Telephone 613-549-1550
Fax 613-549-6349

Ian Davey
Director of Corporate Services/Treasurer
The Corporation of the Town of Cobourg
55 King Street West
Cobourg ON K9A 2L9

January 9, 2023

Dear Ian:

In planning and performing our audit of the consolidated financial statements of The Corporation of the Town of Cobourg ("the Entity") for the period ended December 31, 2021, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR.

Our consideration of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

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

Refer to the Appendix A for the definitions of various control deficiencies.

Significant Deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.



Other Control Deficiencies

We identified certain control deficiencies in the current year that we determined to be other control deficiencies in ICFR that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

Refer to Appendix B for our findings and recommendations from the prior year, along with current year updates.

Refer to Appendix C for current year observations.

Use of letter

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or by anyone other than management and those charged with governance.

KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

cc: Audit Committee

Appendix A - Definitions of Various Control Deficiencies

Terminology	Definition
Deficiency in Internal Control ("control deficiency")	A deficiency in internal control 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 and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to prevent, or detect and correct, misstatements in the financial statements is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control is unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant Deficiency in Internal Control ("significant deficiency")	A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix B – Update to Prior Year Observations

2020 Description	2020 Impact and Recommendation	2021 Update
Unfinanced capital Unfinanced capital is a component of accumulated surplus on the Town's consolidated financial statements. When reviewing unfinanced capital, we noted that the balance as of December 31, 2020 amounted to \$14,705,120, which represents an increase from the prior year of \$1,638,113.	Through discussions with management, it was noted that plans are continuing to be developed to fund aged, unfinanced capital expenditures, however, there continues to be significant expenditures that have not been funded.	The unfinanced capital balance decreased by \$1,338,150 to \$13,366,970 at December 31, 2021. We understand approximately \$7 million of the unfinanced capital balance will be funded through debentures, which will reduce this balance. We continue to recommend that management finalize plans to fund aged, unfinanced capital expenditures.
Vacation tracking During the 2019 audit, KPMG tested the vacation accrual and noted that there are employees with significant balances as there is no formal policy for non-union employees in place. The risk to the Town is the financial liability that grows on the consolidated statement of financial position. KPMG recommends that management develop plans to reduce the vacation banks that nonunion staff have accumulated. Such a plan may include the implementation of a non-union employee vacation policy that restricts the vacation that can be carried forward each year.	KPMG continued to note significant balances in the vacation payable accounts with balances in excess of allowable carryforward. We recommends management develop a plan to reduce the vacation banks in order to reduce the overall liability to the Town.	KPMG continued to note significant balances in the vacation payable accounts with balances in excess of allowable carryforward. KPMG continues to recommend that management develop plans to reduce the vacation banks that nonunion staff have accumulated, and notes that a policy has been approved and will be effective in January 2023. This non-union employee vacation policy will restrict the vacation that can be carried forward each year and ensure all vacation balances are tracked on a calendar-year basis. KPMG will follow up on the implementation of this policy in fiscal 2023.

Appendix B – Update to Prior Year Observations (continued)

2020 Description	2020 Impact and Recommendation	2021 Update
Cyber security Beginning with the fiscal 2019 audit, KPMG completed a cyber security questionnaire with management that was developed for the public sector. Areas were highlighted as potential gaps in the IT systems that may expose the Town to heightened risk including formal cyber security and refresh training for new and existing employees, dedicated cyber incident response team or response plan and regular reporting of cybersecurity activities on a periodic basis to those charged with governance. <i>KPMG notes this was not a complete cyber security assessment and no IT specialists were involved in this questionnaire as it was completed as part of a value-add to the financial statement audit.</i>	With increased transition to digital and online processes, the susceptibility to cyber security threats is increasing. In 2020, we noted that although informal, management has implemented new procedures to mitigate certain of these risks. We continue to recommend that the Town continue to formalize procedures related to cyber risk.	Although significant changes were not identified, we noted that management continues to focus on the implementation of cyber security processes to minimize cyber risk. Specifically, it was noted that there will be a new IT role and there are plans to develop an IT Strategy Plan. KPMG will continue to monitor the implementation of this recommendation in fiscal 2022.

Appendix C – Current Year Observations

Description	Recommendation
Bank reconciliations We noted bank reconciliations were prepared on a timely basis; however, they included the following reconciling items: • Outstanding cheques exceeding six months old which are carried forward each month; • Unapplied cheques and receipts which have not been recorded on the general ledger and are carried forward each year; and • Listings of outstanding cheques on a total basis, rather than on an account-by-account basis.	Monthly bank reconciliations are a strong internal control feature over cash and could indicate any potential misapplications of cash. We recommend that management identify and resolve reconciling items each month on an individual account basis in order to provide a more accurate accounting of the cash accounts. This will enhance the internal controls over the cash function.
Employee future benefits During the review of employee future benefits, KPMG noted that the liability was based on an independent actuarial study of these benefits undertaken in September 2019. An extrapolation report was not provided as at December 31, 2021 which would have contemplated changes in key rates and assumptions that drive the valuation of the liability.	Although we did not identify any issues with the rates and assumptions used in the actuarial valuation in the year of full valuation back in 2019, it is recommended that going forward, management obtain annual extrapolation reports from the actuary, consistent with industry practice, particularly when there are significant changes in market conditions.

Appendix 4: Asset retirement obligations

Implications

Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government to determine the impact of PS 3280 on current requirements.

Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

KPMG is available to help public sector entities analyze the implications of PS 3280 and determine how to mitigate resulting risks.

Appendix 4: Asset retirement obligations (continued)

Key audit risks

1

Do you have **completeness** of ARO's on your financial statements, particularly in terms of assets identified as in-scope?

Appendix 4: Asset retirement obligations (continued)

Implementation project

Project planning

- ❑ Project team is cross-functional and includes Finance and non-Finance personnel.
- ❑ Sufficient personnel resources are available for the implementation project.
- ❑ Where required, external experts have been engaged.
- ❑ The project plan identifies who is responsible for each project task.
- ❑ Project timelines are reasonable.
- ❑ Auditor involvement has been scheduled at each significant project milestone.
- ❑ Asset retirement obligations policy has been drafted.
- ❑ Funding is available for PS 3280 implementation costs.
- ❑ Recurring project updates are provided to the Audit Committee or other governance body to engage them in the implementation process.

Scoping

- ❑ The tangible capital assets listing reconciles to the audited financial statements.
- ❑ Agreements (e.g. leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- ❑ Productive and non-productive assets have been included in the scoping analysis.
- ❑ Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- ❑ All relevant legal acts, regulations, guidelines, etc. have been identified.
- ❑ Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- ❑ Cost information is relevant and reliable.
- ❑ Only costs directly attributable to legally required retirement activities have been included in the liability.
- ❑ If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- ❑ If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- ❑ Asset retirement obligations have been linked to specific tangible capital assets.
- ❑ The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- ❑ The transition method selected is appropriate based on the measurement information available.
- ❑ Calculations are mathematically accurate.

Financial reporting

- ❑ Financial statements have been mocked up to include asset retirement obligations.
- ❑ Note disclosures, including significant accounting policies, have been drafted.
- ❑ Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- ❑ Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.

Appendix 4: Asset retirement obligations (continued)

Implementation milestones

PHASE #1:	
Step #1	Development of a PS3280 compliant policy. Include a definition for in-scope assets, productive and non-productive assets, and document known sources of legal obligations (such as regulations and contracts) as well as key roles and responsibilities for retirement obligation identification, measurement and reporting.
Step #2	Identification of TCA/sites inventory. Develop an inventory of potential in-scope assets or sites based on existing TCA listings, and inventories used for PS3260 contaminated sites. Reconcile the listing of TCA items to the audited financial statements. Assess in-scope assets against PS3280 recognition criteria.
Milestone - Audit team review of PS3280 policy, asset listings and in-scope assets during Summer 2023.	
PHASE #2:	
Step #3	Measure the estimated liability. Assess available information, and consider the need for additional environmental assessment of any sites. Document key assumptions and variables, and selection of transition method. Determine if discounting will be applied for any assets. Consider impacts on useful life assumptions for in-scope assets. Document measurement methodology and range of estimate for in-scope assets.
Milestone - Audit team review of measurement methodology and range of estimates in Fall 2023.	
Step #4	Reporting. Prepare a library of documentation and assumptions supporting each retirement obligation for audit purposes, and comprehensive documentation of the process followed for implementation. Prepare template financial statements and related note disclosure for 2023 year end.
Milestone - Audit team review of working papers and template financial statements in Winter/Spring 2024.	

Appendix 5: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

[KPMG Audit & Assurance Insights](#)

Curated research and insights for Audit Committees and boards.

[Board Leadership Centre](#)

Leading insights to help board members maximize boardroom opportunities.

[Current Developments](#)

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

[Audit Committee Guide – Canadian Edition](#)

A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

[KPMG Learning Academy](#)

Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

[KPMG Climate Change Financial Reporting Resource Centre](#)

Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

[Momentum](#)

A quarterly newsletter providing curated insights for management, boards and Audit Committees.

[Uncertain Times Financial Reporting Resource Centre](#)

Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

[Environmental, social and governance \(ESG\)](#)

Building a sustainable, resilient and purpose-led organization

[Accelerate 2023](#)

The key issues driving the Audit Committee agenda in 2023



kpmg.ca/audit

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





Corporation of the Town of Cobourg

**Audit Findings Report
for the year ended December 31, 2022**

KPMG LLP

Prepared on August 17, 2023 for the Audit Committee meeting on
August 30, 2023

kpmg.ca/audit



KPMG contacts

Key contacts in connection with this engagement



Lori Huber, CPA, CA, LPA

Lead Audit Engagement Partner

613-541-7320

lahuber@kpmg.ca



Caitlyn Cox, CPA, CA

Audit Senior Manager

613-541-7401

caitlyncox@kpmg.ca



Cara Prinsen

Audit Senior Accountant

613-541-7383

cprinsen@kpmg.ca

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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.

4	Audit highlights	5	Status of the audit	6	Significant changes from our audit plan	7	Audit risks and results
10	Audit misstatements	11	Other matters	12	Control deficiencies	20	Additional matters
24	Appendices						

The purpose of this report is to assist you, as a member of the Audit Committee (the “Committee”), in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2022. This report builds on the Audit Plan provided to the Committee. This report is intended solely for the information and use of Management, the Committee, and the members of 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.



Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements of the Corporation of the Town of Cobourg (the "Town"), with the exception of certain remaining outstanding procedures, which are highlighted on page 5 of this report.



Significant changes to our audit plan

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



Audit risks and results – significant risks

In the Audit Plan, we did not identify any significant financial reporting risks other than the presumed risk of management override of controls. We did not identify any additional significant financial reporting risks that required additional audit procedures.



Uncorrected audit misstatements

We did not identify any misstatements that remain uncorrected.



Corrected audit misstatements

We identified certain misstatements that were communicated to management and subsequently corrected in the consolidated financial statements.



Control deficiencies

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



Audit risks and results – going concern assessment

We performed an assessment to support the appropriateness of the going concern assumption. We have no findings to report.

Significant unusual transactions

We did not identify any significant unusual transactions to bring to your attention.

Accounting policies and practices

There were no changes to accounting policies and practices to report.



Other financial reporting matters

The consolidated financial statement presentation complies with the financial reporting framework.





Status of the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of our legal inquiry letters;
- Completion our discussions with the Committee;
- Completion of our subsequent events review procedures up to the date of our auditors' report;
- Receipt of subsequent events review from the component auditor;
- Obtaining evidence of Council's approval of the consolidated financial statements; and
- Receipt of the signed management representation letter.

We will update the Committee, 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 auditor's report, a draft of which is provided in Appendix 1a: Draft Auditor's Report, will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)



Real-time collaboration and transparency

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

Learn more



Significant changes to our audit plan

We have not made any significant changes to our audit plan which was communicated to you in the audit planning report, and note that:

 Management and the KPMG audit team	 There were no key Management team member changes from the Audit Plan. Management were available as needed to assist the Audit Team. The senior audit team remained consistent from the team presented in the Audit Plan.
 Materiality	 Materiality was set at \$1,400,000, which represented approximately 2.8% of prior year expenses. Current year expenses increased to \$54,964,477, therefore materiality represented 2.5% of this benchmark. This falls within the acceptable range of our required benchmark of between 0.5% - 3.0%. No changes to materiality were required.
 Fraud risk	 We performed our required audit procedures in professional standards over fraud risk as communicated to the Committee in the Audit Plan and did not identify any additional fraud risks from our audit work. As part of our unpredictable procedure, we reviewed a sample of expense reimbursements and p-cards to ensure existence of appropriate reviews and segregation of duties on a timely basis.
 Other areas of audit focus	 We identified certain areas of audit focus in our Audit Plan. We have no significant findings as a result of these procedures.
 Newly effective auditing standards	 In the Audit Plan, we highlighted that CAS 315, <i>Identifying and Assessing the Risks of Material Misstatements</i> , was effective for the fiscal 2022 audit. We performed the required procedures to comply with this new auditing standard and have no findings to report.



Significant risks and results

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



Fraud risk from management override of controls

RISK OF
FRAUD



Significant risk	Estimate?	Key audit matter?
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.	No	No

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:

- Assessed the design and implementation of controls surrounding the journal entry process;
- Determined the criteria to identify high-risk journal entries and other adjustments; and
- Tested high-risk journal entries and other adjustments.

Findings

We did not uncover any issues during the performance of the procedures described above.



Significant accounting estimates

We highlight our findings with respect to **significant accounting estimates**.



Employee Future Benefits Liability

Significant risk	Estimate?	Key audit matter?
Management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”	Yes	No
Our response - KPMG obtained and reviewed the actuarial accounting valuation report for WSIB liabilities and retirement benefit liabilities for extended health care, dental, life insurance and sick leave benefits, obtained from the Town’s third-party actuary, Nexus Actuarial Consultants, in fiscal 2022. - As management utilized an expert in preparing the actuarial valuations, KPMG assessed the professional competence and objectivity of management’s expert. - KPMG performed the required accounting estimates procedures per the auditing estimates standards including gaining a detailed understanding of the process used by management to make the assumptions included in the actuarial valuation and resulting amount recorded in the consolidated financial statements. - KPMG performed procedures to test the completeness and accuracy of the data to the actuary. - KPMG reviewed the disclosures in the notes to the consolidated financial statements.		
Findings We did not uncover any issues during the performance of the procedures described above. We believe management’s process for estimating the Employee Future Benefits Liability is appropriate.		



Response to newly effective auditing standard



CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement

Key changes to the audit approach in the current year

A risk of material misstatement exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

- New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement
- New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement
- New requirement to separately assess inherent risk and control risk for each risk of material misstatement
- Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk
- Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement
- Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process
- Modernized to recognize the evolving environment, including in relation to IT
- Enhanced requirements relating to exercising professional skepticism
- Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control

Results of procedures performed

We designed and performed risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provided a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

Findings

No significant issues were identified in responding to the newly effective auditing standard.





Audit misstatements

Our materiality for fiscal 2022 was set at \$1,400,000 (2022 - \$1,300,000) which translated into an audit misstatement posting threshold of \$70,000 (2022 - \$65,000). As such, all misstatements identified during the audit greater than \$70,000 have been recorded on our summary of adjustments and differences.

Uncorrected audit misstatements include financial presentation and disclosure omissions.

Uncorrected misstatements

We did not identify any misstatements that remain uncorrected.

Corrected misstatements

The management representation letter, a copy of which is included in [Appendix 1b](#), includes the Summary of Corrected Audit misstatements, which discloses the impact of all misstatements that were communicated to management and subsequently corrected in the consolidated financial statements.



Other matters



- Included in the consolidated financial statements are the following entities:
 - Corporation of the Town of Cobourg
 - Waterworks of the Town of Cobourg
 - Town of Cobourg Holdings Inc.
 - Corporation of the Town of Cobourg Public Library Board
 - Downtown Business Improvement Area of Cobourg
- The audits of Waterworks of the Town of Cobourg and Town of Cobourg Holdings Inc. are performed by another auditor. As such, we completed the following procedures as required under professional standards:
 - Communicated with the component auditor of our intent to use their work;
 - Received and evaluated the Memorandum of Work Performed completed by the component auditor;
 - Confirmed receipt of written representations;
 - Re-calculated the consolidation performed by management using the audited financial statements provided to us by the component auditor.
- We did not uncover any issues during performance of the procedures described above.



Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Town's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated 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.

We identified certain observations surrounding internal controls over financial reporting. See pages 13 to 19.

Significant deficiencies in internal control over financial reporting

A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We did not identify any significant deficiencies in internal control over financial reporting.





Control deficiencies (continued)



Other control deficiencies

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Security Deposits

2022 Observation:

It was noted that the Town includes a material balance of security deposits within accounts payable and accrued liabilities. Although the overall presentation as a financial liability is accurate, due to the material nature of the security deposits, the balance should be reclassified to a standalone financial statement caption. This will ensure consistency with peer municipalities in Eastern Ontario.

2022 Recommendation:

We recommend that as part of the year-end process in fiscal 2023, management review the balance of security deposits to ensure the amounts are appropriately classified on the consolidated financial statements.



Control deficiencies (continued)



Other control deficiencies

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Components of Deferred Revenue – Obligatory Reserve Funds

2022 Observation:

As part of the audit, we performed a detailed review of the components of deferred revenue - obligatory reserve funds. Through these procedures, it was noted that the non-residential development charges balance is currently sitting in a debit position of \$199,013 which implies the Town has been applying developing charges to approved projects in advance of collection of the fee. Through discussions with management, it was noted that the segregation of the development charges between residential and non-residential is an internal tracking of the overall development charges reserve and therefore the overall liability for development charges appropriately remains in a credit position.

In addition, it was noted that there are immaterial government grants included in deferred revenue - obligatory reserves that should be reviewed to ensure classification as an obligatory reserve, rather than deferred revenue or a government transfer repayable, remains appropriate.

2022 Recommendation:

We recommend that management review the components of deferred revenue - obligatory reserve funds in fiscal 2023 to ensure amounts are appropriately classified and recorded.



Control deficiencies (continued)



Other control deficiencies

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Unfinanced Capital

Prior Year Observation and Recommendation:

Unfinanced capital is a component of accumulated surplus on the Town's consolidated financial statements. When reviewing unfinanced capital, we noted that the balance is significant and continues to grow.

Through discussions with management, it was noted that plans are continuing to be developed to fund aged, unfinanced capital expenditures, however, there continues to be significant expenditures that have not been funded.

2022 Update:

The unfinanced capital balance decreased by \$3,391,710 to \$9,975,260 at December 31, 2022. We understand that a significant portion of the unfinanced capital balance will be funded through debentures, which will continue to reduce this balance.

We continue to recommend that management finalize plans to fund aged, unfinanced capital expenditures.



Control deficiencies (continued)



Other control deficiencies (continued)

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Vacation Tracking

Prior Year Observation and Recommendation:

During the 2019 audit, KPMG tested the vacation accrual and noted that there are employees with significant balances as there is no formal policy for non-union employees in place. The risk to the Town is the financial liability that grows on the consolidated statement of financial position. In previous years, KPMG has continued to note significant balances in the vacation payable accounts with balances in excess of allowable carryforward.

We recommend management develop a plan to reduce the vacation banks in order to reduce the overall liability to the Town.

2022 Update:

KPMG continued to note significant balances in the vacation payable accounts, including employees with balances in excess of allowable carryforward limits.

KPMG continues to recommend that management develop plans to reduce the vacation banks that nonunion staff have accumulated, and notes that a policy has been approved and was effective in January 2023. This non-union employee vacation policy restricts the vacation that can be carried forward each year and will help to ensure all vacation balances are tracked on a calendar-year basis.

KPMG will follow up on the implementation of this policy in fiscal 2023.



Control deficiencies (continued)



Other control deficiencies (continued)

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Cyber Security

Prior Year Observation and Recommendation:

Beginning with the fiscal 2019 audit, KPMG completed a cyber security questionnaire with management that was developed for the public sector.

Areas were highlighted as potential gaps in the IT systems that may expose the Town to heightened risk including formal cyber security and refresh training for new and existing employees, dedicated cyber incident response team or response plan and regular reporting of cybersecurity activities on a periodic basis to those charged with governance.

With increased transition to digital and online processes, the susceptibility to cyber security threats is increasing. We recommend that the Town continue to formalize procedures related to cyber risk.

2022 Update:

We continue to note a heightened focus on cyber security risks in the current year. Although significant changes were not identified, we noted that management continues to focus on the implementation of cyber security processes to minimize cyber risk. Specifically, it was noted that there are plans to develop an IT Strategy Plan.

KPMG will continue to monitor the implementation of this recommendation in fiscal 2023.

KPMG notes this was not a complete cyber security assessment and no IT specialists were involved in this questionnaire as it was completed as part of a value-add to the consolidated financial statement audit.



Control deficiencies (continued)



Other control deficiencies (continued)

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Bank Reconciliations

Prior Year Observation and Recommendation:

We noted bank reconciliations were prepared on a timely basis; however, they included the following reconciling items:

- Outstanding cheques exceeding six months old which are carried forward each month; and
- Unapplied cheques and receipts which have not been recorded on the general ledger and are carried forward each year.

Monthly bank reconciliations are a strong internal control feature over cash and could indicate any potential misapplications of cash. We recommend that management identify and resolve reconciling items each month on an individual account basis in order to provide a more accurate accounting of the cash accounts. This will enhance the internal controls over the cash function.

2022 Update:

We did not identify any changes in the current year.

As part of our review of bank reconciliations in the current year, we also noted that there is one bank reconciliation that covers numerous general ledger accounts, some of which have balances that have not changed since the system conversion in 2015. We recommend that as part of the clean-up of reconciling items on the bank reconciliation, management also close the accounts that are no longer in use and consolidate the balances into one general ledger account to simplify the bank reconciliation process.

We will follow-up on the implementation of this matter in fiscal 2023.



Control deficiencies (continued)



Other control deficiencies (continued)

We have included our follow-up to the other observations identified in the prior year, as well as the observations identified in the current year.



Employee Future Benefits Liability

Prior Year Observation and Recommendation:

During the review of employee future benefits, KPMG noted that the liability was based on an independent actuarial study of these benefits undertaken in September 2019. An extrapolation report was not provided as at December 31, 2021 which would have contemplated changes in key rates and assumptions that drive the valuation of the liability.

Although we did not identify any issues with the rates and assumptions used in the actuarial valuation in the year of full valuation back in 2019, it is recommended that going forward, management obtain annual extrapolation reports from the actuary, consistent with industry practice, particularly when there are significant changes in market conditions.

2022 Update:

An independent actuarial valuation of employee future benefits was undertaken at December 31, 2022, including a review of the key rates and assumptions.

This matter is considered resolved.



Significant accounting policies and practices



Initial selections of significant accounting policies and practices

There were no new significant accounting policies and practices that were selected and applied during the period.



Description of new or revised significant accounting policies and practices

There were no changes to significant accounting policies and practices. As a result, there was no impact on the consolidated financial statements.



Significant qualitative aspects of the accounting policies and practices

There are no items to report.



Future implementation

The most significant pronouncement in the near term relates to Asset Retirement Obligations (“AROs”) that will be applicable for fiscal 2023. As part of the implementation of this standard, management will be required to review the contaminated sites listing, including the existing contamination at the Tannery, to ensure the ARO liability is complete.

Refer to Appendix 3 for additional information related to the adoption of this standard.



Other financial reporting matters

We also highlight the following:



Consolidated financial statement presentation - form, arrangement, and content



The presentation and disclosure included in the consolidated financial statements is in accordance with the required standards as disclosed in the notes to the consolidated financial statements.



Concerns regarding application of new accounting pronouncements



No matters to report.



Significant qualitative aspects of the consolidated financial statement presentation and disclosure



No additional matters to report.

Audit quality: How do we deliver audit quality?

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

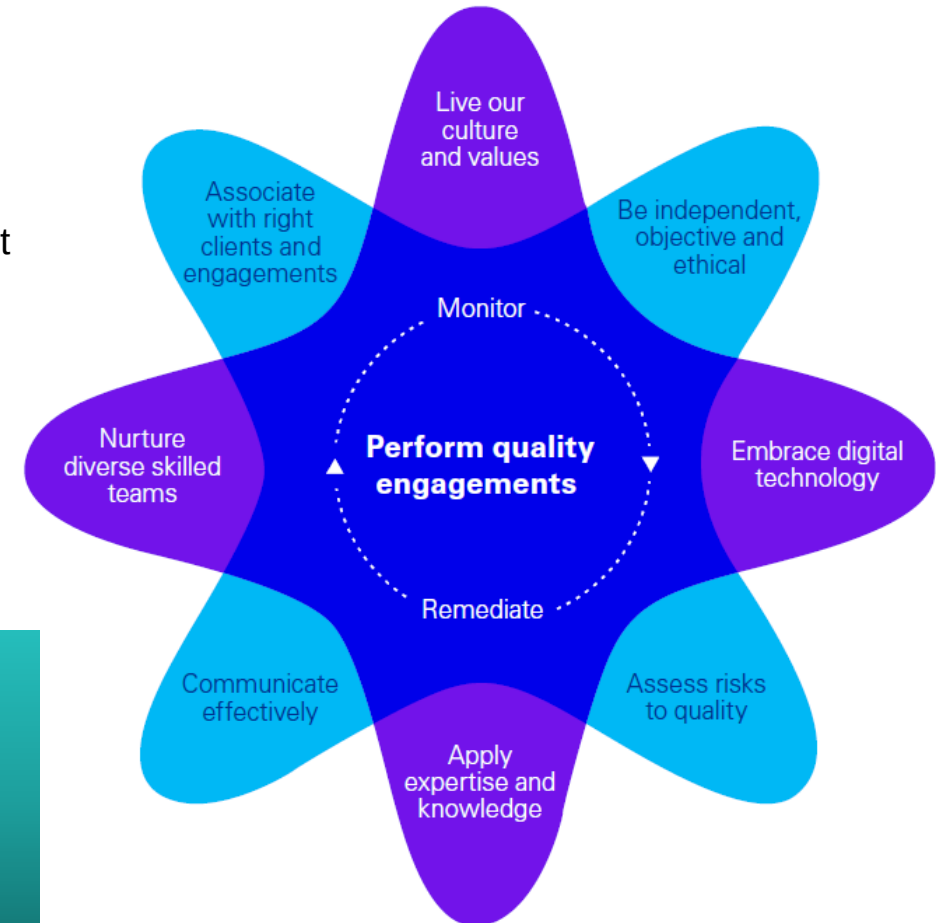
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

 [KPMG 2022 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 controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.





Audit quality: Indicators (AQIs)

The objective of these measures is to provide the Committee and management with more in-depth information about factors that influence audit quality within an audit process. Below you will find the current status of the AQIs that are relevant for the audit.



Audit team composition



- Experience, commitment and knowledge of the broader public sector
- A combination of continuity and fresh perspectives
- Access to specialist resources with public sector experience



Technology in the audit



- Increase in use of technology in the audit year over year
- Use of secure KPMG portal for transfer of electronic documents



Independence



- We will not put ourselves in a situation where we would audit our own work.
- We apply the most rigorous standards to our professional services in order to ensure our continued independence in our role.



Client preparedness



- The audit was completed in tranches based on the readiness of the client-prepared documentation. Audit fieldwork commenced in June 2023 and was completed in July 2023.



Committee



- Committee members participate fully in the discussion with auditors, including meeting in camera with the auditors
- KPMG provides current industry trends and updates to accounting and audit standards



Voice of the Client



- Take deep personal accountability, individually and as a team, to fulfill our commitments to you;
- Measure our success from the only perspective that matters—yours



Appendices

1

Other Required
Communications

2

Technology

3

Future accounting
pronouncements

4

Audit and
assurance insights



Appendix 1: Other Required Communications



CPAB communication protocol

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

- [CPAB Audit Quality Insights Report: 2022 Interim Inspection Results](#)
- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Audit Quality Assessments](#)



Auditors' Report

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



Matters pertaining to independence and confidentiality

We are independent of the Town, and we have a robust and consistent system of quality control.

Confidentiality of our clients' information is an on-going professional and business requirement of both KPMG and our overall profession. In addition to our internal confirmation of independence of team members, we request confirmation and acknowledgement of our policies regarding confidentiality of the Town's information.



Representations of management

In accordance with professional standards, we will obtain certain representations from management upon approval of the consolidated financial statements.



Appendix 1a: Draft auditors' report

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The Corporation of the Town of Cobourg ("the Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Appendix 1a: Draft auditors' report (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Appendix 1a: Draft auditors' report (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group of the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 11, 2023



Appendix 1b: Management representation letter

KPMG LLP
863 Princess Street, Suite 400
Kingston, Ontario K7L 5N4
Canada

September 11, 2023

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 Town of Cobourg ("the Entity") as at and for the period ended December 31, 2022.

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 January 11, 2022, 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.



Appendix 1b: Management representation letter (continued)

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.

Consolidated financial statements:

- 15) All relationships with related parties have been communicated to you and appropriately reflected in the consolidated financial statements.

Yours very truly,

CORPORATION OF THE TOWN OF COBOURG

By: Mr. Ian Davey, Director of Corporate Services/Treasurer

cc: Audit Committee



Appendix 1b: Management representation letter (continued)

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.

Attachment II – Summary of Audit Misstatements Schedules

Summary of corrected audit misstatements:

Description	Statement of Financial Position effect ¹			Statement of Operations effect ¹
	Assets \$	Liabilities \$	Accumulated Surplus \$	
Audit misstatements greater than \$70,000 individually				
Dr. Deferred revenue	–	854,993	–	–
Cr. Accounts payable and accrued liabilities				
To reclassify the amounts owing to the County and School Boards.	–	(854,993)	–	–
Dr. Tangible capital assets	616,441	–	–	–
Cr. Accounts payable and accrued liabilities	–	(616,441)	–	–
To record the legal settlement reached subsequent to year-end.				
TOTAL CORRECTED AUDIT MISSTATEMENTS	616,441	(616,441)	–	–



Appendix 2: Technology – Continuous improvement powered by transformation

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.





Appendix 2: Technology - KPMG Clara - Bringing the audit to one place



Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



Secure

A secure client portal provides centralized, efficient coordination with your audit team.



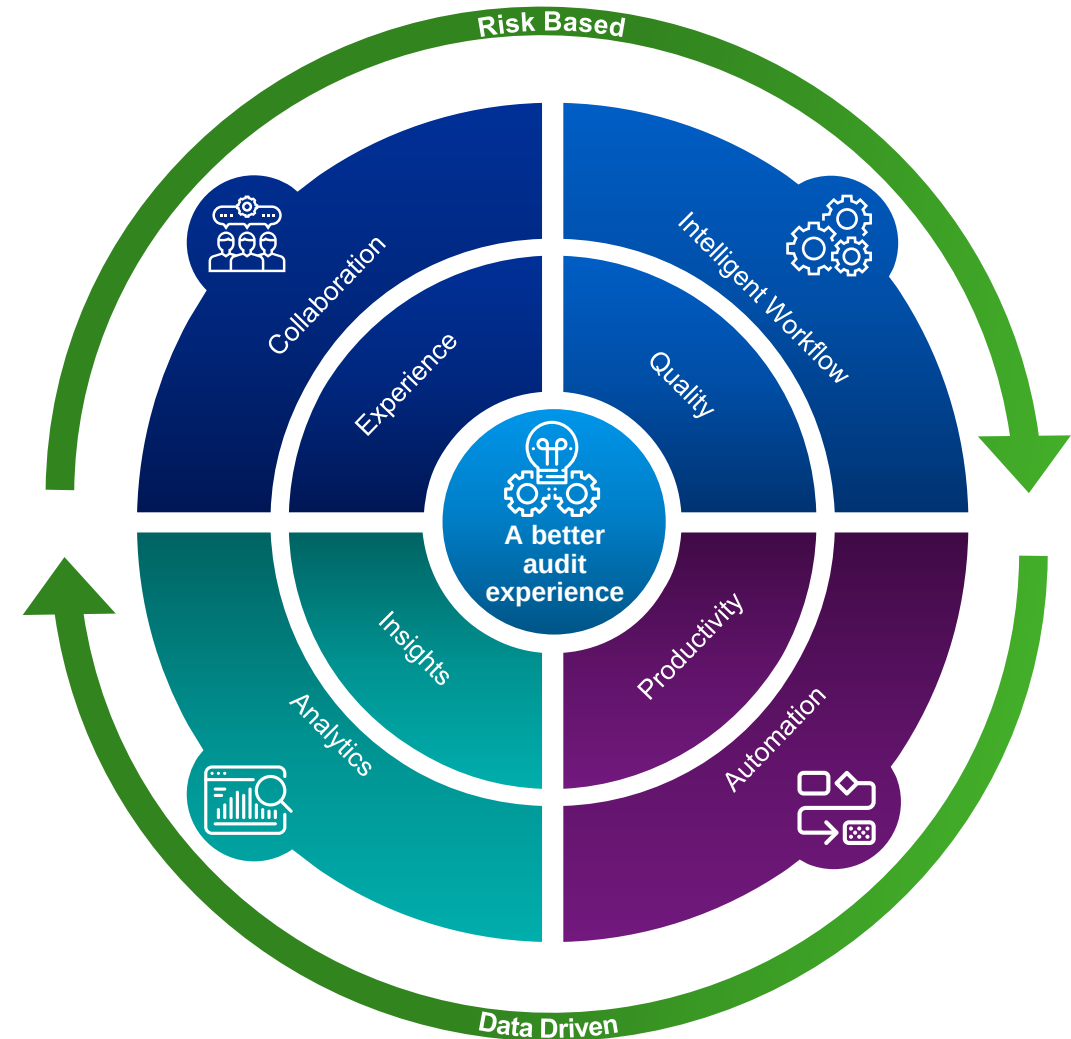
Intelligent workflow

An intelligent workflow guides audit teams through the audit.



Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.





Appendix 3: Future accounting pronouncements

Asset retirement obligations (“AROs”)

Effective date

December 31, 2023

Summary and implications

- The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
- The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). As a result of the new standard, the public sector entity will:
 - Consider how the additional liability will impact net financial assets.
 - Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements.

Financial instruments & foreign currency translation

Effective date

December 31, 2023

Summary and implications

- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.
- Hedge accounting is not permitted.
- A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.
- PS 3450 *Financial Instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Appendix 3: Future accounting pronouncements (continued)

Revenue

Effective date

December 31, 2024

Summary and implications

- The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.
- The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Effective date

December 31, 2024

Summary and implications

- PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard may be applied retroactively or prospectively.
- The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
- The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.

Effective date

December 31, 2024

Summary and implications

- The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.
- Narrow scope amendments were made to *PS 1000 Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to *PS 1201 Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized.
- The guideline can be applied retroactively or prospectively.

Purchased intangibles



Appendix 3: Future accounting pronouncements (continued)

Asset Retirement Obligations (ARO's): key audit risks

1

Do you have **completeness** of ARO's on your financial statements, particularly in terms of assets identified as in-scope?

2

Have you determined **measurement** of ARO's based on reliable data and costing models?

3

Have you correctly applied an appropriate **transition method**?

4

Do you have adequate **documentation** of your process and audit working papers enabling auditability?



Appendix 3: Future accounting pronouncements (continued)

Asset retirement obligations: implementation project

Project planning

- Project team is cross-functional and includes Finance and non-Finance personnel.
- Sufficient personnel resources are available for the implementation project.
- Where required, external experts have been engaged.
- The project plan identifies who is responsible for each project task.
- Project timelines are reasonable.
- Auditor involvement has been scheduled at each significant project milestone.
- Asset retirement obligations policy has been drafted.
- Recurring project updates are provided to the Audit Committee or other governance body to engage them in the implementation process.

Scoping

- The tangible capital assets listing reconciles to the audited financial statements.
- Agreements (e.g. leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- Productive and non-productive assets have been included in the scoping analysis.
- Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- All relevant legal acts, regulations, guidelines, etc. have been identified.
- Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- Cost information is relevant and reliable.
- Only costs directly attributable to legally required retirement activities have been included in the liability.
- If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- Asset retirement obligations have been linked to specific tangible capital assets.
- The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- The transition method selected is appropriate based on the measurement information available.
- Calculations are mathematically accurate.

Financial reporting

- Financial statements have been mocked up to include asset retirement obligations.
- Note disclosures, including significant accounting policies, have been drafted.
- Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.



Appendix 3: Future accounting pronouncements (continued)

Asset retirement obligations: implementation milestones

PHASE 1

Step 1:

Development of a PS3280 compliant policy. Include a definition for in-scope assets, productive and non-productive assets, and document known sources of legal obligations (such as regulations and contracts) as well as key roles and responsibilities for retirement obligation identification, measurement and reporting.

Step 2:

Identification of TCA/sites inventory. Develop an inventory of potential in-scope assets or sites based on existing TCA listings, and inventories used for PS3260 contaminated sites. Reconcile the listing of TCA items to the audited financial statements. Assess in-scope assets against PS3280 recognition criteria.

Milestone – KPMG Audit Team review of PS3280 policy, asset listings, and in-scope assets

PHASE 2

Step 3:

Measure the estimated liability. Assess available information, and consider the need for additional environmental assessment of any sites. Document key assumptions and variables, and selection of transition method. Determine if discounting will be applied for any assets. Consider impacts on useful life assumptions for in-scope assets. Document measurement methodology and range of estimate for in-scope assets.

Milestone – KPMG Audit Team review of measurement methodology and range of estimates

Step 4:

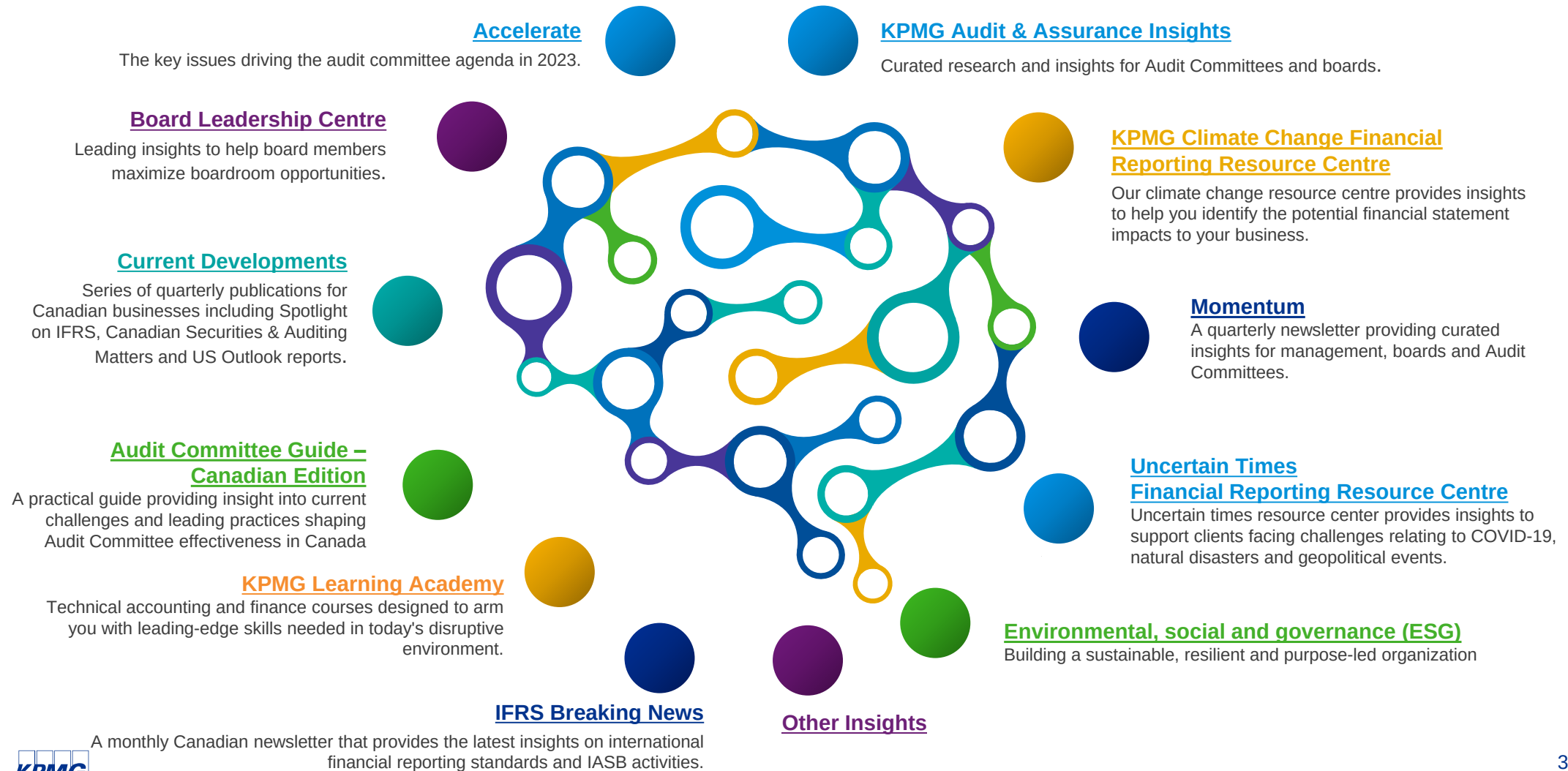
Reporting. Prepare a library of documentation and assumptions supporting each retirement obligation for audit purposes, and comprehensive documentation of the process followed for implementation. Prepare template financial statements and related note disclosure for 2023 year end.

Milestone – KPMG Audit Team review of working papers and template financial statements



Appendix 4: Audit and assurance insights

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





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KPMG member firms around the world have 227,000 professionals, in 145 countries.

