
HALDIMAND COUNTY

Memorandum FIN-M02-2020 Financial Audit Findings Letter for 2019 For Consideration by Council in Committee on November 17, 2020



To: Mayor Hewitt and Members of Council
From: Charmaine Corlis, Treasurer

Pursuant to the Municipal Act, the County must appoint an auditor that annually audits the accounts and financial transactions of the municipality and its local boards, in order to express an opinion on the financial statements of these bodies. At the November 17, 2020 Council-in-Committee meeting, the County's auditor, Millard, Rouse & Rosebrugh LLP, will be presenting the 2019 Audited Financial Statements.

The auditor must perform their audit of the County's accounts and transactions in accordance with Generally Accepted Auditing Standards (GAAS). These standards require the auditors, at the conclusion of each audit, to issue an "Audit Findings Letter" to Council. Traditionally known as an Auditor's Management Letter, the purpose of this letter is to disclose to the organization's management team any accounting irregularities or other internal controls that, although they did not prevent the auditor from issuing an opinion on the audited statements, could help improve internal reporting systems.

Upon completion of the audit of the Consolidated Financial Statements and the Trust Funds for the Corporation of Haldimand County, for the year ending December 31, 2019, the requisite "Audit Findings Letters" were received by County staff, dated November 17, 2020. These letters are attached for Council's information (Attachment #1). GAAS requires the auditors to comment on the following areas: evaluation of internal controls, significant accounting principles, significant unusual transactions, accounting estimates, disagreements with management, issues identified and difficulties encountered during the audit.

The intent of this memo is to communicate staff's response to the findings, as outlined by the auditor. As indicated by the attached letter, there were no unusual findings in any of the above noted areas, with the following recommended as improvements to the County's processes:

1. Significant Accounting Estimates:

***Auditor's comments:** "Certain accounting estimates are particularly sensitive because they involve a significant degree of judgment and may have a range of possible outcomes. Significant accounting estimates exist for the County in the determination of the employment benefits liability. Four areas of employment benefits where estimates are involved are worker's compensation (WSIB), post employment benefits (i.e. health, dental and life insurance), vested sick leave and unvested sick leave. In 2019, the County hired an actuary to conduct an actuarial evaluation to calculate an estimate for the WSIB liability, post employment benefits, vested and unvested sick leave liabilities and these estimates have been reflected in the financial statements."*

Management Response: The 2019 actuarial estimates for WSIB, post employment benefits, as well as vested and unvested sick leave liabilities, will be reviewed annually with the actuary, with a full study planned every four years. This is expected to be updated for 2023 year end. Previously, the WSIB actuarial had not been completed since 2013. Legislative changes that impact WSIB estimates

(particularly with respect to claims for presumptive liability for volunteer firefighters, post traumatic stress disorder for emergency first responders and chronic mental stress) will continue to have future impacts. Further information and data will provide a better understanding of the impacts of this expanded legislation. The results of future studies will be reflected in the audited consolidated financial statements.

2. Significant Accounting Estimates:

***Auditor's comments:** "The solid waste landfill closure and post-closure liability, that relates to the shared Tom Howe landfill site and Canborough landfill site, is a significant estimate. Haldimand County hired an actuary in 2009 to perform an actuarial evaluation of the landfill closure and post-closure costs. Since then, a Haldimand County employee performs periodic evaluations and estimates the landfill closure and post-closure costs based on the 2009 actuarial evaluation. In 2019 Haldimand County hired a consultant to provide third-party support for the estimates of the landfill closure and post-closure costs. The results of this investigation have been reflected in the financial statements."*

Management Response: Since the closure of the Tom Howe landfill site in late 2015, the County has moved to a transfer station operation to handle all solid waste for Haldimand County only. As 2016 represented the first full year of transfer station operations and post-closure costs at Tom Howe, several estimates were made to determine current and future post closure costs, noting that the future costs are significantly influenced by estimated leachate treatment costs, weather and operational practices. These estimates have been refined annually based on actual costs and forecasts of future costs. However, a significant portion of the estimated future liability is based on leachate treatment costs (approximately 80% of the total post closure costs) which can fluctuate significantly based on annual flows. In conjunction with Norfolk County staff, a Leachate Management Best Practice Study has been initiated to identify options to reduce and treat leachate from the jointly owned closed landfills. This study identified a significant change in the expected lifespan required for post-closure activities for Tom Howe landfill site (95 years from 2015 to 2109) and for Canborough landfill site (77 years from 2009 to 2085). The results of this change has allowed for updates to the liability estimates. Future cost changes may also occur and will assist in determining the solid waste post-closure liability to be reported in future annual audited financial statements.

3. Significant Deficiencies in Internal Control:

***Auditor's comments:** "A portion of the TCA subledger and general ledger are not being reconciled during the year which caused a year end debit adjustment to the statement of operations of approximately \$10,000,000, (2018 had a net debit adjustment of approximately \$7,800,000). This adjustment is required to record costs and revenue accounted for within the TCA subledger but not yet recorded in the general ledger. We recommend that the TCA subledger and general ledger become interfaced, which would eliminate the need for any reconciling adjustment. In the mean time, we recommend that the TCA subledger and general ledger are reviewed quarterly at minimum and this reconciling adjustment is made on a quarterly basis to reduce the impact at year end. We recommend this be implemented as soon as possible as reconciliations are an important control and the adjustments could affect key performance indicators."*

Management Response: As outlined in the staff report that accompanies the audited 2019 Consolidated Statements, there are financial reporting differences between internal financial statements and external audited statements due mainly to the reporting of capital transactions to meet Public Sector Accounting Board (PSAB) requirements. In 2009, PSAB required capital transactions that meet certain principles to be reported as assets on the balance sheet and not expensed in the year of acquisition. As a result of this accounting change, all municipal governments have and continue to struggle to identify the impacts of these differences for annual reporting purposes. Staff agree with the comment that

improvements can be made to limit these differences, where possible, to make the annual audited financial statements more understandable for the general public. As such, during the current Business Application Software implementation, one of the desired technological improvements is the ability to integrate the internal and external reporting of tangible capital assets. In addition, from a processing standpoint, a more timely review and recording of these transactions is warranted to ensure they are reconciled during the year incurred or shortly after the fiscal year end.

There were no other unusual findings noted by the auditors.

Attachments:

1. Millard, Rouse & Rosebrugh – Audit Findings Letters, dated November 17, 2020