



Beaver County

2021 Audit Findings

Report to Reeve and Council

December 31, 2021

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April 20, 2022

Members of Council of Beaver County

Dear Council Members:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of Beaver County (the "County") as at December 31, 2021 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of .

We have completed our audit of the consolidated financial statements of the County which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the Reeve and Council of the County.

This report is intended solely for the information and use of and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

A handwritten signature in black ink that reads 'MNP LLP' in a stylized, cursive font.

Chartered Professional Accountants

TB/mdm

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Introduction

As auditors, we report to the Reeve and Council on the results of our examination of the consolidated financial statements of Beaver County (the "County") as at and for the year ended December 31, 2021. The purpose of this Audit Findings Report is to assist you, as members of , in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures.

We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

Engagement Status

We have completed our audit of the consolidated financial statements of the County and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedures:

- Receipt of the signed management representation letter;
- Discussion of subsequent events with ;
- Reeve and Council review and approval of the consolidated financial statements.

Independent Auditor's Report

We expect to have the above procedures completed and to release our Independent Auditor's Report on April 20, 2022.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the Reeve and Council of the County.

Significant Audit, Accounting and Reporting Matters

Audit and Reporting Matters

The following significant matters arose during the course of audit that we wish to bring to your attention.

Area	Comments
Changes from Audit Service Plan	There were no deviations from the Audit Service Plan previously presented to you.
Final Materiality	<p>Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the County, and is affected by our assessment of materiality and audit risk.</p> <p>Final materiality used for our audit was \$1,160,000 for December 31, 2021 and \$1,160,000 for December 31, 2020.</p>
Difficulties Encountered	No significant limitations were placed on the scope or timing of our audit.
Identified or Suspected Fraud	<p>Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.</p> <p>While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.</p>
Identified or Suspected Non-Compliance with Laws And Regulations	Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements.
Matters Arising in Connection With Related Parties	No significant matters arose during the course of our audit in connection with related parties of the County.

Area	Comments
<p>Significant Deficiencies in Internal Control</p>	<p>Our audit process focuses on understanding the controls utilized in management’s reporting systems, including for estimates, to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.</p> <p>It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.</p> <p>We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.</p> <p>While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention</p>
<p>Matters Arising from Discussions With Management</p>	<p>We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the County.</p> <p>There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.</p>
<p>Significant Differences</p>	<p>Some significant differences were proposed to management with respect to the December 31, 2021 consolidated financial statements. A summary of significant differences has been included as Appendix B to this report.</p>

Auditor's Views of Significant Accounting Practices

The application of Canadian public sector accounting standards allows and requires the County to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your County's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Area	Comments
Accounting Policies	The accounting policies used by the County are appropriate and have been consistently applied.
Accounting Estimates	<p>Gravel inventory and reclamation liability</p> <p>There are significant management estimates regarding gravel inventory and reclamation. We used engineering reports to verify gravel quantity and actual costs incurred to assess the estimate of the reclamation liability.</p> <p>Amortization of tangible capital assets</p> <p>Tangible capital assets are amortized over the estimated life of the respected assets.</p> <p>Allowance for doubtful property taxes</p> <p>Management has made estimates regarding the collectibility of overdue property taxes. We used accounts in arrears from the property tax roll for the estimate of allowance of doubtful accounts.</p>
Financial Statement Disclosures	The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the consolidated financial statements.
Other Matters	On March 11, 2020, the World Health Organization declared a global outbreak of COVID-19 (coronavirus), which has continued to have a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the County as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

Significant Risk Areas and Responses

Significant Risk Area	Response and Conclusion
<p>Deferred revenue and restricted contributions</p> <p>Contributions received are subject to restrictions imposed by the contributors and can only be recognized when expenditures related to the restricted use have occurred.</p>	<p>Reviewed all grants and applications for use of grants based on our audit methodology. Review included determination if expenses were incurred relating to the grants to ensure that recognition of revenue is appropriate. No issues were noted.</p>

Higher Risk Areas and Responses

Higher Risk Area	Response and Conclusion
<p>Gravel Inventory</p> <p>The nature of the inventory is such that the quantity is difficult to visually inspect, weigh, measure, or count, or is subject to significant estimation.</p>	<p>Valuation of inventory was substantively tested at a high-risk factor. Inventory count was performed by a third party. No issues were noted.</p>
<p>Tangible capital assets (TCA)</p> <p>There may be tangible capital assets or contributed assets not recorded or tangible capital assets expensed.</p> <p>There may be estimates involved in determining the carrying value of TCA's.</p>	<p>Vouched significant additions and disposals for the year to supporting documentation. Tested the appropriate expense accounts to ensure classification between expense and capital is correct.</p> <p>Re-calculated amortization to ensure alignment with the County's accounting policy. Discussions held with management related to potential impairment of assets, of which there was none identified. No issues were noted.</p>
<p>Salaries and wages</p> <p>May have staff being over or underpaid.</p>	<p>Traced sample of transactions to ensure that employees are being paid appropriately and that deductions are being properly withheld and remitted. No issues were noted.</p>

Other Matters

Management Representations

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit. This letter, provided by management, has been provided under separate cover.

Auditor Independence

We confirm to that we are independent of the County. Our letter to discussing our independence has been provided under separate cover.

Appendix A - MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the County and its environment, including management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees; and
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
- Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.

Appendix B - Summary of Significant Differences

Significant Adjusted Differences

A full list of all adjusted differences is available upon request.

During the course of our audit, we did not identify any significant unadjusted differences affecting the consolidated financial statements.

Notification of Changes

(See Attached)



Planning for the Audit

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Did you know?

Did you know that the Canadian Auditing Standards (CAS) has revised the auditing standard related to identifying and assessing the risks of material misstatements?

The revised CAS 315 will be effective for our audit of your County's financial statements ending December 31, 2022.

Key changes include:

- Re-analyse financial statement risks by component parts: complexity, subjectivity, etc;
- In depth understanding of the County's use of information technology (IT); and
- Additional requirements around management's control environment.

Refer to Appendix 1 The Audit Service Plan under the "Key Changes and Developments" section Revised CAS 315 *Identifying and assessing the risks of material misstatements* for more details of the changes.

What does this mean for our current year audit?

In our situation where, relying on controls including IT general controls are deemed essential to supplement substantive testing in addressing significant risk, it warrants us, the auditor, to consider adopting the IT requirements of revised CAS 315 one year ahead of effective date, to provide management an opportunity to remediate any control deficiencies in the entity's IT environment.

There will be an increase in upfront planning time required from both management and our engagement team to meet the requirements. Specifically:

1. Audit risk assessment currently considers fraud schemes and significant risks, and assertion-level evaluation of financial statement risk. The addition of inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud factors) is more granular and will require both careful assessment at planning, and specific audit procedures in response.
2. We will require assistance from management and the entity's information technology's function to understand the entity's use of IT. Based on this detailed understanding, our engagement team will evaluate the risks arising from IT and the design and implementation of the IT general controls. Implications may include the involvement of an IT specialist and testing of the entity's IT general controls and IT application controls. In addition to the IT environment, our engagement team will be assessing key controls and the benefits of testing the operating effectiveness of these controls as it relates to the overall audit approach.
3. Even where we do not plan to rely on controls, additional requirements apply to understand and evaluate components of management's entity-level control environment including oversight, culture, assignment of responsibility and how individuals are held accountable.

The new requirements noted above may result in the identification of deficiencies in the design and implementation of certain controls. We will then engage with management through the subsequent period to ensure our parallel assessment of their efforts aimed at remediating control deficiencies.

This revised standard will include consultation with our IT audit specialist and will result in additional time spent on the audit as noted above.

Planning for the audit?

Early engagement with management to ensure you are aware of the current plan to incorporate the revised expectations for a compliant audit into the County's internal controls over financial reporting.

Specifically, you may want to consider the following:

- Does our business model heavily rely on the use of IT?
- Does our interaction with customers, suppliers or other stakeholders' dependent on IT to an extent that, without proper controls in the IT environment, we are not comfortable with the reliability of the data or information produced by such system?

Sample questions to consider asking management are:

1. Has the County evaluated controls over risk assessment, oversight, culture, assignment of authority/responsibility?
2. Has the County extended the evaluation of controls to the County's information technology systems (e.g., changes to manage change or logical access IT general controls, implementation of new IT applications) and were any weaknesses identified?
3. Were there any challenges in applying the new requirements?

Further we encourage you to ask us questions to stay informed, here are a sample of questions to consider:

1. How has the assessed risks of material misstatement related to the County's information technology systems affect the audit and how have you addressed those potential risks?
2. To what extent did you engage IT specialists to be involved in the audit of financial statements? If so, how were the specialists used, and did the use of specialists change in the current year?
3. How has your risk assessment of the internal control policies and procedures impacted the audit strategy for the current year?
4. Are there any concerns with management's transaction-level controls within the key business processes?
5. Are there any areas where management could be of greater assistance to reduce the amount of time spent by you?

APPENDIX 1: Revised CAS 315 Identifying and Assessing the Risks of Material Misstatement

The revised CAS 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, incorporates changes to establish more robust requirements and detailed guidance to assist auditors in performing appropriate risk assessment procedures corresponding with the size and nature of the entity. It also includes changes to enhance the application of professional skepticism in audits. The revised CAS 315 accomplishes the following:

- Distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- Clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- Highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling based on the complexity of the situation;
- Clarifies the definition of "significant risk" and introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- Introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- Introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- Separates the assessment of inherent and control risk;
- Enhances the auditor's considerations regarding the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- Introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- Uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- Clarifies the threshold for identifying possible risks of material misstatement in CAS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*.

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At MNP we're proud to be the national accounting, consulting and tax firm that is 100% Made in Canada.

Our history defines who we are and our approach to business. Being a Canadian firm has helped shape our values, our collaborative approach, and the way we work with our clients, engaging them every step of the way.

We have a unique perspective. Our decisions are made here – decisions that drive Canadian business and help us all achieve success — and we know the impact that our choices have on the cities and towns we call home.

Throughout our six decades of work, we've seen our communities are more than just a place we do business in. They're a place where our families live, play, and thrive, and we work to make them the best places they can be.

Being 100% Canadian is something we wear proudly. This country provides us with great opportunities, and we're here to help our clients seize the opportunities so we can create a brighter future for the generations to come.



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