

# London & Middlesex Community Housing Inc.

Audit Findings Report  
for the year ended  
December 31, 2019

*KPMG LLP*

May 21, 2020

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# Executive summary

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

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2019. This Audit Findings Report builds on the Audit Plan we presented to the Board of Directors.

### Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you, other than the fact that we completed our audit fieldwork remotely rather than being on site.

### Finalizing the Audit

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

- obtaining a copy of the 2020 budget approved by the Board;
- obtaining a signed copy of the management representation letter;
- completing our discussions with the Board of Directors;
- obtaining evidence of the Board's approval of the financial statements.

We will update the audit Board of Directors, 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.

### Independence

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

### Uncorrected differences

We did not identify differences that remain uncorrected.

### Control deficiencies

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

## Relevant factors affecting our risk assessment

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# Audit risks and results

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 Management override of controls

### Significant financial reporting risk

Fraud risk from management override of controls

### Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

### Our response and significant findings

We performed the following procedures as noted in our audit planning report:

- Testing of journal entries and other adjustments including procedures to gain assurance over completeness of the journal entry population.
- Performed a retrospective review of estimates and evaluated business rationale of significant unusual transactions.

#### *Audit findings :*

- No significant issues were noted as a result of our procedures

# Audit risks and results (continued)

Significant findings from the audit regarding other areas of focus are as follows:

2 Other area of focus	Cash and accounts payable and accrued liabilities
Other area of focus	Why are we focusing here?
Cash	The dollar value of cash makes this a significant financial reporting caption.
Accounts payable and accrued liabilities	The dollar value of accounts payable and accrued liabilities makes this a significant financial reporting caption.

## Our response and significant findings

We performed the following procedures as noted in our audit planning report:

- Obtained confirmation from third parties to verify cash balances at year-end.
- Reviewed bank reconciliations and performed verification of significant reconciling items.
- Reviewed financial statement disclosure.

*Audit findings:*

No significant issues were noted as a result of our procedures.

We performed the following procedures as noted in our audit planning report:

- Updated our understanding of activities over the initiation, authorization, processing, recording and reporting of accounts payable and accrued liabilities.
- Performed a search for unrecorded liabilities.

*Audit findings:*

No significant issues were noted as a result of our procedures.

# Audit risks and results (continued)

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## 2 Other area of focus      Tangible capital assets

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### Other area of focus

Tangible capital assets

### Why are we focusing here?

The dollar value of tangible capital assets makes this a significant financial reporting caption

### Our response and significant findings

We performed the following procedures as noted in our audit planning report:

- Updated our understanding of activities over the initiation, authorization, processing, recording and reporting of tangible capital assets.
- Vouched a selection of additions and disposals throughout the year to supporting documentation.
- Performed a substantive analytical procedure over depreciation expense.
- Obtained details of repairs and maintenance expenses recorded during the year. Vouched a selection of expenses to supporting documentation. For the items selected for testing, obtained an understanding of the nature of the expense to gain assurance that it was not capital in nature.
- Obtained management's assessment of the impact of the Contaminated Sites standard (PS 3260) and reviewed the impact to the financial statements, if any.

#### *Audit findings:*

No significant issues were noted as a result of our procedures.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Corporation'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:

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Form, arrangement, and content of the financial statements	The form, arrangement, and content of the financial statements is adequate.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation. Information regarding upcoming PSAB standard changes was previously communicated to the Board of Directors as part of our audit planning report.

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# Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and the Board of Directors 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 financial statements.



# Control deficiencies and other observations

In accordance with professional standards, we are required to communicate to the Board of Directors 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 Board of Directors

## Significant deficiencies

Description	Potential effect
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No significant deficiencies in ICFR identified.

## Other observations

Item	Observation
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2020 Budget Approval	<p>KPMG was unable to obtain the 2020 Budget as it was not yet approved as at the date of fieldwork. KPMG notes this does not affect the current year audit, however, as a best practice, we recommend that the budget is completed and approved prior to the commencement of the fiscal year or shortly thereafter.</p> <p><b>Recommendation:</b> KPMG recommends that the budget be completed and approved within a reasonable time frame. This will allow management and the Board to assess performance in a timely manner and facilitate informed decision making.</p>
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# Appendices

## Content

**Appendix 1: Required communications**

**Appendix 2: Audit Quality and Risk Management**

**Appendix 3: Draft Auditors' Report**

**Appendix 4: Management Representation Letter**



# Appendix 1: Other Required Communications

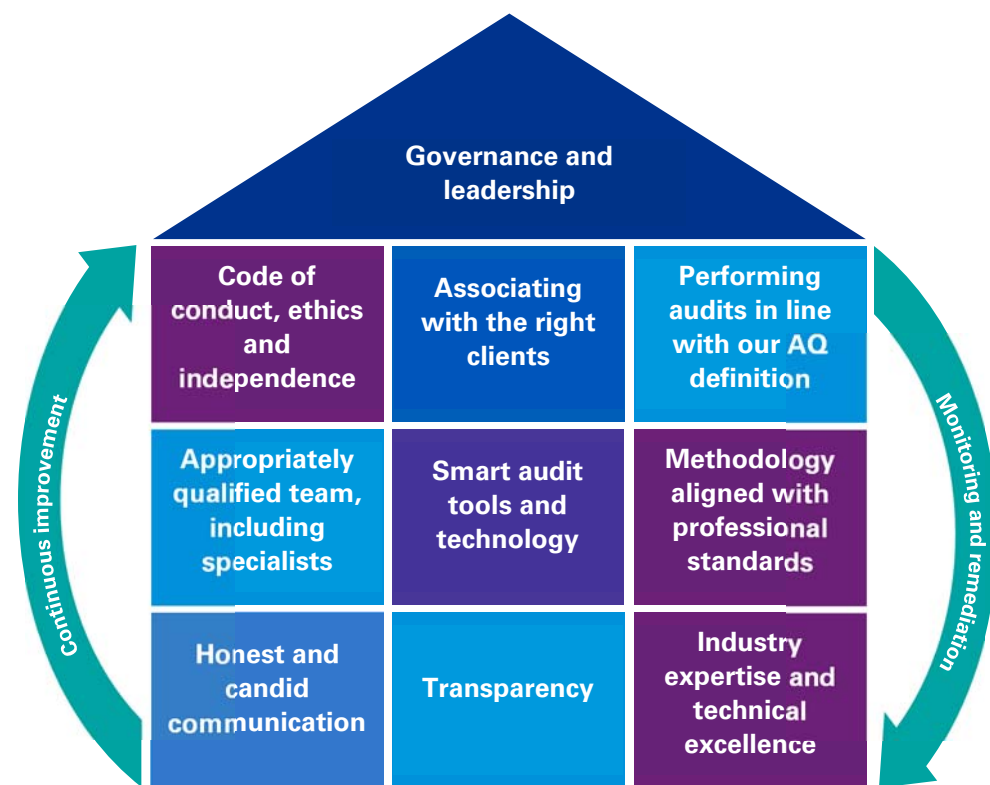
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report as attached. Refer to Appendix 3.	In accordance with professional standards, a copy of the management representation letter is provided to the Board of Directors. The management representation letter is attached. Refer to Appendix 4.

# 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: Draft Auditors' Report

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of London & Middlesex Community Housing Inc.

## ***Opinion***

We have audited the financial statements of London & Middlesex Community Housing Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations for the year then ended
- the statement of change in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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, 2019, and its results of operations, its change in net debt 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 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 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.

London, Canada

Date



# Appendix 4: Management Representation Letter

**(Letterhead of Client)**

KPMG LLP  
Address

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 financial statements (hereinafter referred to as "financial statements") of London & Middlesex Community Housing Inc. ("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 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 September 15, 2016, 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
    - 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,

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Kara Van Slyke, Finance Manager

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Andrea Mackenzie, Interim CEO

## ***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.



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