



# Sturgeon County

2023 Audit Findings

Report to Council

December 31, 2023

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April 23, 2024

Members of Council Members of Sturgeon County:

Dear Council Members:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Sturgeon County (the "County") as at December 31, 2023 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 Council Members.

We have substantially completed our audit of the 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 Council Members of the County.

This report is intended solely for the information and use of Council Members 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,



Chartered Professional Accountants

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# Introduction

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As auditors, we report to the Council Members on the results of our examination of the financial statements of Sturgeon County (the "County") as at and for the year ended December 31, 2023. The purpose of this Audit Findings Report is to assist you, as members of Council Members, 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 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 remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with Council Members;
- Council's review and approval of the financial statements.

## Independent Auditor's Report

We expect to have the above procedures completed and to release our Independent Auditor's Report on April 23, 2024.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the Council Members 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
<p><b>Changes from Audit Service Plan</b></p>	<p>We previously presented our proposed Audit Service Plan to you on November 11, 2023. Over the course of our audit, the following deviations were made from this plan:</p> <ul style="list-style-type: none"> <li>• Asset retirement obligations (ARO) were proposed as a significant risk area. The risk level of this account was reduced as a result of preliminary analytics and our reliance on management's expert.</li> <li>• Contributed tangible capital assets were proposed as a higher risk area. The risk level of this account was reduced as a result of preliminary analytics and updated risk assessment procedures.</li> <li>• Tangible capital assets were proposed as a higher risk area. The risk level of this account was reduced as a result of preliminary analytics and updated risk assessment procedures.</li> <li>• Post retirement benefits obligations were proposed as a higher risk area. The risk level of this account was reduced as a result of preliminary analytics and our reliance on management's expert.</li> <li>• Planning materiality was proposed at \$4,500,000 and was increased to \$6,000,000 based on a change in audit methodology and receipt of the final trial balance.</li> </ul> <p>Please refer to Appendix B for the significant and higher risk areas and our audit responses.</p>
<p><b>Difficulties Encountered</b></p>	<p>No significant limitations were placed on the audit scope or timing.</p>
<p><b>Identified or Suspected Fraud</b></p>	<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>

Area	Comments
<b>Identified or Suspected Non-Compliance with Laws And Regulations</b>	Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the financial statements.
<b>Matters Arising in Connection With Related Parties</b>	No significant matters arose during the course of our audit in connection with related parties of the County.
<b>Significant Deficiencies in Internal Controls and Operational Considerations</b>	<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 Council Members 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 controls have been identified: however, we have identified operational considerations, which are included in Appendix C to this report</p>
<b>Going Concern</b>	We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the County's ability to continue as a going concern.
<b>Matters Arising from Discussions With Management</b>	<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>
<b>Final Materiality</b>	<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 \$6,000,000 for December 31, 2023 and \$4,500,000 for December 31, 2022.</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
<p><b>Accounting Policies</b></p>	<p>We noted the following newly adopted, and changes in, accounting policies:</p> <ul style="list-style-type: none"> <li>• The County adopted the Public Sector Accounting Board’s (PSAB) new standard for the recognition, measurement and disclosure of a liability for asset retirement obligations under PS 3280 <i>Asset Retirement Obligations</i>. The new standard establishes when to recognize and how to measure a liability for an asset retirement obligation, and provides the related financial statement presentation and disclosure requirements.</li> <li>• The County adopted the Public Sector Accounting Board’s (PSAB) new recommendations for the recognition, measurement, presentation and disclosure of financial assets, financial liabilities and derivatives under Section PS 3450 <i>Financial Instruments</i>.</li> </ul>
<p><b>Accounting Estimates</b></p>	<p>Accounting estimates include provisions for accrued liabilities, allowance for doubtful accounts and property taxes receivable, amortization of tangible capital assets, valuation of contributed tangible capital assets, asset retirement obligations, gravel inventory and liabilities for contaminated sites.</p> <p>All estimates have been applied consistently and the method of estimation appear reasonable, within all material respects.</p>
<p><b>Financial Statement Disclosures</b></p>	<p>The disclosures made in the notes to the financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the financial statements.</p>

# Other Matters

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## 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 included as additional material to this report.

## Auditor Independence

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



# Appendix A - MNP Audit Process

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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 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 financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the County and its environment, the applicable financial reporting framework and the County's system of internal control (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 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 financial statements;
- Not directly related to items that are material to the 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 financial statements.

# Appendix B - Significant and Higher Risk Areas and Responses

## Significant Risk Areas and Responses

Significant Risk Area	Response and Conclusion
<p><b>Management override of internal controls</b></p>	<p>To respond to the overall risk of material misstatement due to fraud regarding management's override of controls, we performed the following procedures:</p> <ol style="list-style-type: none"> <li>1. Tested the appropriateness of journal entries recorded in the general ledger made in the preparation of the financial statements.</li> <li>2. Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.</li> <li>3. Evaluated the rationale behind significant transactions that were not in the normal course of business and whether they had been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</li> </ol>
<p><b>Deferred revenue and restricted contributions</b></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 been incurred.</p>	<p>Reviewed grants and applications for use of grants to determine if expenses had incurred to conclude if revenue was appropriately recognized.</p>

## Higher Risk Areas and Responses

Higher Risk Area	Response and Conclusion
<p><b>Investments</b></p> <p>Due to the significant rise in interest rates, the valuation of investments may require more complex calculations or estimations.</p>	<p>Investment balances were vouched to third party statements to confirm both book and fair value.</p> <p>No significant issues were identified.</p>

# Appendix C - Operational Considerations

Description	Comments
<p><b>Operational Consideration:</b></p> <p><b>Depreciation Expense</b></p>	<p><b>Observation:</b></p> <p>During audit procedures, it was identified that the salvage value of some assets was not being incorporated into the depreciation calculation.</p> <p><b>Impact:</b></p> <p>Excluding the salvage value can result in a overstatement of depreciation expense and an understatement of tangible capital assets.</p> <p><b>Recommendation:</b></p> <p>We recommend that the depreciation calculations be reviewed to ensure that salvage values are included in all depreciation calculations.</p> <p><b>Management's Response:</b></p> <p>We appreciate the thoroughness of your audit procedures and the identification of the issue regarding the calculation of depreciation for assets with salvage values. We understand the importance of accurate financial reporting and acknowledge the risk associated. Management will ensure that a review of the system parameters takes place to identify and rectify the issue causing the failure to recognize salvage values in depreciation calculations in addition to establishing an outside system reconciliation to ensure accuracy and reliability of depreciation calculations before recording. This reconciliation process will involve a thorough review of the depreciation calculations against established parameters and historical data to identify any discrepancies.</p>

# Appendix C - Operational Considerations (continued from previous page)

<p><b>Operational Consideration:</b></p> <p><b>Recognition of Contributed Tangible Capital Assets</b></p>	<p><b>Observation:</b></p> <p>During audit procedures, it was identified that contributed tangible capital assets were not recorded when the Final Acceptance Certificate (FAC) had been issued in the prior year.</p> <p><b>Impact:</b></p> <p>Unrecorded contributed tangible capital assets understates the net book value of tangible capital assets and accumulated surplus of the County.</p> <p><b>Recommendation:</b></p> <p>We recommend that management reviews all issued Construction Completion Certificates (CCC) and Final Acceptance Certificates (FAC) to identify contributed tangible capital assets. Once identified, management should review and approve the associated adjusting journal entry, recorded in accordance with the County's accounting policy and public sector accounting standards.</p> <p><b>Management's Response:</b></p> <p>Thank you for providing us with your recommendation regarding the review and approval process for adjusting journal entries related to contributed tangible capital assets identified through Construction Completion Certificates (CCC) and Final Acceptance Certificates (FAC). Management will work with the respective departments to review and update necessary procedures to ensure that all contributed assets are identified and recorded accurately within the financial year end processes.</p>
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# Appendix D - Summary of Significant Differences

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## Significant Adjusted Differences

Differences Noted and Items Affected	Statement of Financial Position	Statement of Operations
To adjust amortization to actual as a result of the issue identified with salvage values	\$ 4,111,282	\$ (4,111,282)
<b>Total Adjusted Differences (Income Effect)</b>		<b>\$ (4,111,282)</b>

The specific significant adjusted differences noted above are differences that we believe to be significant to Council Members. A full list of all adjusted differences is available upon request.

## Significant Unadjusted Differences

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

# MADE <sup>IN</sup> CANADA

And proud of it!

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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