



**METRIX GROUP** LLP

CHARTERED PROFESSIONAL  
ACCOUNTANTS

# TOWN OF COCHRANE

## Audit Findings Report

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For the year-ended December 31, 2022

July 25, 2023



The key contacts at Metrix in connection with this report are:

**Jeff Alliston, CPA, CA**

**Partner**

T: 780.489-9606 Ext. 125

E: Jalliston@metrixgroup.ca

**Craig Poeter, CPA**

**Manager**

T: 780.489-9606 Ext. 123

E: Cpoeter@metrixgroup.ca

**Clare McCourt, CPA**

**Senior Accountant**

T: 780.489-9606 Ext. 140

E: Cmccourt@metrixgroup.ca

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# Executive Summary

## Purpose of this report

We are pleased to provide you with our audit findings report for the Town of Cochrane (the “Town”) for the year-ended December 31, 2022.

The purpose of this report is to:

1. Communicate clearly with the members of Council (“Council”) what our responsibilities are in relation to the consolidated financial statement audit.
2. Provide an overview of the planned scope and timing of the audit.
3. Obtain from Council information relevant to the audit.
4. Promote effective two-way communication between Council and the auditor.

## Independence

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to Council, at least annually, all relationships between our Firm and the Town that, in our professional judgement, may reasonably be thought to bear on our independence. Please refer to **Appendix 1** for our confirmation of independence.

## Finalizing the audit

As of July 25, 2023, we have substantially completed the audit of the Town’s consolidated financial statements with the exception of:

- Completing our legal correspondence
- Completing our subsequent events procedures
- Obtaining the signed management representation letter
- Completing our required communication to Council
- Obtaining evidence of Council’s approval of the consolidated financial statements

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the procedures above.

## Changes from the audit plan

There have been no other significant changes regarding our Audit Planning Report that was previously presented to you.

# Responsibilities

It is important for Council to understand the responsibilities that rest with the Town and its management and those that belong to the auditor in relation to the consolidated financial statement audit.

## Our responsibilities

Our audit of the Town's consolidated financial statements will be performed in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements present fairly in all material respects, the financial position, the results of operations and cash flows of the Town in accordance with Canadian public sector accounting standards.

Accordingly, we planned and performed our audit to provide reasonable, but not absolute, assurance of detecting fraud and errors that have a material effect on the consolidated financial statements taken as a whole, including illegal acts whose consequences have a material effect on the consolidated financial statements.

The audit included consideration of internal control relevant to the preparation of the consolidated financial statements 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 internal control.

Canadian generally accepted auditing standards does not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate to Town. Accordingly, our audit would not necessarily identify all such matters that may be of interest to Council and management, and it is inappropriate to conclude that no such matters exist.

## Responsibilities of management and those charged with governance

Management is responsible for the preparation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management's representations are integral to the audit evidence we will gather. Prior to the release of our report, we will require management's representations in writing to support the content of our auditors' report.

Those charged with governance, Council, is responsible for overseeing the Town's financial reporting process.

Clear, two-way communication between the auditor and those charged with governance is an integral part of every audit. After reviewing this report, please advise us whether there are additional areas of concerns to Council that should be brought to our attention.

## Materiality

Materiality in an audit is used as a guide for planning the nature and extend of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found and determining the appropriate audit opinion to express.

Misstatements, individually or the aggregate, are considered to be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the consolidated financial statements, and who has reasonable knowledge of business and economic activities, would be changed or influenced by such misstatements or the aggregate of all misstatements. The materiality decision is based on our professional judgement taking into consideration quantitative and qualitative factors.

The auditors' determination of materiality is a matter of professional judgement and is affected by the auditors' perception of the financial information needs of users of the consolidated financial statements. In planning our audit, we have concluded that a materiality level of 3% of operating expenses (\$1,998,600) is appropriate. However, we anticipate that management will record any adjustments that we propose that are of a non-trivial nature.

# Audit Results

Area of Focus	Audit risk, our response, and findings
<p><b>Management override of control</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Management is in a unique position to perpetrate financial statement fraud through the manipulation of accounting records. Under Canadian assurance standards, there is a presumed fraud risk related to management’s ability to override internal controls. This risk is not rebuttable.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- Using data analytics, we have identified journal entries that exhibit characteristics which may be indicative of possible control override. We have assessed the business rationale of the transactions taking into consideration estimates applied, application of accounting policies, evidence of potential management bias.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>

Area of Focus	Audit risk, our response, and findings
<p><b>Revenue recognition</b> (Deferred revenue and Government transfers)</p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- There is risk of premature revenue recognition of funding amounts received with external restrictions attached to them (e.g., Government of Alberta, federal government, ...etc.).</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We obtained an understanding of the processes and controls in place regarding revenues received.</li> <li>- We reviewed related agreements and other source documentation containing guidance for the purpose and use of the restricted funds.</li> <li>- We assessed significant revenue transactions for compliance with external restrictions.</li> <li>- We performed a search for unrecorded revenue to assess completeness of revenue recognized.</li> </ul> <p>We have been unable to obtain sufficient appropriate audit evidence over balances related to capital grant funding and the related revenue recognized and have issued a qualified opinion in respect to this matter. Please refer to <b>significant findings</b> for detailed discussion.</p>
<p><b>Net municipal taxes</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Property assessments or the tax rates applied are not appropriate.</li> <li>- Tax revenue is over / under levied.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained third-party evidence substantiating the assessment value and re-calculated tax revenues using the approved mill rates.</li> <li>- We have determined the amount of tax revenues that have been over / under levied.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>

Area of Focus	Audit risk, our response, and findings
<p><b>User fees and sale of goods</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- User fees that are recorded are not complete.</li> <li>- Amounts recorded are at the incorrect rate.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We obtained an understanding of the processes and controls in place regarding user fees and sales of goods and services.</li> <li>- We have performed substantive analytical procedures to assess the completeness and accuracy of the revenue recorded.</li> <li>- We tested a sample of revenue transactions for sales and user charges.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>
<p><b>Operating expenses</b> (excluding salaries, wages and benefits)</p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Fraudulent expenses being recorded.</li> <li>- Expenses have not been recorded in the correct fiscal year.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We obtained an understanding of the processes and controls in place regarding procurement and payment.</li> <li>- We have agreed significant expenses, along with a sample of non-significant expenses to supporting documentation.</li> <li>- We have performed a search for unrecorded liabilities.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>



Area of Focus	Audit risk, our response, and findings
<p><b>Salaries, wages and benefits</b> (including Employee benefit obligations)</p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Fraudulent (“ghost”) employees have been created.</li> <li>- Employees are paid at a rate inconsistent with their employee contract.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained an understanding over the processes and controls in place over payroll.</li> <li>- We have performed substantive analytical procedures over salaries, wages and benefits.</li> <li>- We have reconciled the salaries and wages paid to T4s issued.</li> <li>- We have assessed employee benefit obligations outstanding at year-end.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>
<p><b>Cash and Investments</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Due to the nature of cash, it is subject to a higher level of procedures due to the risk of fraud.</li> <li>- Cash represents a significant balance of the Town’s assets.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained an understanding of processes and controls surrounding cash and investment activities.</li> <li>- We have obtained third party evidence over the Town’s bank and investment balances as part of our procedures performed over bank reconciliations.</li> <li>- We have tested significant reconciling items recorded in the bank reconciliation.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>

Area of Focus	Audit risk, our response, and findings
<p><b>Receivable Balances</b> (Taxes, Trade, and Other governments receivable)</p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- There exists the risk that the amounts outstanding will not be collectible.</li> <li>- There exists the risk that receivables have been overstated.</li> <li>- There exists the risk that receivables outstanding at year-end have not been accrued for.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained an understanding of the Town’s policies regarding collections and provisions.</li> <li>- We have tested the subsequent receipt of receivable balances outstanding at year-end.</li> <li>- Where required, we have performed additional substantive procedures to obtain appropriate audit evidence.</li> <li>- Where possible, we have coordinated with our work performed over revenues and deferred revenue.</li> </ul> <p>We have been unable to obtain sufficient appropriate audit evidence over balances related to capital grant funding and the related revenue recognized and have issued qualified opinion in respect to this matter. Please refer to <b>significant findings</b> for detailed discussion.</p>

Area of Focus	Audit risk, our response, and findings
<p><b>Tangible capital assets (“TCA”)</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- TCA has been expensed rather than capitalized or have been recorded incorrectly.</li> <li>- Expenditures that are not capital in nature have been capitalized.</li> <li>- TCA valuation is complex due to risks of impairment and application of accounting estimates.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have inquired with management regarding any indicators of impairment; and where required, we have performed an impairment assessment.</li> <li>- We have performed substantive tests of details over additions.</li> <li>- We have re-calculated amortization expense and gains / losses on the disposal of TCA.</li> </ul> <p>We have been unable to obtain sufficient appropriate audit evidence over balances related to construction in progress and have issued qualified opinion in respect to this matter. Please refer to <b>significant findings</b> for detailed discussion.</p>
<p><b>Accounts payable and accrued liabilities</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Expenses have not been recorded in the appropriate reporting period; that is, expenses have been prematurely recorded (cut-off).</li> <li>- Expenses related to the reporting period have not been fully accrued (completeness).</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained an understanding of the processes and controls in place over procurement and payment activities.</li> <li>- We have examined balances recorded in accounts payable and other accrued liabilities for existence and accuracy.</li> <li>- We have performed a search for unrecorded liabilities.</li> <li>- We have inquired with management and reviewed Council meeting minutes.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>

Area of Focus	Audit risk, our response, and findings
<p><b>Long-term debt</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Long-term debt is understated, either due to being incomplete or being incorrect.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have confirmed outstanding debenture balances with the Province of Alberta.</li> <li>- We have reviewed the amortization schedule of the debenture outstanding to re-calculate accrued interest.</li> <li>- We have re-calculated the debt limits and assessed for compliance with Alberta Regulation 76/2000.</li> <li>- We have re-calculated the interest expense incurred throughout the year.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>
<p><b>Capital Lease</b></p>	<p><i>Risk</i></p> <ul style="list-style-type: none"> <li>- Valuation of the lease is incorrect.</li> <li>- Risk that other capital leases have been expensed rather than capitalized.</li> <li>- Risk that the calculation of the annual lease payments is inaccurate.</li> </ul> <p><i>Our response</i></p> <ul style="list-style-type: none"> <li>- We have obtained an understanding of the Town’s policies on lease agreements.</li> <li>- We have inspected the lease agreements to determine if they meet the criteria for a capital lease.</li> <li>- We have recalculated the annual lease payment.</li> </ul> <p>No <b>significant findings</b> have been identified.</p>

# Significant Findings

Our objective is to communicate appropriately to Council any deficiencies in internal control that we have identified during the audit and that, in our professional judgement, are of sufficient importance to merit being reported to those charged with governance.

Our audit procedures were performed to form an opinion on the consolidated financial statements and, although they might bring possible fraudulent or illegal activities to our attention, our audit procedures were not designed to detect fraudulent or illegal activities.

## Qualification

We were unable to obtain sufficient appropriate audit evidence over the following elements of the consolidated financial statements.

### *Tangible capital assets*

The Town's tangible capital assets – construction in progress (“CIP”) is carried on the consolidated statement of financial position as at December 31, 2022 at \$119,868,436. We have been unable to obtain a listing of what assets comprise CIP and did not receive documentation to support the CIP balances carried at year-end.

The Town's additions to tangible capital assets, including contributed assets, total \$57,188,899 on the consolidated statement of financial position. We were unable to obtain a detailed listing of assets that comprise these additions and have thus been unable to assess the existence and valuation of additions to tangible capital assets.

As a result of the above, we have been unable to assess the existence and valuation of tangible capital assets.

### *Deferred Revenue – Grant funding / Government Transfers – Capital*

The Town's deferred revenue is carried on the consolidated statement of financial position as at December 31, 2022 at \$24,959,273, of which \$14,638,241 is related to grant funding. We have been unable to receive documentation to support the opening balances. Moreover, we have been unable to receive supporting documentation for corresponding revenue recognized for capital projects (government transfers – capital). This included grants such as the Municipal Sustainability Initiative, Canada Community Building Fund, GreenTRIP, and Flood Recovery Erosion Control Program.

### *Grants Receivable*

Due to the matters related to tangible capital assets and deferred revenue – grants / government transfers – capital, we have subsequently been unable to obtain sufficient appropriate audit evidence over the completeness of grants receivables recorded as at year-end.

### *Offsite Levies*

Under the Municipal Government Act<sup>1</sup>, funds collected from an offsite levy, and the interest earned on those funds, can only be used for the purpose for which the funds were collected (e.g., development of road infrastructure). Due to the restriction imposed on offsite levies, they meet the definition of a liability under Canadian public sector accounting standards. Revenue should be recognized in the corresponding year where costs are incurred for the development of the corresponding infrastructure. Offsite levies totalling \$8,317,193 have been recorded in reserves within accumulated surplus which have resulted in accumulated surplus being overstated and deferred revenues understated by the corresponding amount.

## **Internal Controls**

### *Tangible capital assets – Construction in Progress*

As previously noted, no listing of tangible capital assets – construction in progress could be provided that provided a complete listing of assets under construction and the current cost. Being able to track tangible capital assets is critical for financial reporting and operational purposes (i.e., asset management). Not having a complete listing of tangible capital assets – construction in progress results in significant issues in monitoring capital expenditures (i.e., budget compliance) and the financial implication from construction progress (e.g., on-time / delayed), forecast future capital expenditures (e.g., R&M work), and grant reporting (see below).

We recommend that the current composition of CIP recorded by the Town be investigated and reconciled to on-going projects.

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<sup>1</sup> MGA 648 – Offsite Levies: 648(2) and 648(5)

### *Tangible capital assets – Additions*

As previously noted, we were unable to obtain detailed listings of the Town's tangible capital asset additions in the year allowing us to complete our audit procedures. Being able to track tangible capital assets is critical for financial reporting and operational purposes (i.e., asset management). Not having a complete listing of tangible capital assets results in significant issues in monitoring capital expenditures (i.e., budget compliance) and the financial implication from construction progress (e.g., on-time / delayed), forecast future capital expenditures (e.g., R&M work), and grant reporting (see below).

We recommend that the Town review its 2022 tangible capital asset projects to determine the actual additions incurred per project in the year.

### *Deferred Revenue – Grant funding*

As previously noted, no support could be provided to substantiate the deferred revenue balance outstanding related to grant funding received. Having accurate grant tracking is imperative to ensure that grant fundings have been appropriately utilised. This issue is further exacerbated by the inability to track construction in progress (see above). The inability to determine what grant funding has been utilised may result in the Town over-claiming grant funding resulting in future repayment (on a reimbursement model) or cost overruns not being recovered (as expected). Conversely, this may result in grant funding being un-utilised and lost overtime.

We recommend a reconciliation of grant be performed to determine what the appropriate deferred revenue balance.

### *Offsite Levies*

As previously noted, offsite levies collected but not spent meet the definition of a liability under Canadian public sector accounting standards and should be recorded as such. Currently, offsite levies have been recorded into accumulated surplus resulting in an understatement of liabilities.

We recommend determining the total unspent offsite levies collected and recorded in accumulated surplus and reclassifying the amount into deferred revenue.

### Accounting Practices (including accounting policies, judgments, and estimates)

Management is responsible for determining the significant accounting policies. The choice of different accounting policy alternatives can have a significant effect on the financial position and results of the Town. The application of those policies often involved significant estimates and judgements by management.

We are of the opinion that the significant accounting policies, estimates and judgements, and financial disclosures made by management do not materially misstate the consolidated financial statements taken as a whole. Please refer to Note 1 of the consolidated financial statements for significant accounting policies and estimates disclosed.

### Significant Difficulties Encountered During the Audit

Significant turnover in key finance and accounting positions had resulted in loss of knowledge of the Town's operations including receivables, tangible capital assets, deferred revenue, development levies and government transfers for capital. Furthermore, because of the turnover our audit work was delayed until additional staff members at the Town became available to provide answers to our requests.

### Management Representation

Management's representations are integral to the audit evidence we will gather. Prior to the release of our report, we will require management's representations in writing to support the content of our report. Please refer to **Appendix 2** for the management representation letter.

### Management Letter

We will be submitting a letter to the Town's management on other matters that we feel should be brought to their attention.



## Other Matters

We have identified other matters that we would like to bring to your attention.

### *Tangible Capital Asset Policy*

Our review of Tangible Capital Assets noted that the TCA policy in place was last approved in February 2010. The presence of a regularly updated TCA policy decreases the risk exposure for unclear guidance over the accounting of TCA such as useful life estimates and asset classification. Moreover, with the incoming implementation of PS 3280, Asset Retirement Obligation, there will require additional consideration regarding the treatment of costs related to asset retirement obligations, as well as determining the frequency of obtaining updated estimates. Establishing formal procedures in the tangible capital asset policy will ensure that there will be a clear process in future years.

We recommended that a review of the policy be performed with a focus on the classification of assets and useful life estimates with updates to the policy for asset retirement obligations be incorporated as appropriate.

### *CAS 315 and the IT Control Environment*

With the continued integration of IT in everyday operations, it is important that the Town remain vigilant in establishing appropriate safeguards for the digital workspace. As communicated in our audit planning report, we have undertaken additional procedures in evaluating the Town's IT control environment.

As part of our audit, we have performed the following:

- Obtained an understanding of the IT control environment through inquiries with management and IT personnel.
- Reviewed current safeguards in place through policy review and inquiries with management and IT personnel.
- Assessed application access permission through observation of Town staff application usage.
- Assessed application modification ability through observation of Town staff application usage.

We have not identified any matters of significance.

*Timing of year-end audit*

The year-end audit for the Town was initially scheduled for the week of March 3 – 17, 2023. This was not met as significant audit requests and year-end closing entries were not ready. This resulted in numerous adjustments to existing work as the accounting records were updated (three entries to correct differences between client records and previously provided balances). This was further exacerbated by significant personnel change in the finance and audit department resulted in further delay.

We recommend ensuring that all year-end adjustments are completed prior to the commencement of the audit.

## Adjustments

### Adjusted Differences

Audit adjustments have been recorded in order for the Town to comply with reporting requirements under Canadian public sector accounting standards.

Increase (decrease) from opening balances				
Differences noted	Assets	Liabilities	Accumulated Surplus	Annual Surplus
14 audit adjustments (2021 – 10 adjustments).	\$ (2,997,128)	\$ 1,384,586	\$ (22,935,971)	\$ 18,554,257
<b>Total Adjusted Differences (Income Effect)</b>				<b>\$ 18,554,257</b>

## Uncorrected Misstatements

The total unrecorded misstatements noted during the audit amounted to a \$51,502 overstatement of the Town's surplus for the year ended December 31, 2022.

Description	Amount of over (under) misstatement			
	Assets	Liabilities	Surplus	Accumulated Surplus
To adjust prepaid expenses to actual	\$ (29,476)	\$ -	\$ (29,476)	\$ (29,476)
To account for adjustment to accumulated surplus.	-	-	80,978	-
<b>Total unrecorded misstatements</b>	<b>\$ (\$29,476)</b>	<b>\$ -</b>	<b>\$ \$51,502</b>	<b>\$ (\$29,476)</b>

After considering both quantitative and qualitative factors with respect to the uncorrected misstatements accumulated during the audit, we agree with management that the consolidated financial statements are not materially misstated.

# Appendix 1: Required Communications

We have been engaged to audit the consolidated financial statement of the Town for the year ending December 31, 2022.

We believe that it is important that we communicate at least annually with you regarding all relationships between the Town and our firm that, in our professional judgement, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Alberta and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) Economic dependence on a client; and
- (e) Provision of services in addition to the audit engagement.

We are not aware of any relationships between the Town and ourselves that, in our professional judgement, may reasonably be thought to bear on our independence that have occurred from January 1, 2022 to July 25, 2023.

## Appendix 2: Management Representation Letter

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July 25, 2023

Metrix Group LLP  
12840 St. Albert Trail  
Edmonton Alberta T5L 4H6

Attention: Jeff Alliston, CPA, CA

Dear Sir:

**Re: Management representations letter**

This representation letter is provided in connection with your audit of the financial statements of Town of Cochrane for the year ended December 31, 2022, for the purpose of you expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards.

In making the representations outlined below, we took the time necessary to appropriately inform ourselves on the subject matter through inquiries of entity personnel with relevant knowledge and experience, and, where appropriate, by inspecting supporting documentation.

We confirm that (to the best of our knowledge and belief):

**1. Financial Statements**

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated January 9, 2023 for:

- a) Preparing and fairly presenting the financial statements in accordance with public sector accounting standards;
- b) Providing you with:
  - (i) Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as:
    - Accounting records, supporting data and other relevant documentation,
    - Minutes of Council meetings or summaries of actions taken for which minutes have not yet been prepared, and
    - Information on any other matters, of which we are aware, that is relevant to the preparation of the financial statements;
  - (ii) Additional information that you have requested from us for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- c) Ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements; and
- d) Designing and implementing 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 have also communicated to you any deficiencies in the design and implementation or the maintenance of internal control over financial reporting of which management is aware.

## **2. Fraud and Non Compliance**

We have disclosed to you:

- a. All of our knowledge in relation to actual, alleged or suspected fraud affecting the entity's financial statements involving:
  - i. Management;
  - ii. Employees who have significant roles in internal control; or
  - iii. Others where the fraud could have a material effect on the financial statements;
- b. All of our knowledge in relation to allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others;
- c. All known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements that should be considered when preparing the financial statements;
- d. All known, actual, or possible litigation and claims that should be considered when preparing the financial statements; and
- e. The results of our risk assessments regarding possible fraud or error in the financial statements.

## **3. Related Parties**

We have disclosed to you the identity of all of the Town's related-party relationships and transactions of which we are aware. This includes sales, purchases, loans, transfers of assets, liabilities and services, leasing agreements, guarantees, non-monetary transactions, and transactions for no consideration for the period ended as well as related balances due to or from such parties at the period end.

All related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of public sector accounting standards.

## **4. Estimates**

We acknowledge our responsibility for determining the accounting estimates required for the preparation of the financial statements in accordance with Canadian public sector accounting standards. Those estimates reflect our judgment based on our knowledge and experience of past and current events, and on our assumptions about conditions we expect to exist and courses of action we expect to take. We confirm the methods, the data, and the significant assumptions used in making accounting estimates (including the allowance for doubtful accounts, the useful lives of tangible capital assets and the corresponding rates of amortization, inventory valuation, and the amount of other accrued liabilities) and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of Canadian public sector accounting standards.

## **5. Subsequent Events**

All events subsequent to the date of the financial statements and for which Canadian public sector accounting standards requires adjustment or disclosure have been adjusted or disclosed.

## **6. Commitments and Contingencies**

There are no commitments, contingent liabilities/assets or guarantees (written or oral) that should be disclosed in the financial statements. This includes liabilities arising from contract terms, illegal acts or possible illegal acts, and environmental matters that would have an impact on the financial statements.

## **7. Adjustments**

We have reviewed, approved and recorded all of your proposed adjustments to our accounting records. This includes journal entries, changes to account coding, classification of certain transactions and preparation of, or changes to, certain accounting records.

## **8. Misstatements**

The effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements, including the reasons why they were not corrected, is attached to this letter.

## **9. Accounting policies**

All significant accounting policies are disclosed in the financial statements and are consistent with those used in the previous period.

## **10. Direct liabilities**

We have recorded in the accounts all known liabilities of our Town as at December 31, 2022 except for trivial amounts.

## **11. Future plans**

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

## **12. Liabilities and contingencies**

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

## **13. General**

1. We have responded fully to all inquiries made to us and have made available to you all accounting and financial records and related data of the Town during your audit.
2. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
3. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
4. We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel.
5. We have disclosed to you, and the Town has complied with, all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
6. Receivables recorded in the financial statements represent valid claims against taxpayers or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
7. The minute books of the Town are a complete record of all meetings and resolutions of Councillors throughout the period and to the present date.
8. We are aware of the environmental laws and regulations that have an impact on our Town and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.



Acknowledged and agreed on behalf of Town of Cochrane by:

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Mr. Mike Derricott,  
Chief Administrative Officer

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July 25, 2023

Date signed

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Alvin Allim, CPA, CGA  
Director, Financial and Information  
Technology Services

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July 25, 2023

Date signed

## Appendix 3: New and Revised Accounting Standards

Standard	Summary	Effective Date
<b>PS 1201 Financial Statement Presentation</b>	This section establishes general reporting principles and standards for the disclosure of information in government financial statements.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
<b>PS 2601 Foreign Currency Translation</b>	This section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
<b>PS 3041 Portfolio Investments</b>	This section establishes standards on how to account for and report portfolio investments in government financial statements.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
<b>PS 3450 Financial Instruments</b>	This section establishes standards on how to account for and report all types of financial instruments including derivatives.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
<b>PS 3280 Asset Retirement Obligations</b>	This section establishes standards on how to account for and report legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites.	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
<b>PS 3160 Public Private Partnerships</b>	This section will establish standards on how to account for public private partnership agreements, specifically recognition and measurement of infrastructure assets and the corresponding financial liability.	Fiscal years beginning on or after April 1, 2023. Early adoption is permitted.

Standard	Summary	Effective Date
<b>PS 3400 Revenue</b>	This section will be updated to provide additional guidance regarding the timing of revenue recognition along with additional disclosure requirements.	Fiscal years beginning on or after April 1, 2023. Early adoption is permitted.
<b>PSG-8 Purchased Intangibles</b>	This guideline explains the scope of intangible assets now allowed to be recognized in financial statements.	Fiscal years beginning on or after April 1, 2023. Early adoption is <i>encouraged</i> .

## Appendix 4: PS 3280 – Asset Retirement Obligation

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# ASSET RETIREMENT OBLIGATIONS



## STEPS TOWARD IMPLEMENTING PS 3280

PS 3280 is a new accounting standard covering Asset Retirement Obligations (ARO). The standard must be applied by all public sector entities who prepare their financial statements under PSAB, including all Canadian municipalities effective fiscal years beginning on April 1, 2022.

Common asset retirement obligations have not previously been recognized by municipalities; such as obligations to retire buildings with asbestos or underground fuel storage tanks. The implementation of the standard will require municipalities to recognize obligations which were previously out of scope of accounting standards.

## TIPS AND BEST PRACTISES

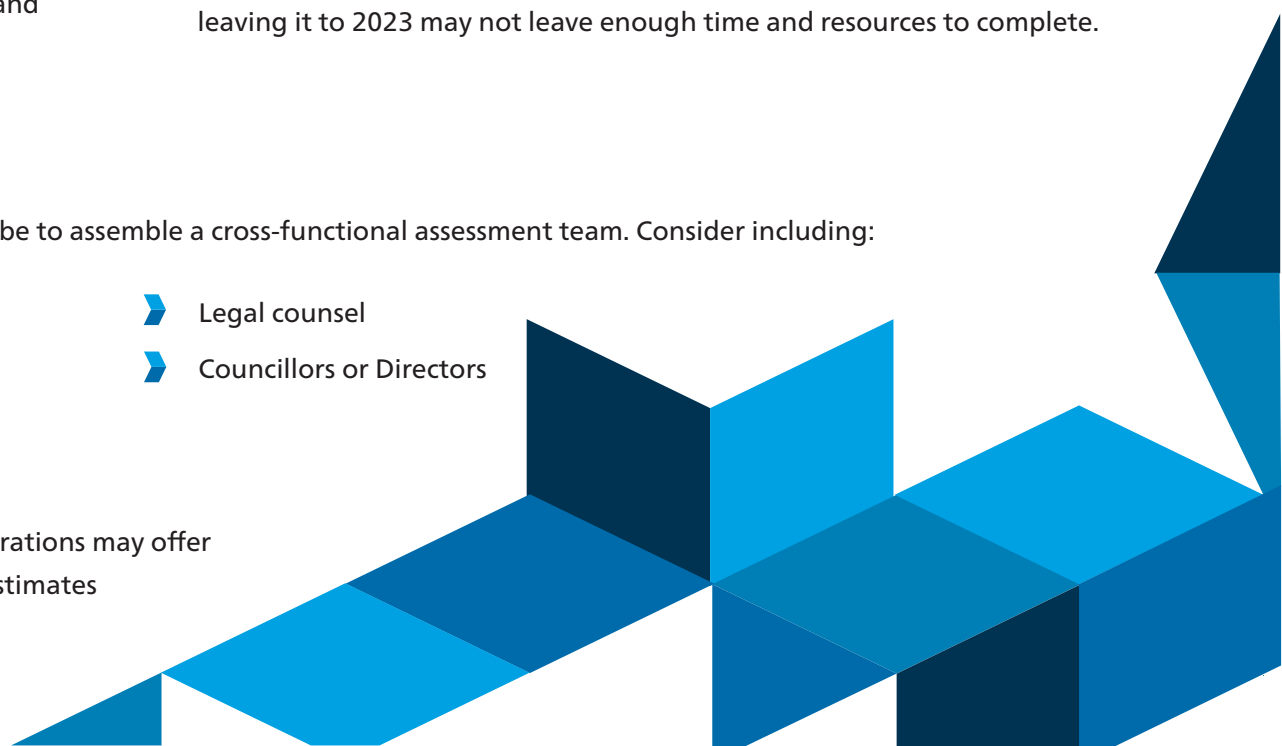
- Document all your work performed.
- Ensure your documentation is flexible to be adapted as required in subsequent procedures.
- Collaborate with other entities to obtain additional tips and potentially share costs.
- Be forward thinking! Each year your auditors require the liabilities to be updated and remeasured. Determine how you will be able to update the estimate and formalize it in a policy.
- Get started sooner rather than later. This is a significant assessment and leaving it to 2023 may not leave enough time and resources to complete.

## STEP 1 – BUILD A TEAM

Before identifying and reviewing assets, the first step should be to assemble a cross-functional assessment team. Consider including:

- Finance and accounting personnel
- Public work or environmental services managers / foremen
- Engineers
- Legal counsel
- Councillors or Directors

Having individuals who are involved with the day-to-day operations may offer knowledge of assets missing from existing listings updated estimates based on actual usage, or retirement / decommissioning activities required.



## STEP 2 – IDENTIFY ASSETS

Not all assets will have a retirement obligation or require decommissioning activities. It's important to identify the assets that should be subject to additional in-depth assessment for the extent and cost of remediation required (e.g., considering a building constructed in 2010 vs a building constructed in 1980 for further review). Including too many assets in subsequent assessments will create inefficiencies and slow the review process down. Ensure that all assets owned, either actively in use or retired, are included in the assessment process. The earlier the assets are identified the better. This will help avoid any last-minute assessments that may be incomplete due to the lack of time or resources.

## STEP 3 – IDENTIFY LEGAL OBLIGATION

A critical component of PS 3280 is the requirement for a legal obligation to exist. While there will still be a requirement to report other sorts of liabilities, PS 3280 provides guidance for assets with a legal obligation to retire / decommission at the end of its useful life. For each asset identified, the assessment team will need to identify what the legal obligation originates from (e.g., provincial regulation, legal contract, promissory estoppel) and what sort of activities will be required.

## STEP 4 – QUANTIFY, CALCULATE & RECORD

The last step of the process will be to quantify the cost of the obligation, calculate the present value of the liability, and to record it in the accounting records. The cost of the remediation activities should be derived from professional judgment and be based on the best estimates available. It should be noted that you should be able to support the estimate with other evidence (e.g., recent similar activities, publicly available cost estimates, quotes received). For all estimates, be prepared to provide support to your auditor! Support for the cost estimate may eventually require third-party consultation which may be costly and unbudgeted. It will be best to keep Council / Board members involved in this process.

Once cost estimates have been obtained and quantified, the present value of the liability will need to be calculated. This will require the assessment team to estimate the cost at the time of the assets retirement and record the present value of the future costs. This may be a complex calculation. The earlier the calculations are performed, the more they can be discussed and reviewed both internally with the assessment team as well as with your auditor. The present value will be the final cost that is recorded into the accounting records.

## NEED MORE INFORMATION OR HELP?

**CONTACT US: Metrix Group LLP**

Jeff Alliston, CA, CPA, Partner

jalliston@metrixgroup.ca | t: 780-489-9606

