McMaster Students Union Incorporated ["MSU"]

Audit Findings Report
for the year ended
April 30, 2020

KPMG LLP

Licensed Public Accountants

November 11, 2020

kpmg.ca/audit

KPMG

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Executive summary

Purpose of this report[1]

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 consolidated financial statements as at and for the year ended April 30, 2020.

Changes from the Prior Year

There have been no significant changes regarding our audit from the prior year.

Finalizing the Audit

As of November 11, 2020, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Obtaining a signed copy of the management representation letter,
- Completing our discussions with the Board of Directors,
- Obtaining evidence of the Student Representative Assembly's approval of the consolidated financial statements

We will update the Board 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 <u>any</u> remaining procedures.

Independence

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

Significant accounting policies and practices

As a result of receiving the Canada Emergency Wage Subsidy due to COVID-19, the MSU has the option to select an accounting policy choice on the presentation of the government subsidy. Under the accounting standard, the MSU is able to record the subsidy either a revenue item on a gross basis or on a net basis offset against the expenses in which the subsidy helped cover. The MSU has elected to net the subsidy with the related expenses. Refer to page 6 and note 10 of the financial statements for further details.

[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Directors and Management of the Entity. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary(continued)

Uncorrected differences

See pages 15 and 16 for the summary of corrected and uncorrected differences. There is one uncorrected audit misstatement that has not been corrected by management.

Control deficiencies

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

Other observations

We have identified other observations with respect to bank reconciliation procedures.

See pages 14.

COVID-19: Embedding Resilience & Readiness

COVID-19 is having an impact on the business landscape across Canada and on financial reporting. We have considered the following in connection with the MSU's financial reporting for the year ending April 30, 2020:

Potential financial reporting implications	Potential implications on internal control over financial reporting

Management's significant judgments in applying accounting policies or sources of estimation uncertainty that have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:
• Impairment of non-financial assets (e.g., PPE)
  o Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions)
• Events or conditions that cast significant doubt regarding going concern
  o Determining plans to mitigate such conditions or events
  o Evaluating ability to carry out those plans in light of the current conditions
• Impairment of financial assets (e.g. investments)
• Receipt of additional funding for incremental costs incurred as a result of COVID-19
• Employee related impacts (layoffs, severance, potential government assistance)
• Valuation of accounts receivable (credit risk)
• Contingencies
• Subsequent events
 	
• Events and conditions that cast significant doubt regarding going concern (including "close calls")
• Liquidity risks
	KPMG enquired with management on any changes in processes and controls to mitigate risks and the following points associated with COVID-19:
	• Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in internal controls or to bias estimates
	• Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees
	• Consideration of changes in the individuals performing certain controls
	• New or enhanced detective controls to respond to new financial reporting risks or elimination of on-site preventative controls
	• Discussion with respect to inventory counts
	• Reconsideration of internal control impacts related to broader IT access given work from home arrangements
	• Possible enhanced disclosure requirements (e.g. liquidity, critical accounting estimates)
	• Cyber security (e.g., wire transfers schemes)
	• Possible delays in reporting due to the virtual work environment

Audit risks and results

Relevant factors affecting our risk assessment

Susceptibility to bias/fraud

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.

Significant financial reporting risk	Why is it significant?
Risk arising from management override of controls.	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

- KPMG has completed testing of journal entries specifically focusing on high risk entries during year-end closing process. No issues were noted in the journal entry process or the journal entries selected for testing.
- Consistent with professional standards, we further performed a retrospective revenue of estimates, evaluation of the business rationale for significant unusual transactions and carried out all audit procedures with an element of unpredictability. We did not identify any issues resulting from management override of controls.

Audit risks and results (continued)

Relevant factors affecting our risk assessment

Complexity

Susceptibility to bias/fraud

Significant financial reporting risk	Why is it significant?
Risk arising from revenue recognition.	This is a presumed fraud risk.

Our response and significant findings

- KPMG has completed testing of MSU's revenue through substantive analytical and substantive testing procedures. No exceptions in testing were noted as a result of these procedures
- Our approach included a review of major revenue sources, confirming receipt of payment and assessing the appropriateness of the revenue recognized by ensuring that revenue was recognized in the appropriate period. As a result of our audit work, we did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results (continued)

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

Other area of focus	Why are we focusing here?
Receivable relating to the application for the Canada Emergency Wage Subsidy ("CEWS") program	Receivable recorded for the amounts expected from the CEWS application for the months of March and April of 2020 is an estimate made by management.

Our response and significant findings

- The CEWS receivable amount recorded for the year ended April 30, 2020 amounted to $125,000
- Our audit procedures of the estimate included:
  - Review of management's assessment of eligibility for the CEWS program
  - Review of assumptions made by management in calculating the amount of the subsidy
  - Recalculation of the receivable based on the application prepared by management
  - Ensured appropriate presentation and disclosure of government grants included in the financial statements.
- KPMG noted that the amount of subsidy applied for has been recognized as a reduction against the related expense that the grant is intended to offset.
- An appropriate significant accounting policy for the treatment of government funding has been included in the financial statements noting the policy choice selected. See note 10.

Audit risks and results (continued)

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

Other area of focus	Why are we focusing here?
Student Health and Dental Plans	Due to the timing of the Student Health and Dental plans versus the fiscal year for MSU, there's typically a deferred revenue portion related to the fees received related to these plans. As such, KPMG tested the completeness existence and accuracy of revenues and expenditures associated with the plans.

Our response and significant findings

Student Health and Dental Plans

- The MSU's fiscal year runs from May 1 to April 30, whereas the school year and student coverage is from September 1 to August 31. As a result, as at year end, there are 4 months of revenue that are received but not yet earned, requiring a deferral of revenue for both plans.
- In the current year, KPMG noted that the amount of Dental Plan fees received for the year (F2020) is $3,269,688 and the deferred income amount is $1,109,144. Health Insurance Plan fees received for the year (F2020) is $2,803,470 and the deferred income amount is $939,185.

KPMG notes that section 2.5 (Health Insurance Plan Fund) and section 3.5 (Dental Plan Fund) of Corporate Bylaw 3 – Finances indicates that a minimum balance of $50,000 to a maximum of $75,000 shall be maintained for both the Health and Dental Plan Funds. We have noted that management and the Board are monitoring the surplus of both plans and are adjusting the premiums charged to students. KPMG recalculated the deferred revenue for both plans and agreed with the calculations performed by management. No adjustments were required to reported balances.

Audit risks and results (continued)

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

Other area of focus	Why are we focusing here?
Marmor accruals	The Marmor accrual is subject to management estimates and as such we tested the completeness, existence and accuracy associated with the estimates made by management.

Our response and significant findings

Marmor accrual

- Marmor produces yearbooks for the graduating class each year. To cover the cost of making these year books, Marmor would charge students a fee when they started their university career. These funds would then be used to pay for the year books once the students graduate. Effectively, related expenses would occur three to four years after receiving the initial funds from students. As such, on a yearly basis management reports a net surplus or deficit in the account based on total funds received to date and total expenses incurred. Effective 2016/17, it was voted that the yearbook be phased out, as such the 2016/17 was the last year that MSU received fees from students who began their university career then. These students will be the last to receive yearbooks when they graduate in April 2021. The accrued amount for Marmour in the current year is $457,000 (2019 - $340,000).
- KPMG assessed the appropriateness of the accrual taking into consideration the following factors:
    - MSU has decided to phase out hard cover books and opt-in for soft cover books going forward
    - MSU is considering implementing an option to view yearbooks in an online version, which would lower overall printing costs of the books issues
    - MSU anticipates reducing content included in the yearbooks as the accrual decreases to effectively lower the costs associated with the accrual
    - Based on the testing performed, KPMG is satisfied with Management's overall accrual estimate of future costs relate to the production of year books in the remaining years of the program.

Audit risks and results (continued)

Other area of focus	Why are we focusing here?
Cash & cash equivalents	Prior years consisted of adjustments related to cash and held cheques, as such KPMG added additional focus in the current year to gain assurance over the cash balance as at year end.
Investments	Prior years consisted of adjustments related to investments and gain/loss balances.

Our response and significant findings

Cash and equivalents

- All cash balances held by the MSU are confirmed directly with CIBC as at April 30, 2020. In addition, we performed substantive test work over all reconciling items.
- In the current year, we noted that there were no held cheques that had been written but not yet collected by the payee. Typically in the past, the cheques primarily related to student organizations and students on campus who have submitted a request to be reimbursed for expenses but have not yet collected the cheques. Due to COVID-19, the cheques have been mailed to the recipients.
- During testing, KPMG identified a cheque that was stale dated (8 months outstanding). Upon inquiry with management they are currently in a dispute with the supplier, Archangel, over invoices and once the dispute is resolved a new cheque is to be re-issued. As the initial cheque is stale dated, KPMG proposed an entry to gross up both the cash and accounts payable balances by $21,452.

Investments

- During fiscal 2020, the portfolio reported a loss of $160,281 versus a gain of $385,148 in the prior year. The loss is linked to declines in market performance of the Toronto Stock Exchange and New York Stock Exchange caused mainly by the pandemic.
- No issues were noted as part of the reconciliation process completed. KPMG reviewed the investments for any indication of impairment and noted a recovery in market values subsequent to year end.

Audit risks and results (continued)

Other area of focus	Why are we focusing here?
Child Care Centre	Specified procedures required by the City of Hamilton

Our response and significant findings

Child Care Centre:

- KPMG performed an audit over MSU's child care expenses as required by the agreement with the City of Hamilton. The Special Purpose Wage Subsidy Report for year ended April 30, 2020 will be provided to the City of Hamilton. During our testing, no issues or significant variances were identified.
- KPMG has prepared the audit report in accordance with the General Operating for Wages and System Priorities Funding Guidelines implemented by the City of Hamilton.

Audit risks and results (continued)

Other area of focus	Why are we focusing here?
Operational results	To provide a summary to the Board on operating trends at the department level

Our response and significant findings

Operational results:

KPMG noted that the following departments continue to incur losses year-over-year:

1. 1280 (schedule 2)
2. The Silhouette (schedule 3)
3. Marmor (schedule 4)
4. Child Care (schedule 6)
5. Underground Media and Design (schedule 8)
6. Campus Events (schedule 10)
7. Committees and Commissions, MSU Executive and Service Expenses (schedule 11)

Through the audit work completed, KPMG noted that management and those charged with governance have been reviewing the operations of these departments on a regular basis. There were certain departments which saw an increase in losses in comparison to prior year. While losses are expected for some of these departments based on the nature of the operations, the degree to which these losses are sustainable over the long run should be regular reviewed.

Tracking of all departments by those charged with governance will be prudent in fiscal 2021 as a result of COVID-19 and the impact that it has had on the University/campus and the resulting impact on the services offered by the MSU. Thought will need to go into how to do things differently, and whether or not that means temporary or permanent changes to service offerings.

Technology in the audit

We have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Journal Entry Analysis	We utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.
Data Extraction & Analytics Tools	We utilized IDEA routines to filter, segregate and scrub the data to perform further testing.

Financial statement presentation and disclosure

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

Form, arrangement, and content of the financial statements	The form, arrangement and content of the financial statements are adequate. We provided input and feedback to management on the presentation and disclosure in the draft audited financial statements. Agreed changes have been reflected in the draft audited statements.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation.

Other matters

We have highlighted below other matters that we would like to bring to your attention:

Matter	KPMG comment
Bank reconciliations	We noted that bank reconciliations were not being completed in a timely manner throughout the fiscal period. During the external audit process, we obtained the bank reconciliations effective April 30, 2020 well after our audit field work was scheduled. The reconciliations for various bank accounts had unreconciled amounts. Although the differences were not material to the financial statements overall, our recommendation is to ensure that this process is not overlooked during month end closing procedures as it is integral to monitoring financial reporting.

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of the one uncorrected difference considered to be other than clearly trivial. A summary is also included on the following page.

We concur with management's representation that the difference is not material to the financial statements. Accordingly, the difference has no effect on our auditors' report.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Uncorrected differences and Corrected adjustments

Uncorrected differences

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences —individually and in the aggregate—are, in their judgment, not material to the financial statements.

For the year ended April 30, 2020	Income effect	Financial position		
Description of differences greater than $20,000 individually	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
Reversal of stale dated cheque that has yet to be cashed. The amount still represents a true liability of the MSU and a cheque will be re-issued.	–	21,452	21,452	–
Total differences	**–**	**21,452**	**21,452**	**–**

Current developments and audit trends

Standard	Summary and implications	Reference
Cyber-security for non-profit organizations	Increasingly, more and more sophisticated techniques are being employed against organizations of all sizes. Historically Not for Profit organizations have not been a target for cyber-crime, however, times have changed. A recent rash of cyber-attacks against not-for-profit organizations reinforces the fact that no industry is immune. This session discusses the high risk criminal groups you should be concerned with, their motivations, tactics and pragmatic advice on how to protect your organization against them.	Link to webcast

Our discussions with you and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Link to report

Appendices

Content

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

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Audit quality

Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.

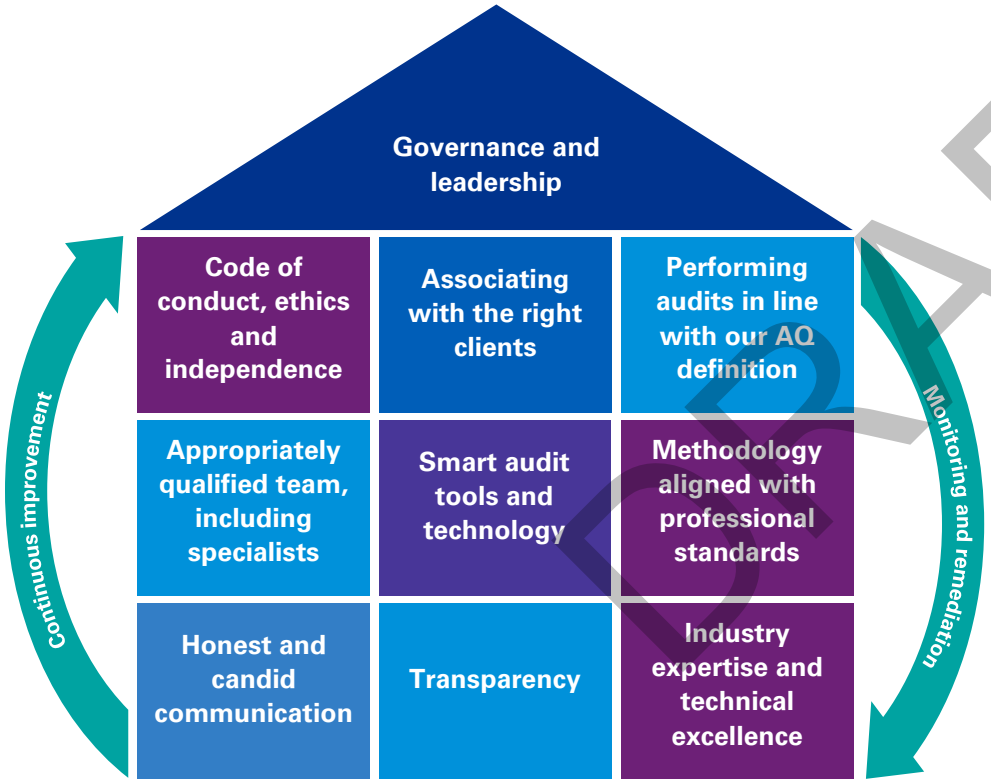
Management representation letter

In accordance with professional standards, a copy of the management representation letter is provided to the Board.

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.

kpmg.ca/audit