McMaster Students Union Incorporated ("MSU")

Audit Findings Report
for the year ended
April 30, 2021

KPMG LLP

Licensed Public Accountants

February 17, 2022

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, 2021.

Changes from the Prior Year

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

Finalizing the Audit

As of February 17 2022, 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.

[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 Accounts Receivable 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, 2021:

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)
  ○ Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions)
• Events or conditions that cast significant doubt regarding going concern
  ○ Determining plans to mitigate such conditions or events
  ○ 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?
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 2021 is $3,482,948 (2020 - $3,269,688) and the deferred income amount is $1,171,370 (2020 - $1,109,144). Health Insurance Plan fees received for F2021 is $$2,819,079 (2020 - $2,803,470) and the deferred income amount is $946,129 (2020 - $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 $532,500 (2020 - $457,000).
- 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, 2021. 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.

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, 2021 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. Child Care Centre received subsidy of $80,627 (2020 - $96,030)

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:

Separate from COVID-19 related closures, 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. Underground Media and Design (schedule 8)
5. Union Market (schedule 9)
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 reviewed regularly.

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. Disclosure has been included in the current year's financial statements, specifically note 1b), regarding the newly implemented policy surrounding MSU Club funds and the consolidation into one bank accounting and the centralization of the administration of funds.
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
Accounts Receivable reconciliations	Through our testing of the accounts receivable financial statement caption, we noted two legacy accounts, 1299-0401 and 1299-0402, that were not reconciled. Our understanding of the accounts is that they are flow through accounts and should net to zero on an annual basis. The current year difference between the accounts amounted to $84,047, indicating the possibility of unsubstantiated accounts receivable balances. Subsequent to the audit, management completed a reconciliation identifying that the bulk of the differences that were accumulated over prior periods. Management reconciled the account for the first six months of 2021/2022 and no differences were identified. As a result, an uncorrected adjustment was proposed by KPMG for the entire unsubstantiated amount of $84,047. Since this amount relates to differences accumulated over prior periods the audit adjustment impact net assets as opposed to the income statement. Refer to the schedule of uncorrected audit misstatement on page 15. We recommend that management complete a full reconciliation to clear all accumulated differences and ensure processes are in place to reconcile this account as part of the month end closing procedures.

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

Corrected differences

For the year ended April 30, 2021	Income effect	Financial position		
Description of differences greater than $20,000 individually	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
To correct opening Retain Earnings Difference	–	–	(95,412)	95,412
Total differences	**–**	**–**	**(95,412)**	**95,412**

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, 2021	Income effect	Financial position		
Description of differences greater than $20,000 individually	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
Entry to remove unreconciled difference from the accounts receivable balance.	–	(84,047)	–	(84,047)
Total differences	**–**	**(84,047)**	**–**	**(84,047)**

Appendices

Content

Appendix 1: Other Required Communications

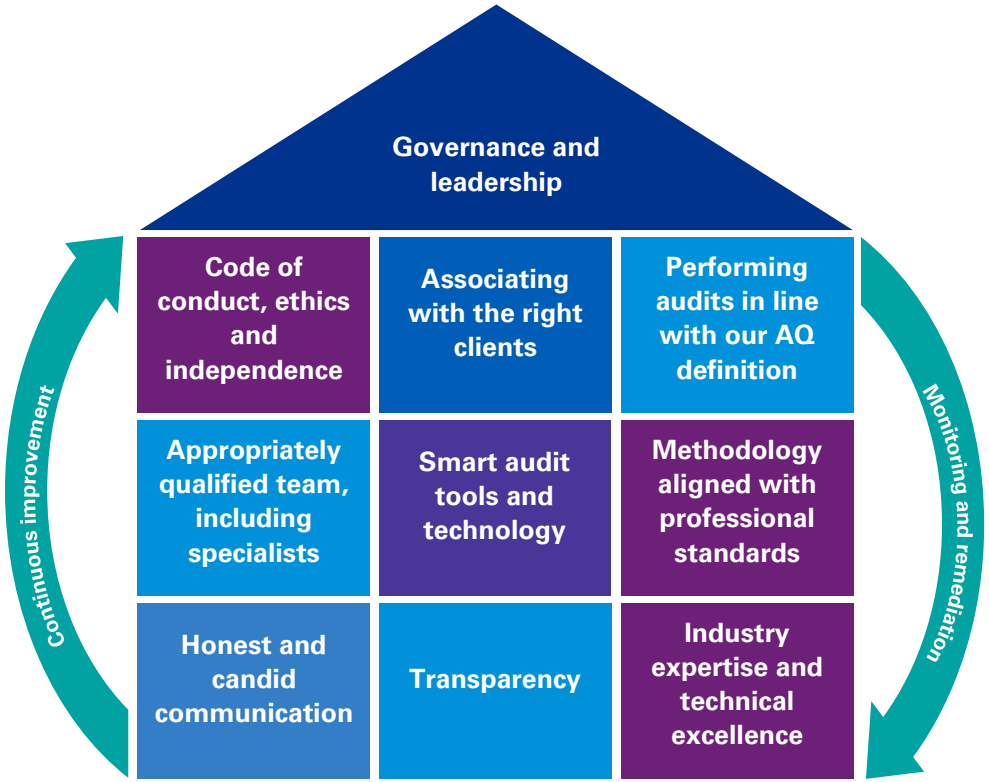
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	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.

Appendix 3: Current developments

New accounting standards that are effective for the current year are as follows:

Standard	Summary and implications
Current Accounting Standards Board Projects	
Contributions – Revenue Recognition and Related Matters – Active Project Consultation paper released May 2020	The AcSB has issued a Consultation Paper to seek input on accounting for contributions and related topics by not-for-profit organizations (NFPOs). This Consultation Paper aims to obtain broad input and data from NFPO stakeholders, including users, preparers and practitioners on the accounting for revenue from contributions and on related matters. This feedback will help the Board decide on the project's direction related to accounting for contributions. Comments received by December 31, 2020 are being discussed at the Board in 2021, with further direction expected in 2022. https://www.frascanada.ca/en/nfpos/documents/contributions-consultation-paper-2020

Appendix 4: Audit and Assurance Insights

Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards
COVID-19 Financial Reporting Resource Centre	Resource centre on the financial reporting impacts of coronavirus
Board Leadership - Audit committee insights	The KPMG in Canada Board Leadership Centre (BLC) engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting, and more.
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
The ESG journey: Lessons from the boardroom and C-suite (kpmg.us)	To build on our work in ESG, strategy and the long view, the Board Leadership Center interviewed directors and officers of major corporations, including Morgan Stanley, Tyson Foods, Ford Motor, Microsoft, Mars, and Whirlpool, among others.
ESG, strategy, and the long view (kpmg.us)	To help boards understand and shape the total impact of the company's strategy and operations externally—on the environment, the company's consumers and employees, the communities in which it operates, and other stakeholders—and internally, on the company's performance, this paper presents a five-part framework.
Inclusion and diversity practices	Getting started on the inclusion and diversity journey. Unique inclusion and diversity considerations for boards.
Preparing for the ONCA transition: What organizations need to know	The Ontario Not-for-Profit Corporations Act, 2020 (OCNA) has been proclaimed into force effective October 19, 2021. Find out the legal changes relevant for organizations incorporated provincially.

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