McMaster Students Union Incorporated

Audit Findings Report

For the year ended April 30, 2017

KPMG LLP

Licensed Public Accountants

Prepared as of July 30, 2017 for the Board of Directors meeting on September 6, 2017

kpmg.ca/audit

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Executive summary

Purpose of this report*

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 of McMaster Students Union Incorporated ("MSU") as at and for the year ended April 30, 2017.

Audit Plan

Materiality was assessed as follows:

Based on preliminary total expenses based at 3% for a total materiality amount of $400,000 (2016 - $388,000)

Audit risks and results

We discussed with you at the start of the audit a number of **financial reporting risks**.

These risks have been addressed in our audit.

We also discussed with you some **other areas of audit focus**.

See pages 5-8

This Audit Findings Report should not be used for any other purpose or by anyone other than the Board. 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

Finalizing the audit

As of July 30, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Board of Directors;
- receipt of one legal letter;
- obtaining evidence of the Student Representative Assembly's approval of the financial statements; and
- receipt of signed management representation letter.

We will update you on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR. We did identify other areas for control improvements and have provided our recommendations in this report.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

Independence

We confirm that we are independent with respect to the MSU (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

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.

Financial reporting risks	Why	Our response and significant findings
Risk of 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.	We performed procedures consistent with professional standards including, testing of journal entries, evaluation of the business rationale of significant transactions and carrying out audit procedures with an element of unpredictability. In addition, no significant estimates and significant unusual transactions were noted as part of the audit test work.
Fraud risk from revenue recognition	This is a presumed fraud risk however KPMG has rebutted this risk based on the type and controls over the revenue streams	KPMG has completed testing of the organization's revenue through substantive analytical and substantive testing procedures. No exceptions in testing were noted from the audit procedures performed. Our approach included a review of major revenue sources and confirming the receipt of payment with the revenue recognized during the period. As a result of the audit work completed, we did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan

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

Other areas of focus	Why	Our response and significant findings
Investments	To evaluate the performance of investments throughout the year and confirm year-end balances.	During fiscal 2017, MSU no longer carries investments with Echelon Wealth Partners, rather these investments have been transferred to Scotia Wealth. Note as part of the transfer of funds from Echelon Wealth to Scotia Wealth a timing difference of $823,128 existed whereby the funds we withdrawn from Echelon in April 2017 and deposited to CIBC account on May 1, 2017. KPMG has verified transfer to the CIBC account on May 1, 2017. These funds were appropriately included in accounts receivable at year year-end. In the current year, the portfolio reported a gain of $660,404 compared to a loss of $114,000 in the prior year. The gain is linked to the positive performance of the Toronto Stock Exchange and New York Stock Exchange over the past year. KPMG has confirmed all investment balances with Scotia McLeod and Scotia Wealth. No issues were noted in the reconciliation process completed.
Inventory	To ensure the accuracy and existence of the year-end inventory balances.	KPMG attended an inventory count at Union Market, TwelveEighty and Compass at year-end and noted that the inventory count was effective based on the testing completed. No issues or concerns were identified as part of the inventory count procedures performed.

Other areas of focus	Why	Our response and significant findings
Student Health and Dental Plans	To confirm the receipt of revenues during the year and to confirm the deferred revenue balance as at year-end.	The corporate fiscal year runs from May 1st to April 30th, while the school year and student coverage runs from September 1st to August 31st. This means that as at April 30, 2017, there are still 4 months of the school year remaining. This timing issue results in a required deferral of revenues on student fees collected in these areas. The MSU has recorded deferred revenue amounts related to the fees received from McMaster University for both plans in relation to expected future payment of the claims and premiums to the end of the school year. Deferred revenue for the health and dental plans are $900,696 and $902,990 respectively compared to $802,500 and $845,000, in 2016. The Health Plan ended the year with a cumulative surplus of approximately $432,820, and the Dental Plan ended the year with a surplus of $315,108. KPMG notes that section 2.5 (Health 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. Similar to prior year, KPMG recommends that Management and the Board continuously monitor the surplus of both the Health and Dental Plans in order to determine if the premiums charged should be reduced or if additional benefits should be considered as part of the plan in order to increase the premium from the insurer. KPMG reviewed the calculation of deferred revenue for both plans and agreed with the calculations performed by management. No adjustments were required to reported balances.

<table>
<tr><th>Financial reporting risks</th><th>Why</th><th>Our response and significant findings</th></tr>
<tr><td>Marmor accruals</td><td>To evaluate the appropriateness of the accruals related to Marmor yearbooks as at year-end.</td><td>KPMG noted that fiscal 2017 was the last school year that MSU has collected fees related to Marmor. The last collection of these fees marks the final class year to receive the yearbooks. KPMG assessed management's accrual estimate as at year-end and noted that MSU has accruals for yearbooks for the 2013/14 school year to the 2016/17 school year.

Based on testing performed, KPMG is satisfied with Management's accrual estimate of the future costs related to the production of the year books.</td></tr>
<tr><td>Operational results</td><td>To evaluate the going concern of business units that fall under the MSU.</td><td>KPMG noted that the following departments continue to incur losses year-over-year:
1. TwelveEighty
2. The Silhouette
3. Child Care
4. Campus Events
5. Underground Media and Design
6. Committees and Commissions, MSU Executive and Service Expenses

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 a reduction in losses in comparison to prior year. KPMG noted additionally restructuring in certain departments which have resulted in one time severance related costs. 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.</td></tr>
<tr><td>Child Care Centre</td><td>To ensure that the funding dictated by the General Operating for Wages and System Priorities Guidelines have been applied appropriately.</td><td>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, 2017 will be provided to the City of Hamilton. During our testing, no issues or 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.

The Child Care Centre operations ended the 2016/17 fiscal year with a deficit of $21,700 compared with a deficit of $57,200 in the prior year. Revenues increased modestly due to the centre operating at full capacity throughout the year. In addition, the Centre received an increase in provincial grant funding. The Centre had an increase in expenses, primarily due to wages, however the net impact showed that the increase in grants assisted with reducing the deficit in the current year.</td></tr>
</table>

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 included in the Appendices.

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 to changes have been reflected in the draft audited financial statements.
Application of accounting pronouncements issued but not yet effective	Canada's Accounting Standards Board (AcSB) has issued an Exposure Draft (ED) entitled Accounting Standards Improvements for Not-for-Profit Organizations. The proposed core strategy includes maintaining a separate set of accounting standards for areas unique to not-for-profit organizations while continuing to direct them to Part II of the CPA Canada Handbook – Accounting for non-unique areas. Significant proposed changes include standards related to a partial write-down of tangible capital assets and intangible assets, componentization of tangible capital assets and new requirements related to collections. The comments on the Exposure Draft were due by May 31, 2017. AcSB is deliberating comments received on its Exposure Draft.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

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.

Corrected adjustments

As at and year ended April 30, 2017	Income effect	Financial position		
Description of differences	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
To re-classify outstanding held cheques as at year-end as a payable	-	$36,023	$36,023	-
Adjusting the receivable balance from McMaster University based on a reconciliation completed on the confirmation	$254,426	$254,426	-	-
Total corrected misstatements	$254,426	$290,449	$36,023	-

The management representation letter for the MSU audit report includes the above adjustment identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Control observations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

Other control deficiencies

As part of our audit process, we did not identify significant deficiencies to report to the committee.

Other matters

Reconciliation of Outstanding Items:

Consistent with 2016, several outdated cheques were noted on the year-end bank reconciliation for the main operating bank account. Management has worked over the year to reduce the number of held cheques, however there is still a number of held cheques that had been written but not yet collected by the payee.

Consistent with the prior year, management's process is to void overdue cheques to ensure the accuracy of bank reconciliations, additional procedures should be considered to monitor the held cheques to be either: (1) added back into Accounts Payable and then another cheque is re-issued or (2) added into net surplus for the period.

We recommend that MSU continue to enhance and further develop its processes to reduce the number of held cheques.

Cash Control:

During our audit of the bank reconciliations, KPMG noted that exactly $1,000 of cash was identified as missing from TwelveEighty bank deposits. The cash shortage was noted to have occurred at some point from the night end closing of TwelveEight to the final bank deposit.

In order to mitigate this risk, KPMG recommends that MSU change the current process to a double count process where once received TwelveEighty, cash counted by two individuals (4 eyes approach) and signed off within the signed bank deposit bags before sending to the bank. The cash counting process could be completed at the source department or as secondary check by accounting. However the key process is that the cash counted and signed off by two individuals before being included in the sealed envelope. This would allow MSU to challenge the bank should the errors have occurred within its processes. This process could be implemented for cash envelope receipts greater than $1,000 or an agreed upon threshold.

Payroll Documentation:

Through testing employee files KPMG identified a lack of supporting employee information with each employee file. Some files contained adequate supporting documentation however, there were many missing key employee related payroll information. Given the size of MSU, and the number of employees it is crucial to track and support employment information.

KPMG recommends that employee files contain documentation for the following: employee start date, changes in wages (if outside of standardized union collective agreements), changes in employee titles/promotions, and other employment information. Any changes in the electronic pay information that is sent to the payroll manager should be clearly agreed to the collective agreement pay grid for each department to ensure the accuracy of wages.

Appendices

Appendix 1: Required communications

Appendix 2: Independence

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

Appendix 5: Current developments and Audit trends

Appendix 1: 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:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Committee. The management representation letter is attached.
- **CPAB Big Four Firm Public Report (November 2016)** – Please refer to http://www.cpab-ccrc.ca/Documents/Annual%20Reports/CPAB_2016_Big_Four_Inspections_Report_EN.pdf
- **CPAB 2016 Big Four Public Report: Highlights for Audit Committees** – Please refer to http://www.cpab-ccrc.ca/Documents/Annual Reports/CPAB_2016_Big_Four_Highlights_EN.pdf

Appendix 2: Independence

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.

We have prepared the following comments to facilitate our discussion with you regarding independence.

The following summarizes the professional services rendered by us to MSU from May 1, 2016 through to the date of this report:

Description of professional services	Fees paid or payable
Audit of MSU's financial statements for the year-end April 30, 2017	$29,300
Audit of the Child Care Centre Wage Subsidy Report for the year-end April 30, 2017	$1,975

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services, and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

Appendix 3: 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 summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page] for more information including access to our audit quality report, [Audit quality: Our hands-on process.]

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 4: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 5: Current developments and Audit trends

KPMG understands the wide range of challenges and evolving trends that you face as Board of Directors of the McMaster Students Union Incorporated. We also understand that sometimes keeping up with critical issues as they emerge can be difficult.

As your auditors, it is incumbent upon us to provide you with any information that will help you further strengthen corporate governance, enhance your oversight and add greater value within your organization.

As such, KPMG's Audit Committee Institute (ACI) provides information, resources and opportunities for you to share knowledge with your peers. First, you are welcome to attend our Audit Committee Roundtable sessions, which are held in major cities across the country. In addition, you will also benefit from our monthly article series (Audit Point of View) and quarterly videos (FrontPage Video Series) that focus on the most pressing audit committee agenda items.

More information on all of these can easily be found at www.kpmg.ca/audit.

Our discussions with you, our audit opinion 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 Foundation. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Summary of Top Risks for 2017	In an environment where risks are constantly evolving, and opportunities are emerging faster than ever before, organizations and their Boards continually strive to identify and assess their key risks. KPMG endeavours to help organizations do so by developing annual lists of the top risks by value driver faced by over 15 industries and sectors. In the attached publication, we present our view of the top 10 risks faced by each of the Public Sector, Public Companies and Private Companies.	https://home.kpmg.com/ca/en/home/insights/2017/05/summary-of-top-risks-for-2017.html
Audit Committee Handbook	This Audit Committee Handbook articulates the principles underlying the audit committee's role and provides a vast amount on nonprescriptive guidance to help audit committees and boards gain a better understanding of the processes and practices that help build and sustain audit committees in the current business environment	https://home.kpmg.com/xx/en/home/insights/2017/05/audit-committee-handbook.html

Mandatory Breach Reporting	Cyber security rules and expectations are changing. Since the passage of the new Digital Privacy Act (Bill S-4) in June 2015, mandatory breach notification clauses are widely expected to be enacted in the fall of 2016 and likely to come into force in 2017. While the content of the mandate may leave room for interpretation, it is clear that Canadian organizations will soon face higher costs, rigorous regulatory requirements and heightened risks.	https://home.kpmg.com/ca/en/home/insights/2016/09/rising-risks-associated-with-cyber-breach-in-canada.html
On the 2017 audit committee agenda	Drawing on insights from our survey work and interactions with audit committees and business leaders, we've highlighted eight items that audit committees should keep in mind as they consider and carry out their 2017 agendas. Financial reporting, compliance, and the risk and internal control environment will continue to be put to the test in 2017 by slow growth and economic uncertainty, technology advances and business model disruption, cyber risk, greater regulatory scrutiny, and investor demands for transparency, as well as dramatic political swings and policy changes in the U.S., UK, and elsewhere	https://home.kpmg.com/xx/en/home/insights/2017/01/on-the-2017-global-audit-committee-agenda-.html
Cyber Security Risks	With the constant changing cyber threat landscape, companies are changing their risks-protection strategies, identifying core assets and qualifying threats.	KPMG: Cyber security FrontPage Video
Tips for members of not-for-profit boards	While the motivation behind not-for-profit organizations (NPOs) is markedly different from that of for-profit businesses, it would be a mistake to see the function and activities of NPO boards as significantly different from their for-profit counterparts. The operational challenges mirror one another and NPO boards are just as mandated to challenge management and the status quo and to stay on top of critical oversight issues, such as cyber security, regulatory compliance and reporting. Indeed, on the reporting front, they face as many, if not more, obstacles, as the public tends to hold NPOs to a higher level of accountability.	https://home.kpmg.com/ca/en/home/insights/2015/07/tips-for-members-of-not-for-profit-boards.html

Harvey Nash / KPMG CIO Survey 2017	In its 19th year, the Harvey Nash/KPMG CIO Survey 2017 is the largest global survey of IT leadership, with 4,500 responses from CIOs and technology executives across 86 countries. In this year's survey, technology leaders tell us that the level of change they are experiencing has reached unprecedented levels, and increasingly it is coming from unexpected corners. Many technology executives are turning this uncertainty into opportunity. They are helping their organizations become more nimble and digital, to navigate through unpredictable change, and to thrive in an uncertain world.	– https://home.kpmg.com/ca/en/home/insights/2017/05/harvey-nash-kpmg-cio-survey-2017.html
The Evolution of HR	A look at what organizations needs to achieve their HR transformation goals and key considerations to keep at the forefront.	https://home.kpmg.com/ca/en/home/insights/2016/11/the-evolution-of-hr.html

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