McMaster Students Union Incorporated ["MSU"]

Audit Findings Report

For the year ended April 30, 2018

KPMG LLP

Prepared as of July 27, 2018 for the Board of Directors meeting on September 5, 2018

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, 2018.

Audit Plan

Materiality was assessed as follows:

Based on preliminary total expenses at 3% for a total materiality amount of $407,000 (2017 - $400,000).

Finalizing the audit

As of July 27, 2018, 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 related party confirmation from MUCI;
- obtaining a signed copy of the management representation letter;
- completing our discussions with the Board of Directors; and
- obtaining evidence of the Student Representative Assembly's approval of the financial statements.

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 interal controls over financial reporting.

We did identify other areas for control improvements and have provided our recommendations in this report.

Critical accounting estimates

Overall, we did not note any significant matters related to management's judgment and estimates that should be brought to the Board's attention.

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 applicable legislation or regulation from May 1, 2017 up to the date of our auditors' report.

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.

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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, as well as any additional significant risks identified.

Significant financial reporting risks	Our response and significant findings
Risk of Management Override of Controls	We performed procedures consistent with professional standards including testing of journal entries, performing a retrospective review of estimates, evaluation of the business rationale of significant unusual transactions and carrying out audit procedures with an element of unpredictability. We did not identify any issues regarding management override of controls.
Fraud risk from revenue recognition	This is a presumed fraud risk. We have completed testing of the MSU's revenue through substantive analytical and substantive testing procedures for which no exceptions in testing were noted. 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 (continued)

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

Other areas of focus	Our response and significant findings
Student Health and Dental Plans	The MSU's 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, 2018, there are still 4 months of the school year remaining. This timing issue results in a required deferral of revenues on student fees collected pertaining to both the students health and dental plans. 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 $889,898 and $944,826, respectively compared to $900,696 and $902,990, in 2017. The Health Plan ended the year with a cumulative surplus of approximately $362,804 (2017 - $432,820), and the Dental Plan ended the year with a surplus of $241,823 (2017 – $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. Consistent with our past recommendations, 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.
Inventory	KPMG attended the year end inventory count at Union Market, TwelveEighty and Compass 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.
Marmor accruals	The MSU is no longer collecting fees related to Marmor from students. The last collection of these fees was in fiscal 2017 which 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 2014/15 school year to the 2017/18 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.

Audit risks and results (continued)

Other areas of focus	Our response and significant findings
Investments	During fiscal 2018, the portfolio reported a loss of $149,900 compared to a gain of $660,403 in the prior year. The loss is linked to poor market performance of the Toronto Stock Exchange and New York Stock Exchange over the past year, specifically during the months of January to April 2018. KPMG has confirmed all investment balances with Scotia McLeod and Scotia Wealth. No issues were noted as part of the reconciliation process completed.
Cash and cash equivalents	All cash balances held by the MSU were confirmed directly with the Canadian Imperial Bank of Commerce (CIBC) as at April 30, 2018. During our review of the bank reconciliation for the main operating bank account, there were a number of held cheques that had been written but not yet collected by the payee, consistent with previous years. These held cheques amounted to $51,962 for which KPMG has proposed an adjustment for which management has corrected (see page 10 of this report). Upon further inquiry with management, the cheques primarily relate to student organizations and students on campus who have submitted a request to be reimbursed for expenses but have yet to collect the cheques. Additionally, during our audit work we noted an outstanding cheque that was issued to McMaster University in February 2018 but was held by the MSU. This cheque amounted to $70,659 and we have proposed an adjustment for which management has corrected (see page 10 of this report). Management's process continues to be consistent which is to void overdue cheques to ensure the accuracy of bank reconciliations. We recommend that management consider additional procedures to monitor the held cheques at the end of the reporting period. We recommend that MSU continue to enhance and further develop its processes to reduce the number of held cheques.

Audit risks and results (continued)

Other areas of focus	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, 2018 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 2017/18 fiscal year with a deficit of $16,246 compared with a deficit of $21,705 in the prior year. Revenues increased due to the centre operating at full capacity throughout the year and an increase in fees charged by 4% from fiscal 2017. In addition, the Centre received an increase in subsidies during the year. The offset to these revenues was the increase in expenses which was seen primarily in salaries and wages. However, the net impact showed that the increase in subsidies assisted with reducing the deficit in the current year.
Operational results	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 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 regulary reviewed.

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. We did not identify any misstatements, including omissions, related to disclosure or presentation items.

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 approved the issuance of certain Accounting Standards Improvements for Not-for-Profit Organizations. 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. As part of this project the Board approved the issuance of the following new standards, subject to final drafting and a written ballot: • Section 4433, to replace Section 4431, Tangible Capital Assets Held by Not-for-Profit Organizations; • Section 4434, to replace Section 4432, Intangible Assets Held by Not-for-Profit Organizations; and • Section 4441, to replace Section 4440, Collections Held by Not-for-Profit Organizations. Subsequent to the intial exposure draft the Board decided to: • clarify the guidance on identifying and measuring impairment in Sections 4433 and 4434; • modify Section 4441 to allow a not for profit organization that has multiple collections and elects to measure collections at cost to measure some collections at a nominal amount when cost cannot be reasonably determined for such collections; and • clarify that when a not for profit organization has integrated assets, it may assess impairment of those assets under Sections 4433 and 4434 on the combined group of integrated assets and not at the individual asset level. Other than the above changes no other changes from the Exposure Draft proposals are being proposed. The final standards are anticipated in the second quarter of 2018. The amendments will be effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted.

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 Board of Directors that all identified differences be corrected. We have already made this request of management.

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.

We did not identify differences that remain uncorrected.

Differences

As at and year ended April 30, 2018	Income effect	Financial position		
		Assets	Liabilities	Equity
Description	**(Decrease) Increase**	**(Decrease) Increase**	**(Decrease) Increase**	**(Decrease) Increase**
To re-classify outstanding cheques that were held by the MSU as payables as at April 30, 2018	-	$51,962	$51,962	-
To re-classify outstanding held cheque issued to McMaster University as a payable as at year-end	-	$70,659	$70,659	-
Total differences	-	$122,621	$122,621	-

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Appendices

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 financial statements
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Board of Directors. The management representation letter is attached.
- **CPAB Big Four Firm Public Report (November 2017)** – Please refer to http://www.cpab-ccrc.ca/Documents/News%20and%20Publications/2017%20Big%20Four%20Report%20EN.pdf

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 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 3: 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.

We did not identify any control deficiencies 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 4: Current developments and audit trends

KPMG understands the wide range of challenges and evolving trends that you face as a board member of the MSU. 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 Audit Point of View article series as well as thought leadership and insights 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 WCHAMSG. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview
Audit Trends	With a range of provocative data, insight and opinion gleaned from KPMG professionals and The Conference Board of Canada survey of Audit Committees and CFOs, Audit Trends examines seven key issues addressing corporate readiness, preparedness and priority in a volatile business environment.
On the 2018 Audit Committee Agenda	This Audit Committee Agenda draws on insights from recent survey work and interactions with audit committees and business leaders that have been completed by KPMG. The article highlights nine items that the committees should keep in mind as they consider and carry out their 2018 agendas.
Forensic Focus	Not for profit organizations face unique and significant challenges which put them at a greater risk of suffering from fraudulent schemes. The implications of fraudulent acts at not for profit organizations reach far beyond the financial losses. They can result in damage to the reputation of the not for profit, a loss of trust among donors, and they disrupt the organizations business operations and ability to perform its mission. This article highlights the important role of Board oversight in the fight again fraud at a not for profit organization.

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