METRIX GROUP LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

NORTHERN LIGHTS LIBRARY SYSTEM

Audit Findings Report

For the year-ended December 31, 2022

February 24, 2023

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

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Executive Summary

Purpose of this report

We are pleased to provide you with our audit findings report for Northern Lights Library System (the “Library System”) for the year-ended December 31, 2022.

The purpose of this report is to:

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

Finalizing the audit

As of February 24, 2023, we have substantially completed the audit of the Library System’s financial statements with the exception of:

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

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

Independence

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

Changes from the audit plan

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

Responsibilities

It is important for the Board to understand the responsibilities that rest with the Library System and its management and those that belong to the auditor in relation to the financial statement audit.

Our responsibilities

Our audit of the Library System's financial statements will be performed in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements present fairly in all material respects, the financial position, the results of operations and cash flows of the Library System in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

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

The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

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

Responsibilities of management and those charged with governance

Management is responsible for the preparation of the financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, the Board, is responsible for overseeing the Library System's financial reporting process.

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

Materiality

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

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

The auditors' determination of materiality is a matter of professional judgement and is affected by the auditors' perception of the financial information needs of users of the financial statements. In planning our audit, we have concluded that a materiality level of 4% of operating expenses ($140,000) is appropriate. However, we anticipate that management will record any adjustments that we propose that are of a non-trivial nature.

Audit Results

Area of focus	Audit risk, our response and findings
Management override of controls	*Risk* o Management is in a unique position to perpetuate financial statement fraud through the manipulation of accounting records. Under Canadian assurance standards, there is a presumed fraud risk related to management's ability to override internal controls. This risk is not rebuttable. *Our response* o Using data analytics, we have identified journal entries that exhibit characteristics which may be indicative of possible control override. We have assessed the business rationale of the transactions taking into consideration estimates applied, application of accounting policies, evidence of potential management bias. No **significant findings** have been identified.

Area of focus	Audit risk, our response and findings
Cash and cash equivalents	*Risk* ○ Due to the nature of cash, it is subject to a higher level of procedures due to the risk of fraud. ○ Cash represents a significant balance of the Library System's assets. *Our response* ○ We have confirmed directly with Alberta Treasury Branch the Library System's bank balances; as part of our procedures performed over bank reconciliations. ○ We have assessed cash equivalent financial instruments for appropriate classification. ○ We have tested significant reconciling items recorded in the bank reconciliation. No **significant findings** have been identified.
Tangible Capital Assets ("TCA")	*Risk* ○ TCA has been purchased by the Library System and has not been appropriately accounted for. ○ TCA valuation is complex due to risks of impairment and the use of management estimates. ○ TCA represent a significant balance of the Library System's assets. *Our response* ○ We have inquired with management regarding the existence of any impairment indicators identified in the year. ○ We have reviewed and inspected repairs and maintenance expenses for the purposes of identifying any assets capital in nature. ○ We have calculated amortization expense. ○ We have tested significant additions and disposals recorded in the year. No **significant findings** have been identified.

Area of focus	Audit risk, our response and findings
Deferred contributions (TCA, Allocation and other)	*Risk* ○ Compliance with funding agreement(s) and donation restrictions with respect to revenue recognition and performance obligations. *Our response* ○ We have reviewed funding agreement(s) and donation letters to identify agreements/letters with performance obligations. ○ We have tested the mathematical accuracy of the deferred contribution continuity schedule. ○ We have matched expenses, and supporting documentation, to revenue recorded to assess if the performance obligations have been met. No **significant findings** have been identified.
Municipal levies	*Risk* ○ Municipal levies are calculated incorrectly. ○ Municipal levies represent a significant balance of the Library System's revenues. *Our response* ○ We agreed the municipality populations to the Municipal Affairs population listing. ○ We agreed the levy rate to the approved levy rate in the Executive Board meeting minutes. ○ We re-calculated the municipality levy amount. No **significant findings** have been identified.

<table>
<tr><th>Area of focus</th><th>Audit risk, our response and findings</th></tr>
<tr><td>Library board levies</td><td>Risk
o Library board levies may be calculated incorrectly.
o Library board levies represent a significant balance of the Library System’s revenues.

Our response
o We agreed the municipality populations where the Library board is located to the Municipal Affairs population listing.
o We agreed the levy rate to the approved levy rate in the Executive Board meeting minutes.
o We re-calculated the library board levy amount.

No significant findings have been identified.</td></tr>
<tr><td>Operating Expenses (including salaries, wages and benefits)</td><td>Risk
o Expenses have not been recorded in the correct fiscal year.
o Inherent fraud risk relating to expenses, including salaries, wages and benefits.

Our response
o We have updated our understanding over the processes and controls for expenses.
o We have agreed significant expenses, along with a sample of non-significant expenses to supporting documentation.
o We have performed a search for unrecorded liabilities.
o We have performed substantive analytical procedures to assess the reasonableness of expenses, including salaries, wages and benefits.

No significant findings have been identified.</td></tr>
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Significant Findings

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

The audit findings contained in this report did not have a material effect on the Library System's financial statements, and as such, our audit report is without reservation with respect to these matters.

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

Internal Controls

Our audit procedures did not reveal any significant deficiencies in internal controls.

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

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

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

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties during our audit that should be brought to the attention of the Board.

Management Representation

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

Adjustments

Adjusted Differences

Increase (decrease) from opening balances			
Differences noted	**Assets**	**Liabilities**	**Excess of revenue over expenses**
16 audit adjustments were required to comply with reporting requirements under Canadian Public Sector Accounting Standards for Government Not-for-Profit Organizations (2021 – 16 adjustments of a similar nature were made).	$ (215,491)	$ (122,074)	$ (94,867)
Total Adjusted Differences (Income Effect)			**$ (94,867)**

Uncorrected Misstatements

The total unrecorded misstatements noted during the audit amounted to a $23,205 over-statement of the Library System's deficiency of revenue over expenses for the year ended December 31, 2022.

Amount of over (under) misstatement				
Description	**Assets**	**Liabilities**	**Deficiency of Revenue Over Expenses**	**Net Assets**
To remove prior year source deductions recorded in the current year	$ -	$	$ 1,478	$ -
To record prior year expenses recorded in the current year	-	-	3,784	-
To record the difference in expected and actual salaries	(17,943)	-	17,943	(17,943)
Total unrecorded misstatements	**$ (17,943)**	**$ -**	**$ 23,205**	**$ (17,943)**

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

Appendix 1: Required Communications

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

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

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

(a) Holding a financial interest, either directly or indirectly, in a client;

(b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.

(c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;

(d) Economic dependence on a client; and

(e) Provision of services in addition to the audit engagement.

We are not aware of any relationships between the Library System and ourselves that, in our professional judgement, may reasonably be thought to bear on our independence that have occurred from January 1, 2022 to February 24, 2023.

Appendix 2: Management Representation Letter

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February 24, 2023

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

Attention: Jeff Alliston, CPA, CA

Dear Sir:

Re: Management representation letter

This representation letter is provided in connection with your audit of the financial statements of Northern Lights Library System for the year ended December 31, 2022, for the purpose of you expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

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

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

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated January 28, 2023 for:

- Preparing and fairly presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations;
- Providing you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as:
    A. Accounting records, supporting data and other relevant documentation,
    B. Minutes of meetings (such as shareholders, board of directors and audit committees) or summaries of actions taken for which minutes have not yet been prepared, and
    C. Information on any other matters, of which we are aware, that is relevant to the preparation of the financial statements;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- Ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements; and
- Designing and implementing such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We have also communicated to you any deficiencies in the design and implementation or the maintenance of internal control over financial reporting of which management is aware.

Fraud and Non Compliance

We have disclosed to you:

(continued)

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

Related Parties

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

All related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian accounting standards for not-for-profit organizations.

Estimates

We acknowledge our responsibility for determining the accounting estimates required for the preparation of the financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations. Those estimates reflect our judgment based on our knowledge and experience of past and current events, and on our assumptions about conditions we expect to exist and courses of action we expect to take. We confirm the methods, the data, and the significant assumptions used in making accounting estimates (including the useful lives of tangible capital assets and the corresponding rates of amortization, recoverability of accounts receivable, and the amount of accrued liabilities) and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of Canadian public sector accounting standards for government not-for-profit organizations.

Subsequent Events

All events subsequent to the date of the financial statements and for which Canadian accounting standards for not-for-profit organizations requires adjustment or disclosure have been adjusted or disclosed.

Commitments and Contingencies

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

Adjustments

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

Misstatements

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

(continued)

Accounting policies

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

Contractual compliance

We have complied with the terms and conditions of all contractual agreements that could have a material effect, in the event of non-compliance, on the financial statements.

Direct liabilities

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

Future plans

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

Liabilities and contingencies

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

None of the members were in debt to the Library System

None of the directors were in debt to the Library System, other than in the ordinary course of business at the period-end or at any time during the period.

Carrying value

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

Litigation

We have informed you of all outstanding and possible claims, whether or not they have been discussed with legal counsel.

Contractural agreements

We have disclosed to you, and the Library System has complied with, all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Unrecorded assets

There are no material unrecorded assets or contingent assets (such as claims relating to patent infringements or unfulfilled contracts whose value depends on satisfying conditions regarded as uncertain), that have not been disclosed to you.

Acknowledged and agreed on behalf of Northern Lights Library System by:

____

James MacDonald, Executive Director

February 24, 2023

Date signed

____

Terri Hampson, Operations and Finance Manager

February 24, 2023

Date signed

Appendix 3: New and Revised Accounting Standards

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

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

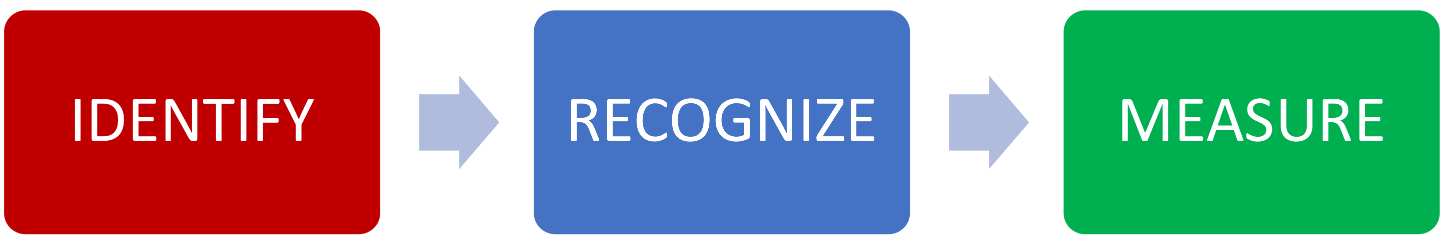
Appendix 4: Asset Retirement Obligations Update

In August 2018, the Public Sector Accounting Board issued the new PS 3280 Asset Retirement Obligations accounting standard. This accounting standard requires a liability be recognized for legally-enforceable asset retirement obligations. This standard comes into effect for fiscal years on or after April 1, 2022. For the Library System, this will apply for the year-ended December 31, 2023, unless early adoption is elected.

An asset retirement obligation ("ARO") is defined as a legal obligation associated with the retirement of a tangible capital asset. Costs that are associated with asset retirement activities may include, but is not limited to:

- Decommissioning a tangible capital asset ("TCA") that has been acquired, constructed or developed.
- Remediation of contamination of a TCA created by its normal use.
- Post retirement activities such as monitoring costs.
- Constructing other TCA to perform post-retirement activities.

In preparation for the coming standard, we had recommended that public sector entities adopt the following steps.



We would have expected that most public sector entities will have completed or are nearing completion in in identifying the various assets / properties / sites that may have an asset retirement obligation.

What's Next? RECOGNIZE the Liability

Once an asset has been identified, you will need to determine what type of liability to recognize.

Under PS 3280, an asset retirement obligation should be recognized when **ALL** of the following criteria are met:

- There is a **legal obligation** to incur retirement costs in relation to a tangible capital asset;
- A **past transaction or event**[1] giving rise to the liability has occurred;
- It is expected that **future economic benefits** will be given up; and
- A reasonable estimate of the amount can be made.

In addition to the requirements under PS 3280, there is an existing accounting standard, *PS 3260 – Liabilities for contaminated sites*, that continues to remain in effect. Under PS 3260, a liability exists when **ALL** of the following criteria are met:

- An **environmental standard exists**;
- A **contamination exceeds** the environmental standard;
- The government is:
  - Directly responsible; or
  - Accepts responsibility;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate can be made.

The type of liability to recognize (and the accounting standard to apply) can be assessed through three factors:

- Origin of the liability
- Nature of the responsibility
- Contamination

[1] If there is any uncertainty regarding the existence of an ARO, *PS 3300 – Contingent liabilities*, would provide additional guidance on how to account for the liability.

Origin of the Liability

A liability under PS 3280 can be incurred from:

- The acquisition, construction or development of a tangible capital asset;
- Normal use of a tangible capital asset; or
- Changes in circumstance.

Obligations from acquisition, construction or development of a tangible capital assets are evident. There will be a clear requirement based on the nature of the underlying asset or an existing regulatory requirement.

<u>Examples</u>:

- An X-Ray machine purchased also includes a prescribed manner in which to retire the machine. In such instance, an ARO would exist upon the acquisition of the X-Ray machine.

- A municipality may purchase a building that was constructed prior to the 1970s containing asbestos. Existing regulations dictate how asbestos is to be remediate. While the public sector entity may not have any plans to dispose of the building, an obligation to remediate exists and is incurred upon the acquisition of the building.

Normal use of a tangible capital asset may result in an ARO when placed into use or may be incrementally incurred with continued use. These types of obligations will be predictable, likely to occur and will be unavoidable as a result of operations.

<u>Examples</u>:

- A landfill site will have an obligation to remediate upon closure. This obligation exists as soon as the landfill site is put into use.
- Similarly, a landfill site may have additional post-closure monitoring costs as a result of new types of waste that is accepted over the life of the landfill site.

Changes in circumstances during the life of a tangible capital asset may give rise to a past transaction or event.

Examples:

- Change in regulation that prescribes how materials are to be handled / disposed of.

Nature of Responsibility

The public sector entity has a clear duty or responsibility to another party. This may arise from:

- Agreements or contracts;
- Government legislation (its' own or another government); or
- A promise conveyed to a third party that imposes a reasonable expectation of performance under the doctrine of promissory estoppel.

Where an ARO is established by an agreement, contract, or legislation, the obligation to incur costs to retire the tangible capital asset is **legally enforceable** and compliance is mandatory. Breaches may be enforced by prosecution, fines, jail and similar penalties, order or loss of permit.

A promise to a third party may also create a legally enforceable obligation under the doctrine of promissory estoppel. In such circumstances, facts and circumstances need to be considered carefully in determining whether that promise has imposed a legal obligation upon the promisor under the doctrine of promissory estoppel.

Contamination

Under PS 3280, no contamination is necessary for an obligation to exist. An obligation may exist regardless of the existence of any environmental standard.

Summary Table

	PS 3280 – ARO	PS 3260 – Contaminated Sites
Origin of liability	The liability may result from acquisition, construction, development or normal use of tangible capital assets or changes in circumstance.	The liability is a result of a contamination, generally due to improper use of tangible capital assets or an unexpected event. Contaminated sites are typically a result of an *unexpected event*.
Nature of responsibility	A **legal obligation** must exist.	The public sector entity may have a liability result from: o Direct responsibility (due to past activities or an existing legal obligation); or o By accepting responsibility (commitment or past actions). Accepted responsibility **must result** in a reasonable expectation of performance under the doctrine of promissory estoppel.
Contamination	A contamination is **NOT** required for the liability to exists.	There must be an **environmental standard** and there must be a contamination that **exceeds** the environmental standard.

We have included a decision tree for how to evaluate which standard to apply.

Decision Tree