From:	Rick Smith
To:	PublicOnlyCouncilEmail
Subject:	Audit Committee Brief
Date:	December 18, 2024 10:26:21 AM
Attachments:	Audit Committee - December 5^J 2024.docx Windsor Admin Fee Budget Version 2023.xlsx Windsor Water re TMP with no adj. Oct 1, 2024.xlsx

To all West Hants Councillors.

Attached is a copy of my brief/notes that I spoke to at the Audit Committee meeting held on December 5, 2024. I am providing a copy of this brief to all Councillors as the minutes from the audit meeting will likely not be available (approved) for several months.

After watching the council meeting held on December 10, 2024, it was apparent to me that the issues that I spoke about at the audit committee meeting appear to be unresolved in the minds of several Councillors as well as myself.

I have attached a copy of the calculation for the Windsor Water Utility administration fee for the 2022-2023 year. You will note that the credit adjustment / over billing is either $109,915 or $116,393. I have provided both calculations as it is not totally clear if the admin fees are calculated based on actuals or budgeted. In any event the credit adjustment required is very substantial.

Attached is a copy of a spreadsheet that I also prepared showing the sale of water from Windsor to West Hants Three Mile Plains (TMP) for the years 2020 to and including the year ended March 31, 2024. You will note that the total water sold to TMP in 2022-2023 was only $56,453 compared to the other years ranging from $251.169 to $286,936. If the much talked about credits that were issued in April 2022 in the amounts of $24,794 and $270,110 were to correct the 2020-2021 and 2021-2022 financial years, then why were the 2022-2023 results not corrected?

Why was the sale of water to TMP in 2022-2023 only $56,453? How was this amount calculated? This is the question that to my knowledge, has never been answered. Why not? It is a very simple question, and an obvious error of this magnitude must not go uncorrected.

As I noted at the end of my brief, the issues that I have outlined have been outstanding for over a year and I hope that West Hants never has to go through this again.

If you should have any questions relating to my brief or schedules do not hesitate to contact me.

Respectfully submitted

Rick Smith

[redacted]

West Hants Audit Committee Meeting – December 5, 2024

I will be speaking primarily about the March 31, 2023, financial results of the Windsor & West Hants Water Utilities. The Financial Statements being reviewed this evening are for the year ended March 31, 2024, are comparative to the March 31, 2023, results. I feel that there remain several unresolved issues.

History / Overview

I have been following the financials for the West Hants & Windsor Water Utilities since the Audit Committee meeting held on October 16, 2023, over a year ago. During that meeting the auditors pointed out that the Windsor Water Utility lost $425,784 compared to the budgeted profit of $118,064 and West Hants Water Utility had a profit of $340,526 compared to a budgeted loss of $187,918.

I was surprised that neither the Director of Finance nor the Auditor spoke to these results. If I was able to identify these issues from the outside and the DOF & auditors are inside the records, well were does that leave the financial review process and accountability.

My initial reaction to the results was that there may be some misallocation of revenue or expenses. This was simply based on my past financial experience as a change in either utility of over $500,000 is about 25 percent of the total budget and would not be considered normal.

At the meeting held on October 16, 2023, the Audit Committee reviewed and recommended (made a motion) that the Financial Statements for the year ended March 31, 2023, for approval.

Since that time, I have been following both Council & Audit Committee meetings, reviewing financials and looking for clarity on the issues as there have been many questions raised since October 2023.

I also prepared a brief and spoke at the UARB hearing on May 23,2024.

Sent out an information package to the Audit Committee on August 29, 2024.

Spoke at the Committee of the Whole on September 10, 2024.

I met with the Mayor and CAO on October 1, 2024.

I met with the Mayor, CAO and Director of Finance on October 25, 2024.

I met with the CAO and DOF on November 12, 2024.

You might ask why so many meetings and communications on this matter??

Simply the lack of clear, concise answers to questions and concerns raised by Councillors, members of the Audit Committee and me since the audit of the 2023 Water Utility results.

In addition, there has been several what I would refer to as material misstatements by the Director of Finance (DOF) including references to the Windsor Water Utility deficit in 2023, including the Ballon Payments, Credits in the System and Catastrophic Equipment losses which had very minimal impact on the 2023 deficit.

As well, in a meeting held on October 25, 2024, the DOF disclosed that the credits issued in the amounts of $24,794 and $270,110 issued back on April 20, 2022, were applied to the year ended March 31, 2021 and March 31, 2022 respectively. This certainly resulted in a considerable level of confusion about the 2023 results and a further lack of confidence in the West Hants financials.

List of Unresolved Issues

Despite my many inquiries and meeting there are still unanswered questions. They include the following and affect the March 31, 2023, Financial Statements:

- Huge drop in water sales from the Windsor Utility to the TMP/ West Hants utility over 91 million gallons. ($230,000) in the 2023 year compared to the 2024 year.
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- The calculation of the Administration fee for Windsor Water utility is incorrect and requires a credit (reduction) adjustment in the amount of $116,393.
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- Misallocated expenses like tax expense requires a correction/ credit for the Windsor Utility for $16,170. Other possible misallocations may exist with expenses like power expenses.
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- Inconsistent Consumption Reports which contain errors and corrections. As well over 81 M gallons of water were lost on the TMP bulk meter in 2024. This lost water, valued at the new water rates (October 1, 2024) is valued at about $865,000. (81M @.01064).
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- The Underwood Road bulk master meter was shut off back in 2019 without proper financial recording, advising Council and the UARB. It only appeared on the Consumption report in the 3rd Qtr. of 2024.
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- Let us not forget the motion of Council back In January 2024 that directed the CAO to secure an independent firm to undertake a detailed, operational and financial audit of the 2024, some ten months later. You should be asking yourself why? **The tender was issued as an Operational Audit only for the** West Hants and Windsor Water Utilities. The tender was only posted on November 12, 2024.
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- Just as a point for the current year (2024 – 2025), the second quarter Consumption Report looks a bit wonky. Typically, the second quarter, reports higher volume than the 1st Qtr. But the 2nd QTR is lower than QI by over 10 M gallons. Apparently, this was due to a problem with the battery. My point is what about the value of the water that has not been reported. 10 M gallons is worth about $25,000. It does not seem important that the revenue was missed.
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Materiality & Misstatements

During the Audit Committee meeting on October 16, 2023, when the question of materiality was raised and Auditor Forse advised that the number was $180,000. (recorded at the 24.5-minute mark) He also went on to say what level of misstatement would change someone's opinion. And in the Audit Committee meeting held back on December 9, 2022, the auditor went on to say that **any type of misstatement could be material if it changes one's opinion.**

In the Independent Auditor's Report under Responsibilities of Management and Those Charged with Governance for the Financial Statements it states: Management is responsible for the preparation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

This is your responsibility. You do not have a choice but to conform to Canadian accounting standards. It is incumbent upon you to correct the financials free of material misstatements.

You also need to keep in mind that this level of misstatement ($180,000) relates to the entire West Hants audit of about $35 M in 2023. The Windsor & West Hants Water utilities are about $ 2 M each and total just over $4.1 M or about 10% of the total audit based on revenue.

I would suggest that within the Water Utility financials that the level of misstatement might be $ 30,000 to $40,000. The list of unresolved issues as noted total more than $350,000.

We are well beyond the level of misstatement for the entire West Hants audit let alone the Water Utilities.

In addition, CICA & Generally Accepted Accounting Principals states that disclosure of prior period errors must comply with certain requirements as outlined in Section 1506 and requires detailed disclosure be provided in the financial statements.

This list of unresolved items has a material affect on the March 31, 2023, results and must be corrected for the results to be meaningful when compared to the March 31, 2024, financials.

For Your Consideration

Section 44 of the Municipal Government act state that the Audit Committee

Just to name a few of the duties.

- A detailed review of the financial statements of the municipality with the auditor.
- A review of the conduct and adequacy of the audit.
- Such matters arising out of the audit as may appear to the audit committee to require investigation.

This is only part of the list and can be a tall order in the best of times given the sheer volume of information provided for this meeting. There is also the expectation for the committee to come out of this meeting with a recommendation to council to accept these financial statements.

With new members on the Audit Committee and little time to get up to speed, it is important to deal with all outstanding issues, concerns and mistakes to be resolved. I would suggest that you exercise caution and do not feel pressured.

It is imperative that you have a comfort level with these financial results.

These issues have been outstanding for over a year and I would hope that West Hants never has to go through this again.

Thank you for the opportunity to speak at this meeting.

Rick Smith

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Windsor Water Utility
Calculation of the Administration Fee
Draft

14-Nov-24

	Actuals 2022-2023	Budget 2022-2023	Budget 2024-2025
Windsor Water Utility - Total Expenses -	$ 1,618,166	$ 1,449,180	$ 1,617,341
Less Administration Fees included in Total Expenses	-$ 220,242	-$ 131,744	-$ 120,929
	$ 1,397,924	$ 1,317,436	$ 1,496,412
Less Taxes	-$ 45,648	-$ 29,478	-$ 32,466
Less Depreciation	-$ 249,007	-$ 249,469	-$ 254,661
	$ 1,103,269	$ 1,038,489	$ 1,209,285
Admin Fee at 10%	**$ 110,327**	**$ 103,849**	**$ 120,929**
Admin Fee Charged at 19.96%	-$ 220,242	-$ 220,242	
Admin Fee - Adjustment Required	**-$ 109,915**	**-$ 116,393**	

The actauls and budget numbers for 2022 - 2023 were taken from the 3 year analysis

The budget numbers for 2024 -2025 were taken from the Detailed Budget dated May 8, 2024.

Calculation based upon reply to UARB Undertaking U-5 at 10%

Prepared by Rick Smith
Revised & Updated on Nov 15, 2024

Windsor Water Utilitity
Sale of Water to West Hants
Three Mile Plains (TMP)

Prepared Oct 1, 2024

	Actuals 2020-21	Budget 2020-21	Actuals 2021-22	Budget 2021-22	Actuals 2022-23	Budget 2022-23	Based on Consumption 2023-24	Budget 2023-24	Budget 2024-25
TMP 5 Back I Road	$ 220,773	$ 180,000	$ 223,343	$ 294,700	$ 28,361	$ 294,700	$ 111,903	$ 298,700	$ 112,000
Wentworth Road	-$ 5,813	$ 4,200	$ 3,175	$ 5,000	$ 2,538	$ 5,000	$ 2,047	$ 2,522	$ 2,050
Dill Road	$ 35,491	$ 50,000	$ 17,528	$ 52,000	$ 25,144	$ 52,000	$ 40,266	$ 27,176	$ 26,070
Underwood Road	$ 718	$ 80,000	$ 380	$ 1,000	$ 410	$ 1,000	$ 132,720	$ 376	$ 62,750
	$ 251,169	**$ 314,200**	**$ 244,426**	**$ 352,700**	**$ 56,453**	**$ 352,700**	**$ 286,936**	**$ 328,774**	**$ 202,870**
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This schedule was prepared using information taken from the three (3) year comparison report and the 2024--25 Operating Budgets dated May 29, 2024

**** Actuals have not been provided todate for 2023-24, however based on the March 2024 Consumption Rreport the totals should be as noted.**

This schedule also reflects the very low billing history from the Underwood Road Meter from 2020 to 2023 and inconsistent budgets.

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Prepared by Rick Smith, Oct 1, 2024