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Item No. 2
Audit Committee
March 27, 2019

TO: Chair and Members of Audit & Finance Standing Committee
Original Signed

SUBMITTED BY: _____
Jane Fraser, Director, Finance, Asset Management & ICT/CFO
Original Signed

Jacques Dubé, Chief Administrative Officer

DATE: March 8, 2019

SUBJECT: Audit Plan for the Consolidated Financial Statements of HRM

ORIGIN

This report is originated by staff in preparation for the 2019 year end audit of the consolidated financial statements, General Rate Surplus statements, and Miscellaneous Trust Funds statements of HRM.

LEGISLATIVE AUTHORITY

Section 46 of the Halifax Regional Municipality Charter outlines the responsibilities of the Municipal Auditor including issuance of an Auditor's Report.

RECOMMENDATION

It is recommended that the Audit Committee approve the attached Audit Planning report for the year end audit of HRM's consolidated financial statements, General Rate Surplus statements, and Miscellaneous Trust Funds statements as prepared by the Municipal Auditor (KPMG).

BACKGROUND

Each year the Municipal Auditor is required to prepare an Audit Planning Report to be approved by the Audit Committee.

DISCUSSION

KPMG has prepared the attached Audit Planning Report for review and approval by the Audit Committee. Their Audit Planning Report outlines the scope of the audit, their approach to the audit, the audit risks,

their determination of materiality, changes to the 2019 Auditors' Report and a list of annual inquiries of the Audit Committee.

FINANCIAL IMPLICATIONS

The fees for the year end audit, as described in the Audit Planning Report are \$82,907 net tax included, consistent with the amount in the tender and are budgeted for.

RISK CONSIDERATION

There are no significant risks associated with the recommendation in this report.

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

The Audit Committee through discussion with our Municipal Auditor, may request additional services or audit procedures. These services or audit procedures would likely be a separate engagement and would result in increased costs to HRM.

ATTACHMENTS

Attachment 1 KPMG's Audit Planning Report for the March 31, 2019 year end audit of the consolidated financial statements of HRM.

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Halifax Regional Municipality

Audit Planning Report for the year ending
March 31, 2019

KPMG LLP

Prepared as of March 8, 2019 to be
presented March 27, 2019

kpmg.ca/audit

KPMG



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Executive summary



Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Taxation revenue
- Capital assets
- Change in investment in Halifax Regional Water Commission
- User fees and charges
- Payroll expenditures
- Routine expenses
- Treasury

See pages 4-8



Audit materiality

Materiality has been determined based on an estimate of total expenses. We have determined group materiality to be \$13,900,000 for the year ending March 31, 2019.

Materiality will be set at lower thresholds where necessary to meet subsidiary financial statement audit requirements. See page 9.



Executive summary



Independence and Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.



Proposal Fees

Proposed fees for the annual group audit are \$79,500.

See page 11.



Current developments and Audit Trends

Please refer to pages 12 for relevant auditing changes relevant to the Company and relevant audit trends.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning 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.

Group Audit Scope



Type of work performed	# of components
Individually financially significant	
Halifax Regional Municipality (“HRM”), Halifax Regional Water Commission (“HRWC”)	2
In-scope not significant	
Various sport, recreation and key facilities ¹	4
Not significant – Untested	
Various sport, recreation and key facilities ²	18
Procedures performed by	
Group team – KPMG Halifax	
Component auditors – KPMG Halifax, Grant Thornton	

¹ These venues include: Scotiabank Centre, Halifax Regional Library, Halifax Forum, Canada Games Centre

² These venues include : Alderney Landing Association, Dartmouth Sportsplex, Cole Harbour Place, Centennial Arena, BMO Centre, Dartmouth 4-Pad, Events East, St. Margaret’s Arena Association, Eastern Shore Recreation Commission, Downtown Halifax Business Commission, Spring Garden Area Business Association, Downtown Dartmouth Business Commission, Quinpool Road Mainstreet District Association, Sackville Business Association, Mainstreet Dartmouth Business Association, Spryfield Business Association, Centennial Pool Association, North End Business Association



Audit risks

Significant financial reporting risks

We have not identified any significant financial reporting risks. We have outlined other areas of focus as discussed on the following pages.





Audit risks

Professional requirements

There is no risk resulting from revenue recognition.

Why is it significant?

The risk of fraud from revenue recognition has been rebutted. Key decisions such as tax rates and service fees are based on guidance in the Nova Scotia Municipal Government Act. There are no incentives or bias to report higher or lower revenue.



Audit risks

Professional requirements

Fraud risk from management override of controls.

Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit risks

Other areas of focus

Why are we focusing here?

Taxation Revenues – HRM

Most significant source of revenue to fund annual operations and capital expenditures.

Capital Assets – HRM

Capital assets represent approximately 75% of HRM's total assets and HRM is engaged in significant capital projects annually.

Change in investment in Halifax Regional Water Commission – HRWC

HRWC is a significant investment accounted for on the Modified Equity basis.

Our audit approach

Complete substantive analytical procedures over the completeness, existence and accuracy of additions to revenue based on assessed property values.

Complete substantive procedures over the completeness, existence and accuracy of additions to capital assets.

Direct, review and communicate with Component auditor and receive reporting of HRWC audit findings. Review key areas of Component auditor's work directly.



Audit risks

Other areas of focus	Why are we focusing here?
User fees and charges – HRM and various sport, recreation, and other facilities	Significant source of revenue for the HRM, representing approximately 10% of total annual revenue.
Payroll expenditures – HRM and various sport, recreation and other facilities	Payroll is a significant expense across all functions, representing approximately 40% of total annual expenses.
Routine expenses – HRM	Procurement is a significant function of the HRM supporting all functions.
Treasury	Cash and borrowings are significant to the financial position of the HRM.

Our audit approach

- Complete substantive analytical procedures over the completeness, existence and accuracy of ‘user fees and charges’ revenue.
- Review of revenue at various sport, recreation, and other key facilities operated by boards and commissions.
- Evaluate the design and implementation and operating effectiveness of controls over payroll. Perform substantive procedures including substantive analytical procedures over the completeness, existence and accuracy of payroll expense.
- Review payroll expenses at various sport, recreation, and other key facilities operated by boards and commissions.
- Perform substantive analytical procedures over the completeness, existence and accuracy of routine expenditures.
- Complete substantive procedures over cash and borrowings through external confirmation of cash and debt balances.
- Perform substantive analytical procedures over the completeness, existence and accuracy of routine expenditures.

Materiality

Materiality determination	Comments	Group amount
Benchmark	Based on an estimate of total expenses for the year. This benchmark is consistent with the prior year.	\$932 million
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$13.9 million.	\$13.9 million
% of Benchmark	The corresponding percentage for the prior year's audit was 1.5%.	1.5%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$695,000.	\$695,000
Component Materiality	HRM Non-Consolidated	\$12.5 million
	Halifax Regional Water Commission	\$4.1 million

Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to the Audit Committee:



Corrected audit misstatements

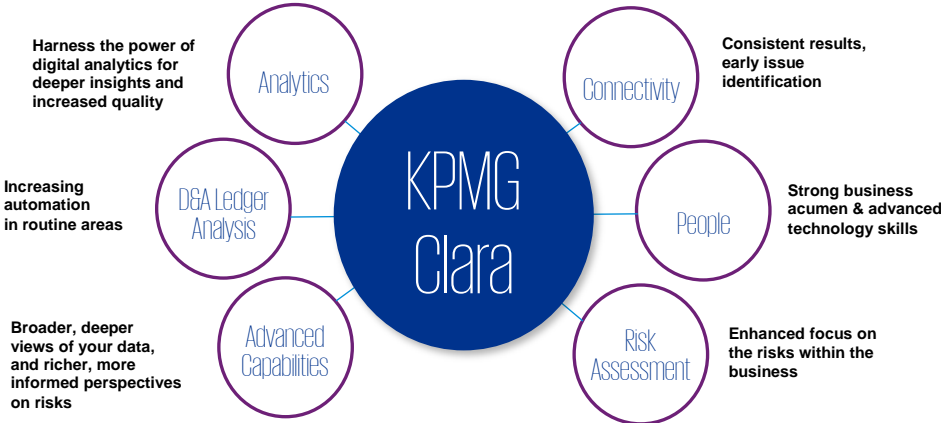


Uncorrected audit misstatements

The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today	
Tool	Benefit to audit
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data & Analytics Routines	The KPMG application software (IDEA) is used to evaluate the completeness of the property tax assessments in the Hanson system used to generate property tax billings as compared to external data received from Property Tax Assessment Services. The KPMG application software (IDEA) is used to calculate the expected property tax revenue used in the substantive analytic procedures based on assessment values from the Hanson system that has been verified for completeness and accuracy.



Fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the financial statements	\$79,500	\$83,0000



Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the entity beyond those contemplated in our planning processes;
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the timing of our work, and
- Changes in the agreed scope of work as agreed to with management.

The 2019 Auditors' Report



Highlights of changes to your 2019 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section.

Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.

Separate section on "Other Information" (e.g. MD&A).

Expanded descriptions of management's responsibility, including those related to assessing the Entity's ability to continue as a going concern.

New description of responsibilities of those charged with governance.

Expanded descriptions of management's, those charged with governance and auditors' responsibilities.



Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.



Impact to the 2019 auditors' report

Accordingly, your 2019 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.



Annual inquiries of those charged with governance

Professional standards require that during the planning of our audit we obtain your views on the risk of fraud. We make similar inquiries to management as part of our planning process; responses to these questions will assist us in planning our overall audit strategy and audit approach accordingly.

- Are you aware of, or have you identified, any instances of actual, suspected, possible or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the entity?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls that management has established to mitigate these fraud risks?



Appendices



Appendix 1: Audit quality and risk management



Appendix 2: KPMG's audit approach and methodology



Appendix 3: Lean in Audit™



Appendix 4: Required Communications

Appendix 1: 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*.

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. We do not offer services that would impair our independence.

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.

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
- 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.

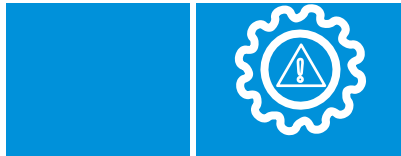
Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

- Before the firm issues its audit report, 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



Appendix 2: KPMG's audit approach and methodology



This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

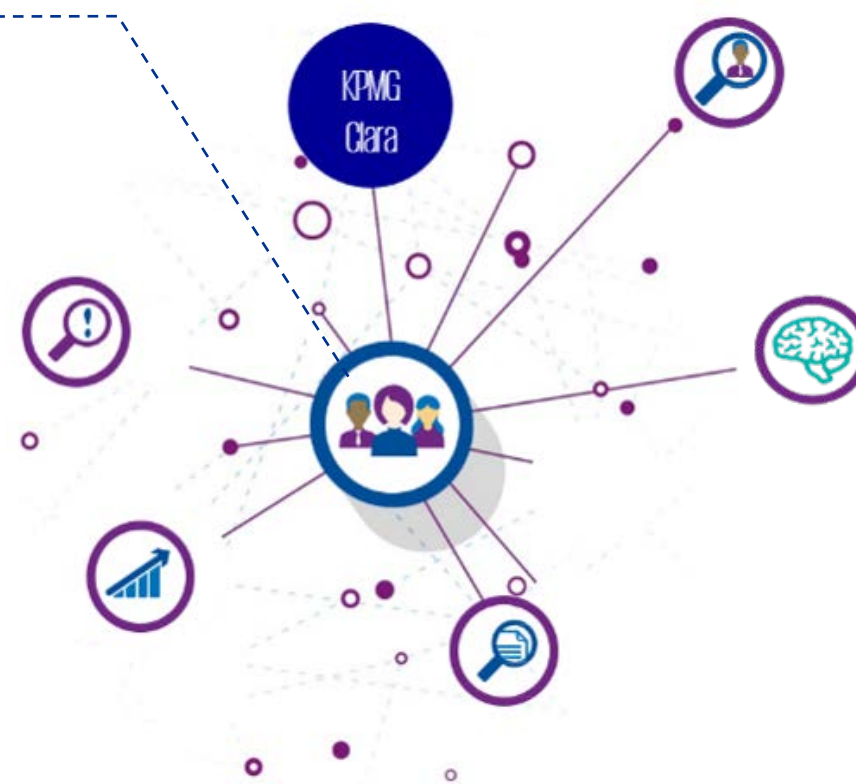
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions



Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.



Appendix 4: 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:



Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as previously provided to management.



Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



Audit planning report

This report.



Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.



Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



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