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Item No. 3
Audit Committee
May 25, 2020

TO: Chair and Members of Audit Committee

SUBMITTED BY: **- Original Signed -**

Jacques Dubé, Chief Administrative Officer

- Original Signed -

Jane Fraser, Director, Finance, Asset Management & ICT/CFO

DATE: February 18, 2020

SUBJECT: Audit of the Consolidated Financial Statements of HRM

ORIGIN

This report is originated by staff in preparation for the 2020 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 Audit Planning report dated May 11, 2020 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 2020 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 \$84,576 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

1. KPMG's Audit Planning Report for the March 31, 2020 year end audit of the consolidated financial statements of HRM.

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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Halifax Regional Municipality

Audit Planning Report
for the year ending March 31, 2020

KPMG LLP

Prepared as of March 6, 2020 and
updated as of May 11, 2020

kpmg.ca/audit

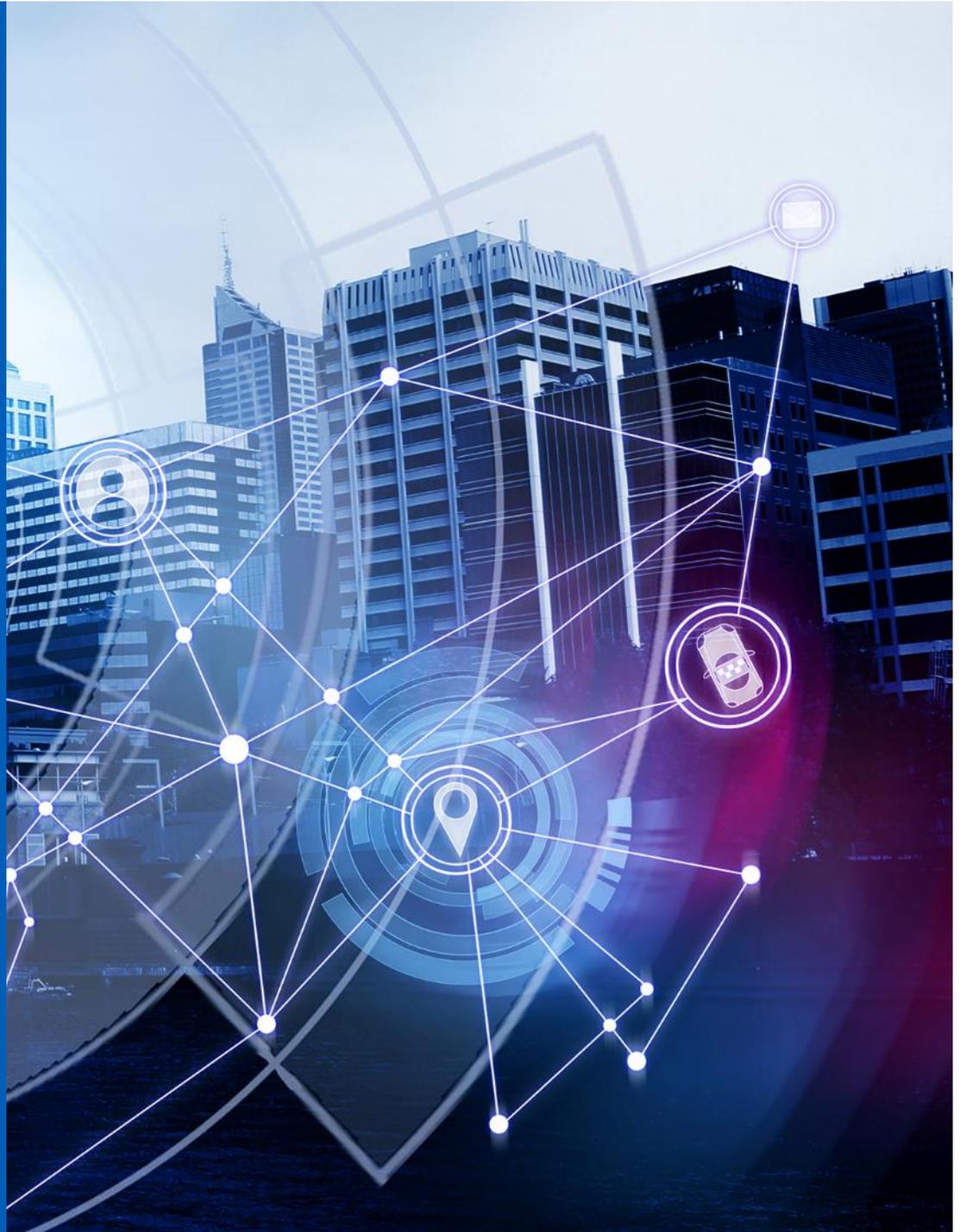


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Executive summary



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
- 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 \$14,700,000 for the year ending March 31, 2020.

Materiality will be set at lower thresholds where necessary to meet local 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 \$81,100.

See page 14.

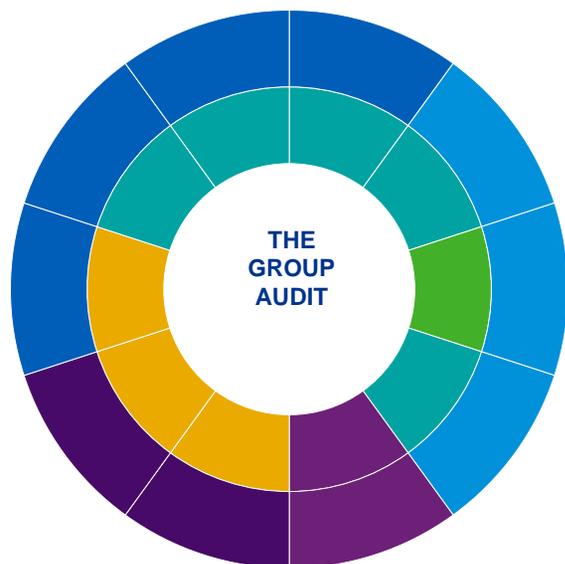


Current developments and Audit Trends

There are no new relevant accounting or auditing changes to be brought to your attention at this time.

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, Zatzman Sportsplex, Cole Harbour Place, Centennial Arena, BMO Centre, RBC Centre, 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

Taxation Revenues

Capital Assets

User fees and charges

Why are we focusing here?

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

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

Significant source of revenue for the HRM, representing more than 10% of total annual revenue.

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.

Complete substantive analytical procedures over the completeness, existence and accuracy of 'user fees and charges' revenue.



Audit risks

Other areas of focus

Payroll expenditures

Routine expenses

Treasury

Investment in Halifax Regional Water Commission

Why are we focusing here?

Payroll is a significant expense across all functions, representing approximately 40% of total annual expenses.

Procurement is a significant function of the HRM supporting all functions.

Cash and borrowings are significant to the financial position of the HRM.

Significant component measured using the modified equity accounting model

Our audit approach

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 of payroll expenses at various sport, recreation and other key facilities operated by boards and commissions.

Complete 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.

Provide instructions to component auditors of Halifax Regional Water Commission, evaluate results of information provided by component auditor and review key areas of the component auditor's working papers as part of responsibility as group auditor.

Materiality

Materiality determination	Comments	Group amount
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.	\$14.7 million
Benchmark	Based on an estimate of total expenses for the year. This benchmark is consistent with the prior year.	\$980 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.	\$735,000
Component Materiality	HRM Non-Consolidated	\$13,200,000
	Halifax Regional Water Commission	\$4,000,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate 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



COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable.

In order to address the new risks associated with COVID-19, we may be required to complete additional audit procedures. We have revisited planning and considered how key decisions such as areas of audit focus and materiality are impacted by these measures. As we re-evaluate our audit plan, additional audit procedures may include, but are not limited to, the following:

Cut-off – Operating expenses, including procurement and payables

- Understand the potential risks around processing of transactions at year-end, including changes in procedures to process and authorize transactions electronically and any impact on internal controls.
- Perform additional testing focused at year-end after the change in business processes, looking for evidence of purchase and payment authorization.
- Review year-end spending announcements and ensure recorded as a liability or disclosed as a commitment as appropriate in accordance with PSAS.
- Consider plans related to workforce reduction and the timing of when it is appropriate to recognize a liability.
- Understand the processes followed to identify and account for refund-related liabilities.

Cut-off – Revenues, contractual rights

- Perform research and inquiries to review COVID-19 related spending announcements by the Federal and Provincial governments and ensure any resulting recognition or disclosure as a contractual right is appropriate under PSAS.

Asset Impairment

- Inquire to understand the approach to any additional considerations made by the Halifax Regional Municipality during the annual financial statements date assessment for impairment due to COVID-19.
- Assess whether the extent of additional consideration or write-downs undertaken by the Halifax Regional Municipality was appropriate provided information available at the time and up to reporting.
- Consider the completeness of planned asset impairment related procedures across financial statement line items given the far-reaching effects of this pandemic as the situation continues to unfold.

Estimates – Pension and other post-retirement benefit obligations

- Consider whether market implications have affected the appropriateness of assumptions used, including the discount rate, in determining the financial statement balances and related note disclosures



COVID-19, continued

Receivables

- Increase the extent of our testing on significant receivable balances with a focus on net recoverable value and collectability as part of our testing.
- Review valuation allowances considering whether a risk of loss, including anticipated credit losses, has been incorporated as appropriate.

Financial Statement Disclosure – Subsequent Events

- Perform specific work around subsequent events adjustments and disclosures including research to ensure treatment is appropriate under PSAS. Ensure appropriate disclosure of the impact of significant programs introduced including the property tax deferral program.
- We will perform subsequent events work up to the reporting date. If reporting deadlines are pushed forward, we may perform additional procedures. This could include additional communications with Departments, components, component auditors, legal and any other applicable contacts regarding changes to confirmation dates.

Financial Statement Disclosure - General

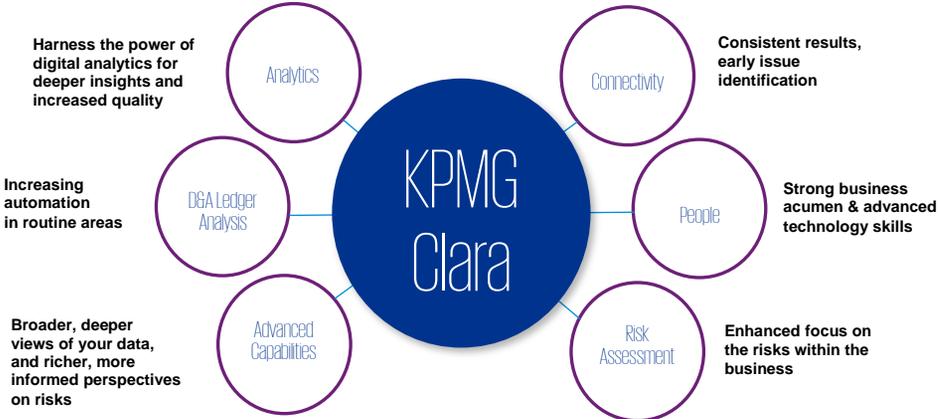
- We will assess overall financial statement disclosures in the context of COVID-19 and in accordance with PSAS including any general disclosure provided.
- We will look to general guidance issued by CPA Canada and experience in other jurisdictions, amongst other sources, and consider applicability to the Halifax Regional Municipality's consolidated financial statements.
- Review sensitivity analysis disclosed in the financial statements considering the impact of COVID-19 as appropriate including the consideration of liquidity and the ability to meet obligations.

As a result of the social distancing rules that have been imposed in Nova Scotia, we are prepared to complete the 2020 year-end audit procedures remotely. We do not anticipate any issues in obtaining the supporting documents we need to complete our audit procedures.

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
KPMG Automated Audit Procedures (KAAP)	KAAP is an SAP specific proprietary data extraction and analysis audit tool. The tool will be used to extract transactional level data from SAP for use in our understanding of the processing of information related to purchases, SAP access rights related to procurement and journal entry analysis.
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 Hansen 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 analytical procedure based on assessment values from the Hansen system that has been verified for completeness and accuracy.

Key deliverables and milestones



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	\$81,100	\$79,500
COVID-19 incremental fee (estimate – see below)	\$5,000 - \$10,000	-



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.

Due to the extra audit work anticipated as a result of COVID-19 (as described on pages 10-11), we are estimating an incremental audit fee between \$5,000 and \$10,000. If we identify a risk area that requires additional attention this could impact our fee and we will update you as soon as possible.



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 most recent Audit Quality Report.

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.



Annual independence letter

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





kpmg.ca/audit



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