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# Executive summary

## Purpose of this report<sup>1</sup>

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the consolidated financial statements as at and for the year ended March 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the audit committee.

### Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

### COVID-19

COVID-19 has impacted the Municipality's operations and the Municipality's financial reporting. See pages 2-3.

### Finalizing the Audit

As of July 31, 2020, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Completing our quality review procedures
- Completing our procedures over various non-significant accounts, and review of consolidation support
- Completing our review of the consolidated financial statements
- Completing our discussions with the audit committee
- Obtaining management's signed representation letter
- Obtaining evidence of the Council's approval of the financial statements

We will update the audit committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above

procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

### Independence

We have included a copy of our annual independence letter, which notes that we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

### Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

### Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

### Uncorrected differences

At this time, we have not identified any differences that remain uncorrected. We will provide an update once our procedures are complete if any are identified.

<sup>1</sup> This Audit Findings 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 Findings 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.

# COVID-19: Embedding Resilience & Readiness

COVID-19 has impacted to the Municipality's operations and the Municipality's financial reporting.

Financial reporting implications considered	Implications on internal control over financial reporting considered
<p>Refer to our <a href="#">COVID-19 Financial Reporting</a> site:</p> <ul style="list-style-type: none"><li>• Events or conditions that impact liquidity<ul style="list-style-type: none"><li>◦ Determining plans to mitigate such conditions or events (e.g., short term provincial debt program)</li></ul></li><li>• Impairment of tangible capital assets<ul style="list-style-type: none"><li>◦ Analysis of triggering events</li></ul></li><li>• Employee benefits and employer obligations</li><li>• Government assistance</li><li>• Provisions, contingencies and onerous contracts</li><li>• Subsequent events</li></ul>	<ul style="list-style-type: none"><li>• Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in ICFR or to bias estimates</li><li>• New or enhanced controls, including those that may need to occur at year-end, to respond to new financial reporting risks or elimination of on-site preventative controls</li><li>• Consideration of changes in the individuals performing the control</li><li>• Reconsideration of ICFR impacts related to broader IT access given remote work arrangements</li></ul>
Financial reporting implications related to disclosures considered	Other considerations
<p>Refer to our <a href="#">COVID-19 Financial Reporting</a> site:</p> <ul style="list-style-type: none"><li>• Significant management judgements in applying accounting policies</li><li>• Major sources of estimation uncertainty that have significant risk</li><li>• Liquidity risks</li></ul>	<ul style="list-style-type: none"><li>• Cyber security risks (e.g., wire transfers schemes)</li></ul>

# COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 was a major consideration in the re-development of our audit plan for your 2020 financial statements

## Potential audit implications

### Planning and risk assessment revision

- Revisit planning including understanding the impact on the relevant metrics for determining materiality (including the benchmark) and the implication our initial assessment of risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Considered potential financial reporting impacts, the changes in Municipality's control environment, and changes in the Municipality's system of internal control, and their impact on our:
  - identified and assessed risks of material misstatement
  - audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures

### Executing

- Remote auditing
  - Increased use of other collaboration tools (Facetime, Skype, Teams etc.)
  - Increased use of electronic evidence (and understanding the Entity's processes to provide such evidence to us) similar to prior year where physical "copies" provided.

# Audit risks and results

As discussed with you in the Audit Plan, we have not identified any significant financial reporting risks. The presumed risk of fraud from revenue recognition has been rebutted, as 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.

## 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 response and significant findings

- A listing of all journal entries was obtained using KPMG's KAAP tool. This listing was reconciled for completeness and key journal entry attributes used in our identification of high risk journal entries were tested for accuracy. High risk criteria based on journal entry attributes were used to identify the potential existence of an override of controls and these entries were selected for further investigation. Support for the journal entries was obtained to assist in the evaluation of this fraud risk.
- No issues have been identified with respect to the risk of management's override of controls.

# Audit risks and results

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

Other area of focus	Why are we focusing here?
Taxation Revenues	Most significant source of revenue to fund annual operations and capital expenditures.
Capital Assets	Capital assets represent approximately 75% of HRM's total assets and HRM is engaged in significant capital projects annually.
User fees and charges	Significant source of revenue for the HRM, representing more than 10% of total annual revenue.

## Our response and significant findings

Taxations revenues:

- We confirmed property tax valuations with Property Valuation Services Corporation and reconciled to the records of the HRM's records. We completed a substantive analytical procedure predicting the property tax revenue based on the confirmed values and approved property tax rates.

Capital Assets:

- For a sample of capital asset transactions, we obtained evidence of the existence and accuracy of the amounts recorded. We reviewed repair and maintenance expenses to identify any capital assets that may have been expensed in error, confirming completeness.

User fees and charges:

- We completed substantive analytical procedures over user fees and charges.

Results:

- No audit misstatements were identified in the areas listed above.



# Audit risks and results

Other area of focus	Why are we focusing here?
Payroll expenditures	Payroll is a significant expense across all functions, representing approximately 40% of total annual expenses.
Routine expenses	Procurement is a significant function of the HRM supporting all functions.
Treasury	Cash and borrowings are significant to the financial position of the HRM.
Investment in Halifax Regional Water Commission	Significant component measured using the modified equity accounting model

## Our response and significant findings

### Payroll expenditures:

- We tested the design, implementation and operating effectiveness of controls over payroll processes, including hiring, terminations, periodic wage increase and periodic payroll processing. We obtained information outlining the levels of employment and completed testing to ensure the accuracy of information. We completed substantive analytical procedures to predict payroll and related benefit expenditures.

### Routine expenses:

- We considered information obtained from KPMG's KAAP routines over procurement and expenses. We completed substantive analytical procedures related to routine expenditures.

### Treasury:

-We confirmed cash and long-term debt balances and agreed the amounts to the records of the HRM.

### Investment in Halifax Regional Water Commission:

- We corresponded with the component auditor of the Halifax Regional Water Commission, providing direction in their audit of transactions that give rise to a change in investment in Halifax Regional Water Commission. We have completed a review of the audit procedures performed by the component auditor.

### Results:

- No audit misstatements were identified in the areas listed above to date.

# Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.



## Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
<b>KPMG Automated Audit Procedures (KAAP)</b>	Used KAAP 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.
<b>Journal Entry Analysis</b>	Used journal entry analysis to identify journal entries with high risk criteria as determined in the assessment of management override.
<b>Data &amp; Analytics (D&amp;A) Routines</b>	Used D&A routine to analyze property valuation and summarized information used in substantive analytical procedures.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Entity's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

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Form, arrangement, and content of the financial statements	Adequate.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation. Standard related to Asset Retirement Obligations and Financial Instruments are effective for the year beginning April 1, 2022.

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# Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

## Uncorrected differences

At this time, we have not identified any differences that remain uncorrected.

## Corrected adjustments

At this time, we have not identified any adjustments that were communicated to management and subsequently corrected in the financial statements.

We will provide an update once our procedures are complete if any uncorrected differences or corrected adjustments are identified.



[kpmg.ca/audit](https://kpmg.ca/audit)



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