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**Item No. 5**  
**Audit Committee**  
**March 9, 2022**

**TO:** Chair and Members of Audit Committee

**SUBMITTED BY:** - Original Signed -  
Jacques Dubé, Chief Administrative Officer

**DATE:** February 28, 2022

**SUBJECT:** **Audit of the Consolidated Financial Statements of HRM, March 31, 2022**

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**ORIGIN**

This report is originated by staff in preparation for the 2022 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 2022 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 \$87,965 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**

No community engagement was required.

## **ENVIRONMENTAL IMPLICATIONS**

No environmental implications were identified.

## **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, 2022 year end audit of the consolidated financial statements of HRM.

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A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Dave Harley, Director, Accounting and Financial Reporting, 902.497.4260

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# Halifax Regional Municipality ("HRM")

Audit Planning Report  
for the year ended  
March 31, 2022

*KPMG LLP*

Prepared as of February 10, 2022 to  
be presented at the Audit & Finance  
Committee meeting on March 9,  
2022

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

The KPMG logo consists of the letters "KPMG" in a bold, white, sans-serif font. Above the letters "P" and "M" are four small, white, square icons arranged horizontally.



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# KPMG contacts

The contacts at KPMG in connection with this report are:



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## Our refreshed Values

### What we believe



We do what is right.



We never stop learning and improving.



We think and act boldly.



We respect each other and draw strength from our differences.



We do what matters.

# Executive summary

## Audit quality

See page 2 for how we deliver audit quality and how you can measure our audit quality.

## Group audit Scope

Our audit consists of a number of components.

See page 3.

## Audit and business risks

Our audit is risk-focused. In planning our audit, we have identified areas of financial reporting where significant risks of material misstatement may arise.

See pages 5-9.

## Materiality

Materiality has been determined based on total expenses. We have determined group materiality to be \$14.5 million.

See page 4.

## Proposed fees

Proposed fees for the annual audit are disclosed on page 11.

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This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, Council, and Management of the HRM. 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.



# How do we deliver audit quality?

**Quality** essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

**'Perform quality engagements'** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

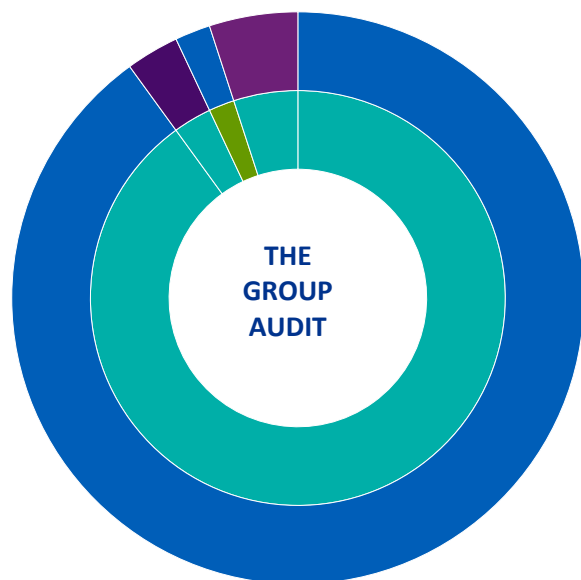
We define **'audit quality'** as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



**Doing the right thing. Always.**

# Group audit scope



Type of work performed	# of components	Legend
Individually financially significant HRM and Halifax Regional Water Commission	2	
In-scope not significant <sup>1</sup>	4	
Not significant – Untested <sup>2</sup>	17	

Procedures performed by	Legend
Group team – KPMG Halifax	
Component auditors – Grant Thornton Halifax	

<sup>1</sup> These entities include Scotiabank Centre, Halifax Regional Library, Halifax Forum and Canada Games Centre.

<sup>2</sup> These entities include Alderney Landing Association, Zatzman Sportsplex, Cole Harbour Place, Centennial Arena, Events East, St. Margaret's' Bay Arena Association, Eastern Shore Recreation Commission, Downtown Halifax Business Commission, Spring Garden Area Business Association, Downtown Dartmouth Business Commissions, Quinpool Road Mainstreet District Association, Sackville Business Association, Mainstreet Dartmouth Business Association, Spryfield Business Association, Centennial Pool Association, North End Business Association and Porters Lake Business Association.



# Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to 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.

Materiality determination	Comments	Group amount
<b>Materiality</b>	Materiality is 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 \$14.5 million	\$14.5 million
<b>Benchmark</b> <b>(the metric that is most relevant to the users)</b>	Materiality benchmark used is based on an estimate of total expenses at year end March 31, 2022.  This benchmark metric is consistent with the prior year.	\$1,040 million
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 1.4%	1.4 %
<b>Other Relevant Metric</b>	Based on an estimate of total assets for the year.	\$2,664 million
<b>% of Other Relevant Metric</b>	The corresponding percentage for the prior year's audit was 0.6%	0.5%
<b>Other Relevant Metric</b>	Based on an estimate of accumulated surplus as at year end.	\$2,266 million
<b>% of Other Relevant Metric</b>	The corresponding percentage for the prior year's audit was 0.7%	0.6%

## We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

# Audit risks

## Relevant factors affecting our risk assessment

Complexity



Estimate



Related party transaction



### Professional requirements

Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.

### Why is it significant?

This is a presumed risk of material misstatement due to fraud.

We have not identified any risk of material misstatement resulting from fraudulent revenue recognition.

# Audit risks (continued)

## Professional requirements

Risk of material misstatement due to fraud resulting from management override of controls.

## Why is it significant?

This is a presumed risk of material misstatement due to fraud.

## Our audit approach

As this presumed risk of material misstatement due to fraud 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 (continued)

Other areas of focus	Why are we focusing here?
Taxation revenues HRM Component	Most significant source of revenue to fund annual operations and capital expenditures.
User fees and charges HRM Component and significant recreation facilities	Significant source of revenue representing historically more than 10% of total revenue.
Capital assets HRM Component	Annually, capital additions represent a significant activity and the cumulative amount less amortization represent approximately 75% of the total assets.

## Our audit approach

### Taxation revenue:

Complete a substantive analytic predictive analysis considering approved property tax rates and assessed property values, adjusted for any tax agreements and other significant adjustments based on corroborative evidence.

### User fees and charges:

Complete substantive analytic predictive analysis for key fees and charges considering historical levels, changes in rates and other known impacts based on corroborative evidence

### Capital assets:

Test of details for a sample of fixed asset additions.

# Audit risks (continued)

Other areas of focus	Why are we focusing here?
Payroll expenditures HRM Component and significant recreation facilities	Payroll is a significant expense across all function, representing approximately 40% of total annual expenditures.
Routine expenses HRM Component and significant recreation facilities	Procurement is a significant function at the HRM supporting all functions and groups.
Treasury HRM Component	Cash and borrowings are significant to the financial position of the HRM

## Our audit approach

### Payroll expenditures:

Evaluate the design, implementation and operating effectiveness of key controls related to the completeness and accuracy of payroll expenditures for the HRM. Complete a substantive analytic based on prior year activity considering planned salary and wage increases, number of employees and other significant events that impact this expenditure based on corroborative evidence.

### Routine expenses:

Complete substantive analytic predictive analysis for key routine expenses considering historical levels, changes in activities and other known impacts based on corroborative evidence

### Treasury:

Complete substantive procedures over cash and borrowings through external confirmation of cash and debt balances.

# Audit risks (continued)

## Other areas of focus

Investment in Halifax Regional Water Commission (HRWC)  
HRWC component

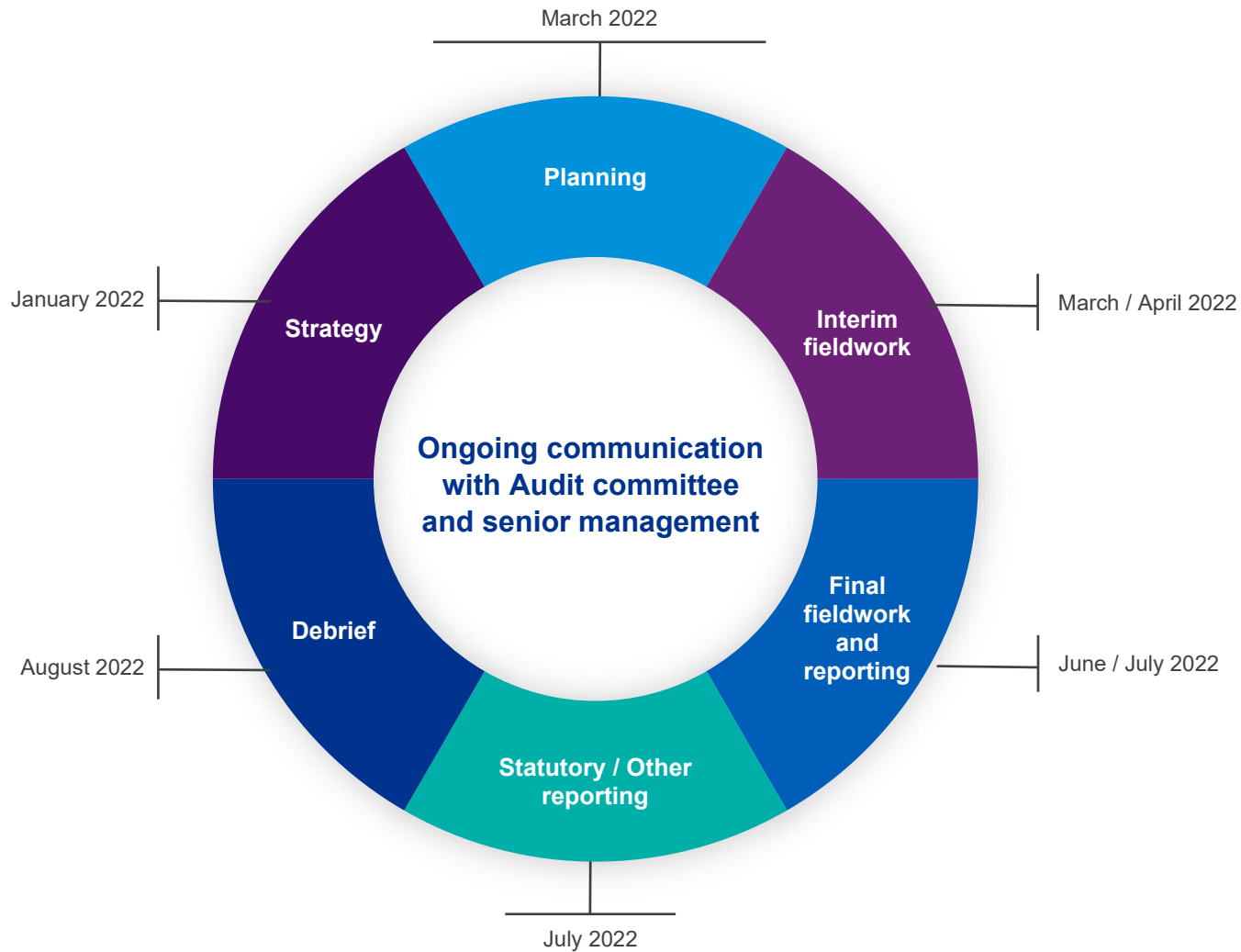
## Why are we focusing here?

Significant component measured using the modified equity accounting model.

## Our audit approach

Provide group audit instructions to component auditors of the HRWC. Evaluate requested information provided by the component auditor and review key areas of their work to support our responsibilities as the group auditor.

# Key deliverables and milestones



# Proposed 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.

Estimated fees	Current period (budget)	Prior period (actual)
Audit of the financial statements	\$84,350	\$82,700
Impact of CAS 540	-	\$3,500

## Matters that could impact our fee

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

The following factors could cause a change in our fees:

- Significant changes to the relevant financial reporting framework
- Significant new or changed accounting policies or application thereof
- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- New audit standards or requirements arising as a result of changes in audit standards
- Changes in the timing of our work
- Other significant issues (e.g. cyber security breaches)
- Any accounting advice



# Appendices

## Content

Appendix 1: Required communications

Appendix 2: Audit and Assurance Insights



# Appendix 1: Required communications

## Auditors' Report

A draft report will be provided at the completion of the audit which will highlight the form and content of the report.

## Engagement terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.

## Reports to the Audit Committee

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

## Representations of management

We will obtain from management certain representations at the completion of the audit.

## Matters pertaining to independence

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

## Control deficiencies

On a timely basis, identified significant deficiencies will be communicated to the Audit Committee in writing. Other control deficiencies, identified that do not rise to the level of a significant deficiency will be communicated to management.

# Appendix 2: Audit and Assurance Insights

Our latest thinking on the issues that matter most to audit committees, board of directors and management.

Featured insight	Summary
<a href="#"><u>KPMG Audit &amp; Assurance Insights</u></a>	Curated research and insights for audit committees and boards
<a href="#"><u>Accelerate</u></a>	The key issues driving the audit committee agenda in the time of COVID-19
<a href="#"><u>Board Leadership Centre</u></a>	Supporting you in your Director role
<a href="#"><u>Current Developments</u></a>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<a href="#"><u>KPMG Global IFRS Institute</u></a>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
<a href="#"><u>KPMG Climate Change Financial Reporting Resource Centre</u></a>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<a href="#"><u>You can't go green without blue - The blue economy is critical to all companies' ESG ambitions</u></a>	In this report, we consider how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.



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