KPMG

Halifax Regional Municipality ("HRM")

Audit Findings Report for the year ended March 31, 2023

KPMG LLP

August 8, 2023

kpmg.ca/audit

Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements ("financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on slide 5 of this report.

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Audit risks and results – significant risks

No matters to report. See slide 6.

Audit risks and results – going concern assessment

No matters to report.

Audit risks and results – other significant findings

Other significant findings are discussed on slides 7-8.

Uncorrected audit misstatements

No matters to report.

Corrected audit misstatements

The management representation letter includes all misstatements identified as a result of the audit, communicated to management, and subsequently corrected in the audited financial statements.

Significant unusual transactions

No matters to report.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. See slide 9 for certain required communications regarding control deficiencies.

Accounting policies and practices

Findings related to significant accounting policies and practices are discussed on slide 10.

Other financial reporting matters

Findings related to other financial reporting matters are discussed on slide 11.

Status of the audit

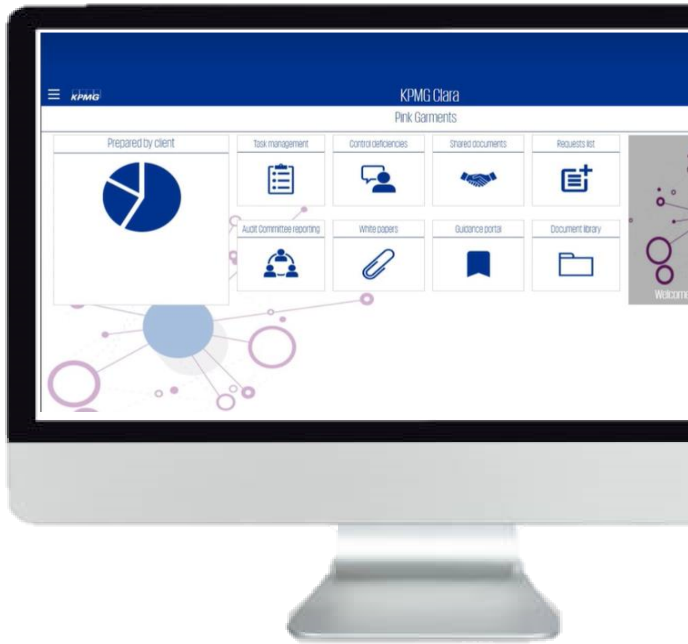
As of August 8, 2023, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our quality review procedures
- Obtaining requested support and completing certain audit procedures
- Obtaining management's signed representation letter
- Completing our discussions with the Audit and Finance Standing Committee
- 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 auditor's report, a draft of which is provided in Appendix: Draft Auditor's Report, will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)



Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with your team and provide visual insights into the status of the audit!

On your audit we used KCfc to coordinate PBC requests from employees.

Learn more

Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Management Override of Controls

Significant risk	Estimate?	Key audit matter?
Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.	No	No

Our response

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 using the KPMG KCA 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 and appropriateness. 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.
- performing a retrospective review of estimates,
- evaluating the business rationale of significant unusual transactions.

Significant findings

- Our procedures are ongoing. There are not significant findings at this time. If we become aware of any significant findings we will provide the Audit Committee with a summary and their impact.

Other significant findings and results

We highlight **other significant findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Employee Future Benefits

Other significant finding	Estimate?
PS 3255 post-employment benefits, compensated absences and termination benefits requires the HRM to determine an estimated obligation related to employee benefits earned by the employee including retirement allowances and sick leave obligations.	Yes

Our response

Our procedures included:

- Used the work of management's experts to assess the appropriateness of key assumptions used in the determination of employee future benefits including discount rates.

Significant findings

- No significant findings

Other significant findings and results

We highlight **other significant findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Asset Retirement Obligation

Other significant finding	Estimate?
PS 3280 Asset Retirement Obligations is a new accounting standard that was implemented by the Entity for its 2023 fiscal year financial statements using the prospective transitional provisions in the accounting standard.	Yes

Our response

Our procedures included:

- Obtained managements' assessment of assets impacted by the new Asset Retirement Obligation standard.
- Assessed the appropriateness of elections and assumptions made on transition to the new standard.
- Determined the completeness of the listing of assets subject to an asset retirement obligation.
- Assessed managements' estimate of the asset retirement obligation costs and where applicable the impact of discounting.
- Re-calculate the asset retirement obligation.
- Assessed managements' determination of the appropriate period over which to amortize the adjustments.

Significant findings

- Our procedures are ongoing. There are not significant findings at this time. If we become aware of any significant findings we will provide the Audit Committee with a summary and their impact.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

The following new significant accounting policies and practices were selected and applied during the period.

- Public Accounting Standard PS 3280 – Asset Retirement Obligations
- The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets. The new accounting standard has resulted in a withdrawal of the existing Section PS 3270 – Solid Waste Landfill Closure and Post-Closure Liability. The standard was adopted on the prospective basis at the date of adoption. Under the prospective method, the discount rate and assumptions used on initial recognition are those as of the date of adoption of the standard.

•The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022.

• Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.
• Hedge accounting is not permitted.
• A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.
• PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Description of new or revised significant accounting policies and practices

Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 2 to the financial statements.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content	No matters to report.
Concerns regarding application of new accounting pronouncements	No matters to report.
Significant qualitative aspects of financial statement presentation and disclosure	No matters to report.

New IESBA requirements

The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting board that develops, in the public interest, independence and ethics standards for professional accountants worldwide. IESBA has issued revisions to the non-assurance services (NAS) provisions of the IESBA Code of Ethics for Professional Accountants.

Key changes to the IESBA code of ethics

The revisions create new requirements for public interest entities (PIEs), which include Canadian reporting issuer and US SEC issuer audit clients. As a reminder, before accepting a NAS for a PIE audit client, the auditor is required to:

- inform Those Charged with Governance (TCWG) (e.g. the Audit Committee) of the firm's determination that the service is not prohibited and that the service will not create a threat to the firm's independence; and
- provide information to enable the Audit Committee to make an informed assessment about the impact of the provision of each service on the firm's independence and obtain their pre-approval (also referred to as "concurrence").

This is effective for audits and reviews of financial statements for periods beginning **on or after December 15, 2022** and applies for NAS engagements provided to:

- a PIE audit client;
- an entity that controls the PIE directly or indirectly; or
- an entity controlled by the PIE directly or indirectly (regardless of consolidation).

Impact for reporting issuers

The IESBA NAS standard creates incremental pre-approval requirements for Canadian reporting issuer and US SEC issuer audit clients.

- pre-approval will be required to perform NAS for entities that are currently not in scope under existing Canadian and/or SEC/PCAOB pre-approval rules, specifically upstream controlling entities and downstream controlled entities that are not consolidated by the reporting issuer audit client.

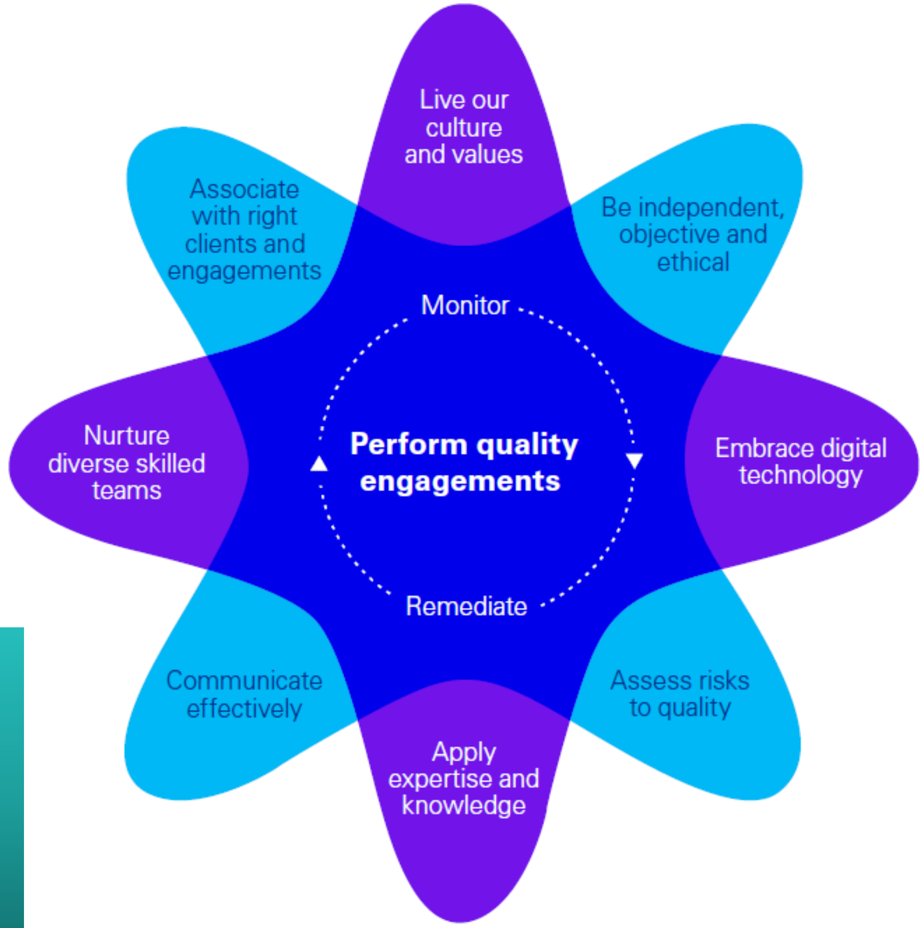
Audit quality: How do we deliver audit quality?

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 contributes to its delivery.

Perform quality engagement 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.

KPMG 2022 Audit Quality and Transparency Report



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.**

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