



P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 5
Audit Committee
March 23, 2023

TO: Chair and Members of Audit Committee

SUBMITTED BY: - Original Signed -

Cathie O'Toole, Chief Administrative Officer

DATE: March 17, 2023

SUBJECT: **Audit of the Consolidated Financial Statements of HRM, March 31, 2023**

ORIGIN

This report is originated by staff in preparation for the 2023 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 2023 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 \$118,602 net tax included, consistent with the amount in the tender and are budgeted for. The fees include the audit of the transition to new PSAB standard PS 3280 Asset Retirement Obligations.

RISK CONSIDERATION

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

COMMUNITY ENGAGEMENT

No community engagement required.

ENVIRONMENTAL IMPLICATIONS

No environmental implications 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

Attachment 1 - KPMG's Audit Planning Report for the March 31, 2023 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.

Report Prepared by: Danielle Paris, Manager Accounting Operations, Finance & Asset Management
902.225.3519



Halifax Regional Municipality ("HRM")

Audit Planning Report
for the year ending
March 31, 2023

KPMG LLP

March 16, 2023



Table of contents



Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.



Click on any item in the table of contents to navigate to that section.

| | | | |
|----|---------------------------------|----|------------------|
| 3 | Audit quality | | |
| 4 | Audit plan | 8 | Group audit plan |
| | | 9 | Audit risks |
| 11 | Key milestones and deliverables | 12 | Independence |
| | | 13 | Appendices |

This report to the Audit Committee is intended solely for the information and use of management, the Audit Committee, and HRM Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



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 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**.

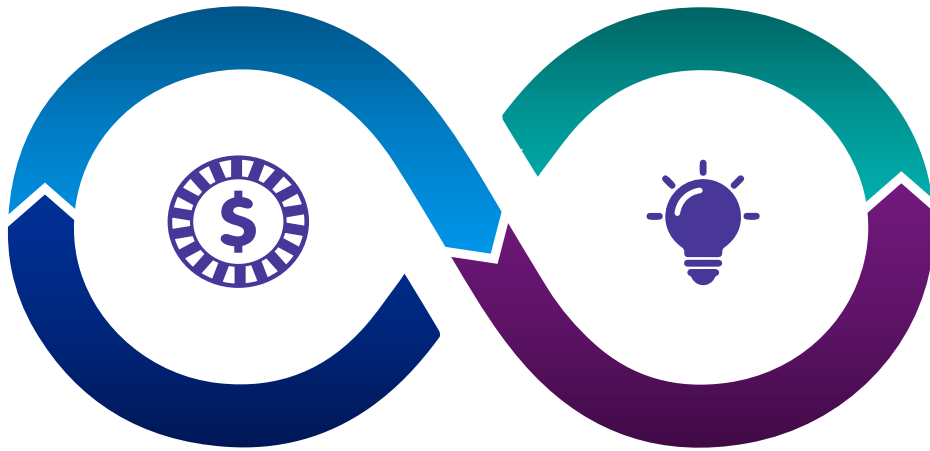


Doing the right thing. Always.





Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

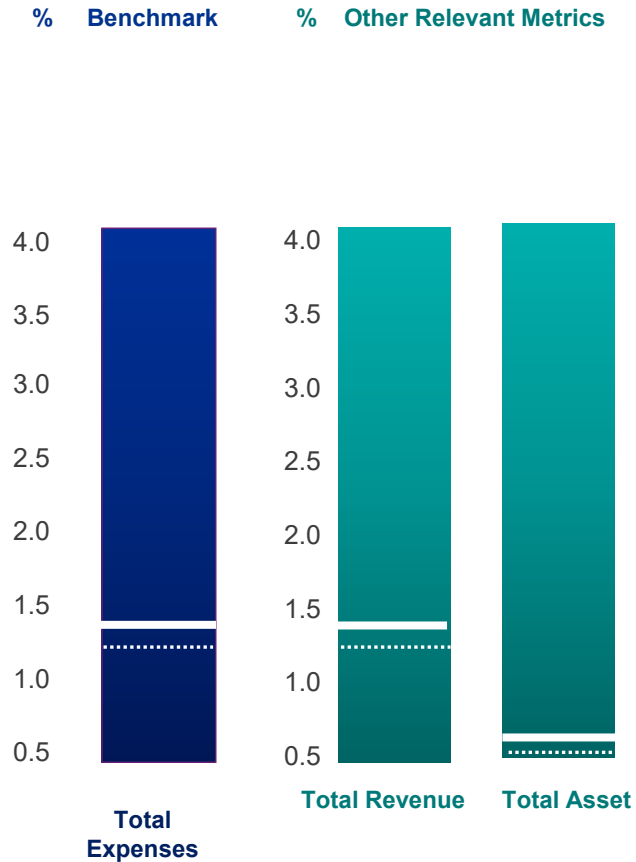
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.



Materiality

Materiality
\$15.0 million
 (2021: 14.5 million)

..... Prior year
 — Current year



Total Expenses
\$1.095 million
 2021: \$1.095 million

Total Revenue
\$1.144 million
 2021: \$1.144 million

Total Assets
\$2.856 million
 2021: \$2.856



Updates to our prior year audit plan

Other significant changes



Rising Interest rate



Rising interest rate may impact discount rates used when measuring employee future benefits – retiring allowances and other future benefits.



Newly effective auditing standards



CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*

Newly effective auditing standards



Newly effective accounting standards



PSAS 3280 Asset Retirement Obligations

Newly effective accounting standards






Involvement of others

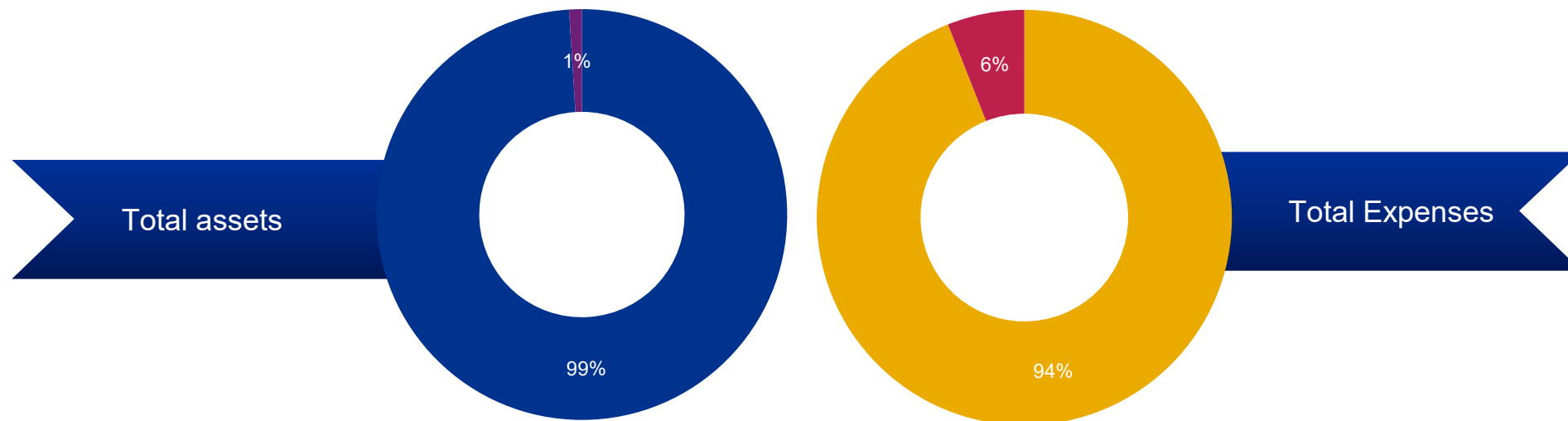
| Involved party | Nature and extent of planned involvement | Involvement In |
|--|--|-------------------------------|
| KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures | Actuary specialists to assist with the assessment of risk related to liabilities for employee future benefits including understanding the impact of rising interest rate and in our audit of key assumptions used by management in the determination of these liabilities. | Audit of financial statements |



Group audit - Scoping

Breakdown by Audit Participants 

| Type of work performed | Total assets | Total Expenses |
|------------------------------|---|---|
| Total full-scope audits | 99%  | 94%  |
| Excluded from direct testing | 1%  | 6%  |
| Total consolidated | 100% | 100% |





Significant risks



Management Override of Controls

RISK OF



FRAUD

Why is it significant?

**Presumption
of the risk of fraud
resulting from
management
override of
controls**

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.

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
- evaluating the business rationale of significant unusual transactions.

< Include the approach to the entity's system of internal control (e.g. substantive or controls approach) and the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or to evaluate the audit results >

Technologies

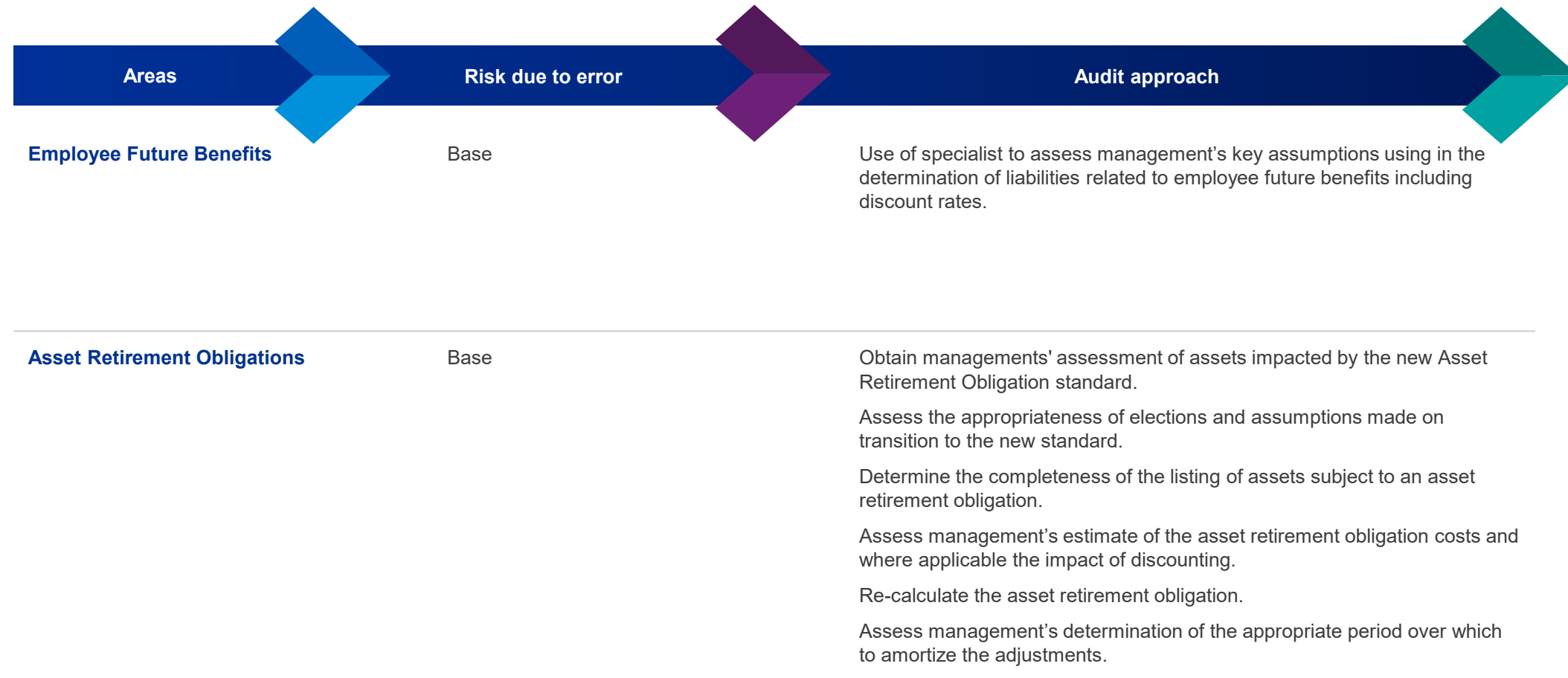
Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.



[Click to learn more](#)

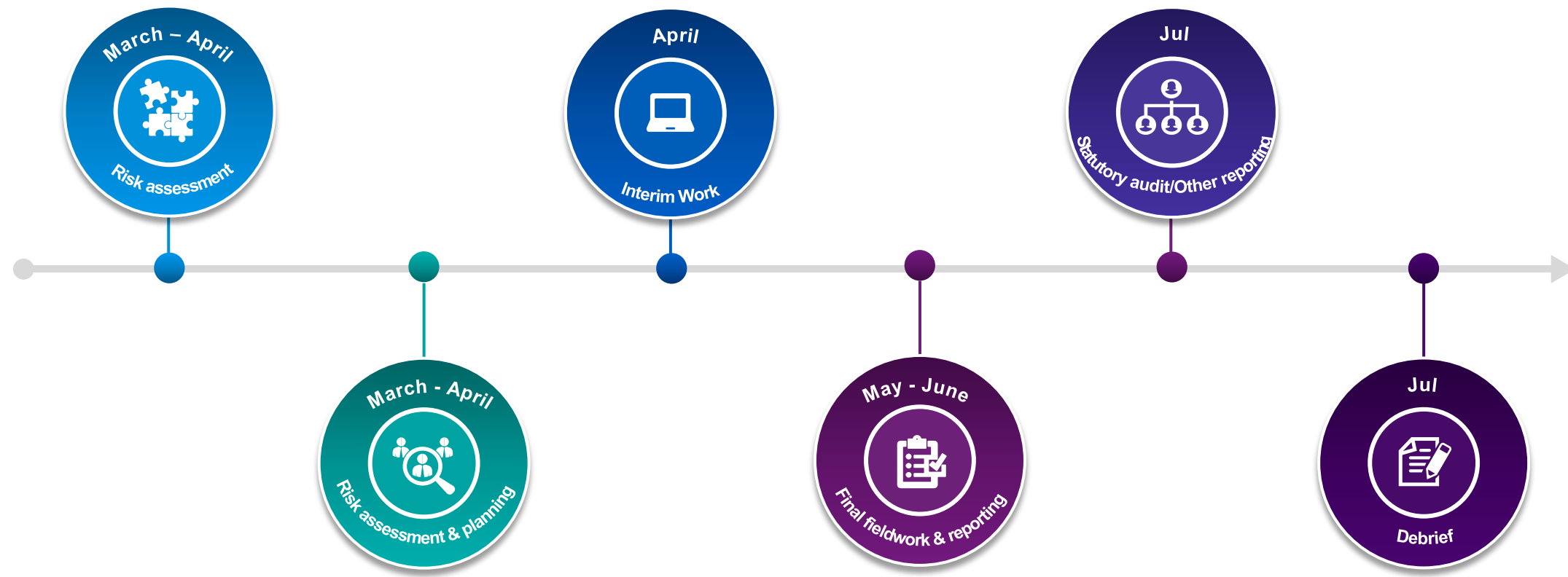


Other areas of focus - Updates from prior year plan





Key milestones and deliverables





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 includes reporting issuers. Before accepting a NAS for a PIE audit client, the auditor is required to:

- communicate certain matters to Those Charged with Governance (TCWG); and
- obtain their pre-approval.



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.

Impact for reporting issuers



The IESBA NAS standard creates incremental pre-approval requirements for reporting issuers.

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



Appendices



Audit participants



Newly effective and upcoming changes to accounting standards



Newly effective auditing standards



ESG





Appendix: Audit participants – Group audit

| Full-scope audit | | | | |
|-------------------------------------|-----------------------------------|--|--------------|---------------|
| Audit participant | Component name | Description of involvement | Total assets | Total expense |
| KPMG Grant Thornton Halifax | Halifax Regional Water Commission | Full scope audit of modified equity investment | 8% | 0% |
| Full-scope audits performed by KPMG | | | 92% | 100% |
| Total full-scope audits | | | 100% | 100% |



Appendix: Changes in accounting standards

Standard

Summary and implications

Asset retirement obligations

- The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022.
- The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
- The asset retirement obligations (“ARO”) standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
- As a result of the new standard, the public sector entity will:
 - Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
 - Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;
 - Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.



Appendix: Changes in accounting standards

| Standard | Summary and implications |
|---|---|
| Financial instruments and foreign currency translation | <ul style="list-style-type: none"> The new standards PS 3450 <i>Financial instruments</i>, PS 2601 <i>Foreign currency translation</i>, PS 1201 <i>Financial statement presentation</i> and PS 3041 <i>Portfolio investments</i> 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 <i>Financial instruments</i> was amended subsequent to its initial release to include various federal government narrow-scope amendments. |
| Revenue | <ul style="list-style-type: none"> The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023. The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |



Appendix: Changes in accounting standards

| Standard | Summary and implications |
|------------------------------------|---|
| Purchased Intangibles | <ul style="list-style-type: none"> The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized. The guideline can be applied retroactively or prospectively. |
| Public Private Partnerships | <ul style="list-style-type: none"> The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023. The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. The standard can be applied retroactively or prospectively. |



Appendix: Changes in accounting standards

| Standard | Summary and implications |
|--|---|
| Concepts Underlying Financial Performance | <ul style="list-style-type: none"> The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced. |
| Financial Statement Presentation | <ul style="list-style-type: none"> The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted. The proposed section includes the following: <ul style="list-style-type: none"> Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. Separating liabilities into financial liabilities and non-financial liabilities. Restructuring the statement of financial position to present total assets followed by total liabilities. Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. A new provision whereby an entity can use an amended budget in certain circumstances. Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model. |



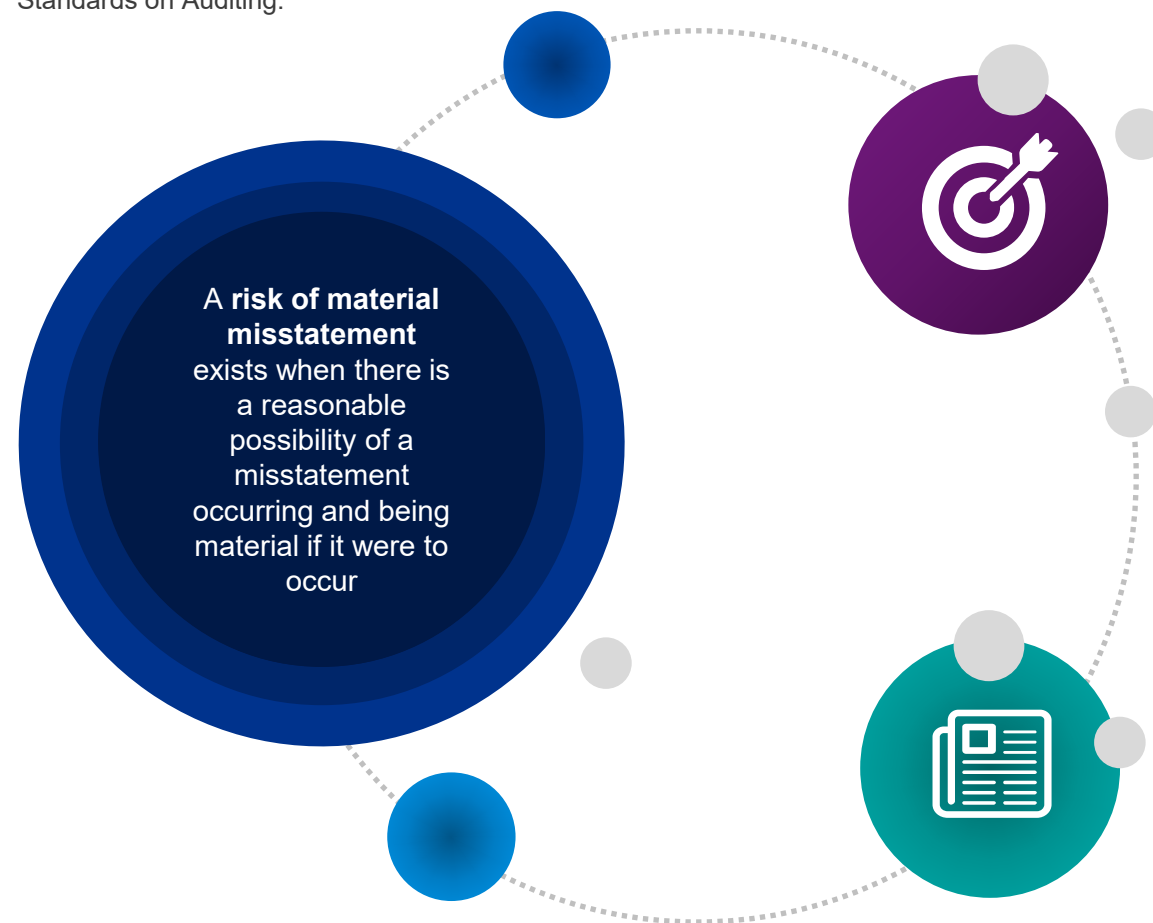
Appendix: Changes in accounting standards

| Standard | Summary and implications |
|--------------------------|--|
| Employee benefits | <ul style="list-style-type: none">• The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>.• The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard.• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.• The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft. |



Appendix: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada



We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.



Appendix: Newly effective auditing standards

Key change

Overall, a more robust risk identification and assessment process, including:

- New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement
- New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement
- New requirement to separately assess inherent risk and control risk for each risk of material misstatement
- Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk

Impact on the audit team

When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.

We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement

The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.

If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.

Impact on management

If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.

We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.



Appendix: Newly effective auditing standards

Key change

Impact on the audit team

Impact on management

Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement

When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

In certain circumstances, we may perform additional risk assessment procedures, which may include further inquiries of management, analytical procedures, inspection and/or observation.

Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process

We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.

In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.



Appendix: Newly effective auditing standards

Key change

Modernized to recognize the evolving environment, including in relation to IT

New requirement to understand the extent to which the business model integrates the use of IT.

When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.

Based on the identified controls we plan to evaluate, we are required to identify the:

- IT applications and other aspects of the IT environment relevant to those controls
- related risks arising from the use of IT and the entity's general IT controls that address them.

Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.

Enhanced requirements relating to exercising professional skepticism

New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.

Impact on the audit team

Impact on management

We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.

Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.

Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.

We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.



Appendix: Newly effective auditing standards

Key change

Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control

Impact on the audit team

We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows:

- Controls that address a significant risk.
- Controls over journal entries, including non-standard journal entries.
- Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures

Impact on management

We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them.

We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.



Appendix: Environmental, Social and Governance (ESG)

The Importance of Sustainability Reporting



Sustainability Reporting – Who is impacted?

- **Lenders and underwriters** – increased focus on ESG considerations when making access to capital decisions
- **Investors** – ESG integration has become an investment norm
- **Employees** – ESG has become a key factor in attracting and retaining top talent
- **Consumers** – stakeholders increasingly scrutinize companies' ESG performance and transparency affecting brand acceptance and consumer demand



Importance to the Audit Committee

- **Regulatory developments** – ESG-related compliance costs and disclosure requirements continue to evolve as rules are finalized
- **Material ESG issues** – Audit Committees should understand stakeholder priorities and the company's material ESG risks and opportunities
- **Value creation** – developing a clear ESG strategy, along with a standardized reporting process can set a company apart from its competitors



Governance on ESG Data and Sustainability Reporting

- **Data collecting and reporting** – understand the ESG frameworks and reporting standards most commonly adopted in the industry and jurisdiction (benchmark to others in the industry)
- **ESG assurance** – Audit Committees are best positioned to understand which ESG metrics merit assurance. An assurance readiness assessment on Carbon is a common and often recommended first place to start



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

© 2023 PMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG member firms around the world have 227,000 professionals, in 145 countries.

