

Halifax Regional Municipality

Audit Findings Report
for the year ended
March 31, 2019

KPMG LLP

Prepared June 14, 2019

kpmg.ca/audit



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Executive summary



Purpose of this report*

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, 2019

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.



Finalizing the Audit

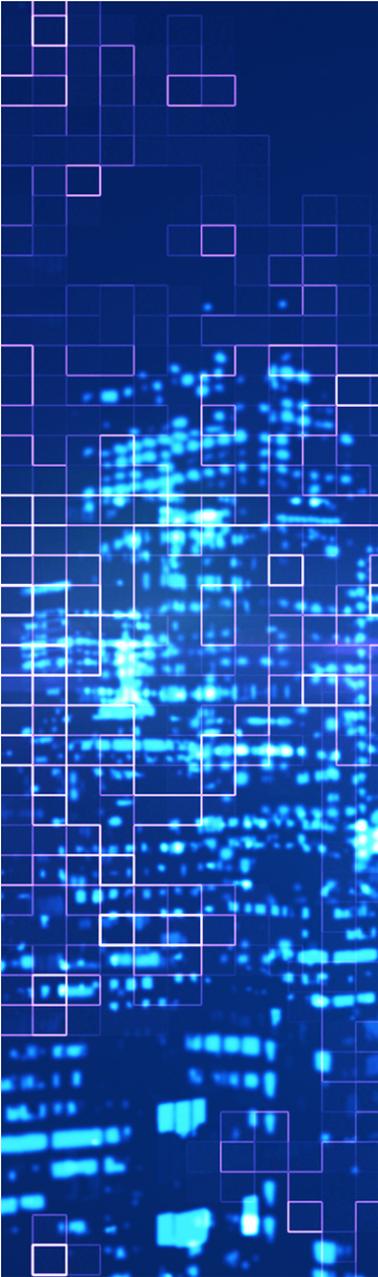
As of June 14, 2019, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our quality review procedures
- Completing our procedures over the component audit of the Halifax Regional Water Commission
- Completing our discussions with the Audit Committee
- Obtaining management's representation letter
- Obtaining evidence of the Council's approval of the financial statements

We will update the Audit Committee, and not solely the Chair (as required by professional standards), 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.

*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.





Executive summary



Audit risks and results

We discussed with you at the start of the audit a number of significant and other financial reporting risks:

- Fraud risk from management override of controls
- Taxation Revenues
- Capital Assets
- Change in investment in the Halifax Regional Water Commission
- User fees and charges
- Payroll expenditures
- Routine expenses
- Treasury
- These risks have been addressed in our audit

See pages 4 and Appendix 6.



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.



Executive summary



Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting ("ICFR").



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



Audit risks and results

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

Significant financial reporting risks

Risk of management override of controls.
Applies to all in-scope components.

Why is it significant?

Presumed risk of fraud in Canadian auditing standards.
Risk of fraud.

Our response and significant findings

- A listing of all journal entries was obtained from management. This listing was reconciled for completeness using the opening and ending account balances. High risk criteria were used to select a sample of journal entries to be reviewed for potential errors.
- No errors were identified





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 HRM	Significant to the statement of operations. Risk of error.
Capital assets HRM	Significant to the statement of financial position. Risk of error.
Changes in investment in Halifax Regional Water Commission Halifax Regional Water Commission	Significant to the statement of financial position. Risk of error.

Our response and significant findings

- Confirmed property tax valuations and reconciled to the records of the HRM. Completed a substantive analytic procedure predicting the property tax revenue based on the confirmed values and approved property tax rates.
- For a sample of capital asset transactions, obtained evidence of the existence and accuracy of the amount recorded. Reviewed repair and maintenance expenses to identify any capital assets that may have been expensed in error confirming completeness.
- 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.
- Will complete a review of the audit procedures performed by the component auditor of the Halifax Regional Water Commission.
- No errors were identified and KPMG will provide an update if the review of the component auditors procedures results in any findings.

Audit risks and results

Other area of focus

Why are we focusing here?

User fees and charges	Significant to the statement of operations.
HRM and various recreational facilities	Risk of error.
Payroll expenditures	Significant to the statement of operations.
HRM, Halifax Regional Library and various recreational facilities	Risk of error.
Routine expenditures	Significant to the statement of financial position.
HRM	Risk of error.
Treasury	Significant to the statement of operations
HRM	Risk of error.

Our response and significant findings

- Completed substantive analytic procedures over user fees and charges.
- Tested the design, implementation and operating effectiveness of controls over payroll processes including hiring, termination, periodic wage increase and periodic payroll processing.
- Obtained information outlining the levels of employment and completed testing to ensure the accuracy of information. Completed substantive analytic procedures to predict payroll and related benefit expenditures.
- Completed substantive analytic procedures related to routine expenditures.
- Confirmed cash and long-term debt balances and agreed the amounts to the records of the HRM.
- No errors were identified.

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
Data & Analytics Routines	Used D&A routine to analyze property valuation and summarized information used in substantive analytic procedures. Used D&A routines to identify journal entries with high risk criteria as determined in the assessment of management override.





Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company'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:

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, 2021



Adjustments and differences



Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

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

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.





Appendices



Appendix 1: Required communications



Appendix 2: Audit Quality and Risk Management

Appendix 1: 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:



Auditors' report

The conclusion of our audit is set out in our draft auditors' report as attached



Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.



Annual independence letter

In accordance with professional standards, we have attached our annual independence letter.



Appendix 2: 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 summarizes the six key elements of our quality control system.

Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality Report](#).

Other controls include:

- Before the firm issues its audit report, the 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

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.

- 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.



We do not offer services that would impair our independence.

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.



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of the Halifax Regional Municipality

Opinion

We have audited the consolidated financial statements of Halifax Regional Municipality (the Entity), which comprise:

- The consolidated statement of financial position as at end of March 31, 2019
- the consolidated statement of operations and accumulated surplus and net financial assets for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at end of March 31, 2019, and its results of operations, changes in net financial assets and its cash flows year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are/is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Halifax, Canada

July •, 2019



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July •, 2019

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity and our firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client

PROVISION OF SERVICES

In addition to our audit services we have been engaged and delivered for the following services from April 1, 2018 to the date of this letter:

- Current state and priorities review for HRM Transit Facility
- Facilitate development of organization strategy and administrative priority scorecards
- Review of human resource policies and programs
- Departmental review of communications function
- Review service fee review for Parks and Recreation department
- 5S review of horticulture department



— Jurisdictional review of childcare service delivery

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. We have not provided any prohibited services. We have applied the following safeguards regarding threats to independence created by the services listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP
Purdy's Wharf Tower One
1959 Upper water Street, Suite 1500
Halifax, Nova Scotia
Canada

July •, 2019

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Halifax Regional Municipality ("the Entity") as at and for the period ended March 31, 2019.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 6, 2018 including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
 - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
 - (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.

- e) providing you with additional information that you may request from us for the purpose of the engagement.
- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Going Concern:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements

Non-SEC registrants or non-reporting issuers:

- 10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Assets & Liabilities – general:

- 11) The entity has satisfactory title to all assets
- 12) There are no liens or encumbrances on the Entity's assets
- 13) We have no plans or intentions that may affect the carrying amount or classification of assets and liabilities.

Contractual agreements:

- 14) The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the concenants in the Entity's debt agreements.

Environmental matters:

- 15) The entity has appropriately recognized, measured and disclosed environmental matters in the financial statements, included estimated closure costs related to landfills.

- 16) Employee Future Benefits:
- 17) The employee future benefit costs, assets, and obligations, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 18) The employee future benefit costs, assets and obligations have been determined accounted for and disclosed in accordance with PSAS 3250 and 3255. In particular:
 - a) each actuarial assumption used reflects management's best estimate solely with respect to that individual assumption, determined on a basis that the plan will continue to be in effect in the absence of evidence to the contrary;
 - b) the set of actuarial assumptions for each plan are individually consistent;
 - c) the discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.

Experts/Specialists:

- 19) The information provided by us to Eckler and Robertson Eadie & Associates and used in the work and findings of the experts are complete and accurate. We agree with the findings of the experts in evaluating the employee future benefits disclosure and have adequately considered the qualifications of the experts in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matter that have had an impact on the independence and objectivity of the experts.

Contingent liabilities:

- 20) The Entity is subject to a number of legal matter including lawsuits and complaints that could result in a future settlement. We have provided you with a complete listing of all identified matters with an estimated or potential settlement of greater than \$100,000 if the Entity is considered at fault or decides to settle the matter. All material matters, individually and in aggregate, have been considered under the accounting framework and where significant have been measured and/or disclosed in the financial statements.

Yours very truly,

Jacques Dube, Chief Administrative Office

Jane Fraser, Director of Finance and Asset Management/CFO

cc: Audit Committee

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Related parties

In accordance with Canadian public sector accounting standards (PSAB) related party is defined as:

- When one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Canadian public sector accounting standards (PSAB) a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.