



P.O. Box 1749
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Item No. 5

**Audit Committee
Special Meeting
March 25, 2021**

TO: Chair and Members of Audit Committee

-Original Signed-

SUBMITTED BY:

Jane Fraser, Executive Director, Finance, Asset Management & ICT/CFO

-Original Signed-

Jacques Dubé, Chief Administrative Officer

DATE: March 3, 2021

SUBJECT: Audit of the Consolidated Financial Statements of HRM, 2021

ORIGIN

This report is originated by staff in preparation for the 2021 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 Audit Plan, as set out in the March 3, 2021 Report and Recommendation to the Audit Committee, for the 2020/21 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 2021 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 \$86,245 net tax included, are consistent with the amount in the tender and are budgeted for in A321 – 6301 (Accounting Admin – Professional Fees).

RISK CONSIDERATION

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

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

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, 2021 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: Nancy Harper, Manager, Accounting Controls & Financial Reporting 902.490.3696

Halifax Regional Municipality ("HRM")

Audit Planning Report
for the year ended
March 31, 2021

KPMG LLP

Prepared March 11, 2021 for
meeting on March 25, 2021

kpmg.ca/audit

The KPMG logo consists of the letters 'KPMG' in a bold, white, sans-serif font. Above each letter is a small white square, creating a grid-like effect.



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KPMG contacts

The contacts at KPMG in connection with this report are:



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Executive summary

COVID-19

COVID-19 is undoubtedly going to have an impact to the HRM's business and the HRM's financial reporting.

See pages 2 and 3.

Group audit Scope

Our audit consists of a number of components.

See page 5.

Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting.

See pages 6-10.

Audit materiality

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

See pages 11.

Quality control

We have a robust and consistent system of quality control.

See pages 4.

Proposed fees

Proposed fees for the annual audit are disclosed on page 15.

Current developments and audit trends

Please refer to page 13 and Appendix 4 for relevant accounting and/or auditing changes relevant to the HRM and relevant audit trends.

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.

COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly going to have an impact to the Organization's business and the Organization's financial reporting.

Potential financial reporting implications

Refer to our [COVID-19 Financial Reporting](#) site:

- Property tax deferral or payment programs
- Incentives
- Lease deferrals
- Employee benefits and employer obligations
- Government transfers
- Subsequent events

Potential implications on internal control over financial reporting

- Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in ICFR or to bias estimates
- New or enhanced controls, including those that may need to occur to respond to new financial reporting risks or elimination of on-site preventative controls
- Consideration of changes in the individuals performing the control (e.g. re-directing the performance to head-office)
- Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees
- Reconsideration of ICFR impacts related to broader IT access given remote work arrangements

Potential financial reporting implications related to disclosures

Refer to our [COVID-19 Financial Reporting](#) site:

- New accounting policies
- Significant management judgements in applying accounting policies
- Major sources of estimation uncertainty that have significant risk
- Liquidity risks

Other potential considerations

- Cyber security risks (e.g., wire transfers schemes)
- Possible delay in financial statements being prepared

COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020/21 financial statements

Potential audit implications

Planning and risk assessment

- Engagement letter COVID Rider
- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Understanding the potential financial reporting impacts, the changes in Entity's environment, and changes in the entity's system of internal control, and their impact on our:
 - identified and assessed risks of material misstatement
 - audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures

Executing

- Remote auditing
 - Increased use of other collaboration tools (Facetime, Skype etc.) and the need for written management acknowledge for their use
 - Potential increased use of electronic evidence (and understanding the Entity's processes to provide such evidence to us)
- Timing of procedures may need to change
 - Tests of controls may need to be deferred (to allow the Entity to put new or revised controls in operation and to be able to re-perform such controls)

Reporting

- Delays

How do we deliver audit quality?

Transparency report

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 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.

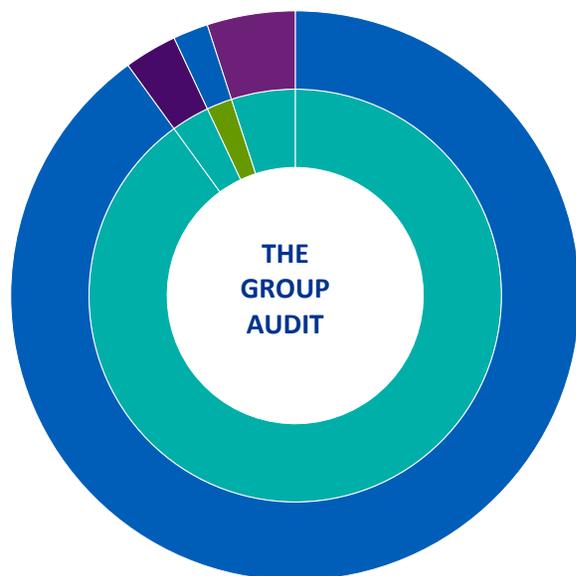
We define 'audit quality' as being the outcome when:

- 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	Blue
In-scope not significant ¹	4	Purple
Not significant – Untested ²	16	Teal

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

¹ These entities include Scotiabank Centre, Halifax Regional Library, Halifax Forum and Canada Games Centre.

² 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 and North End Business Association.

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. Expect significant impact based on COVID-19 reducing activity.
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. May expect significant impacts as a result of COVID-19 as considered in the revised HRM 2020/2021 budget.
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.

Materiality

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

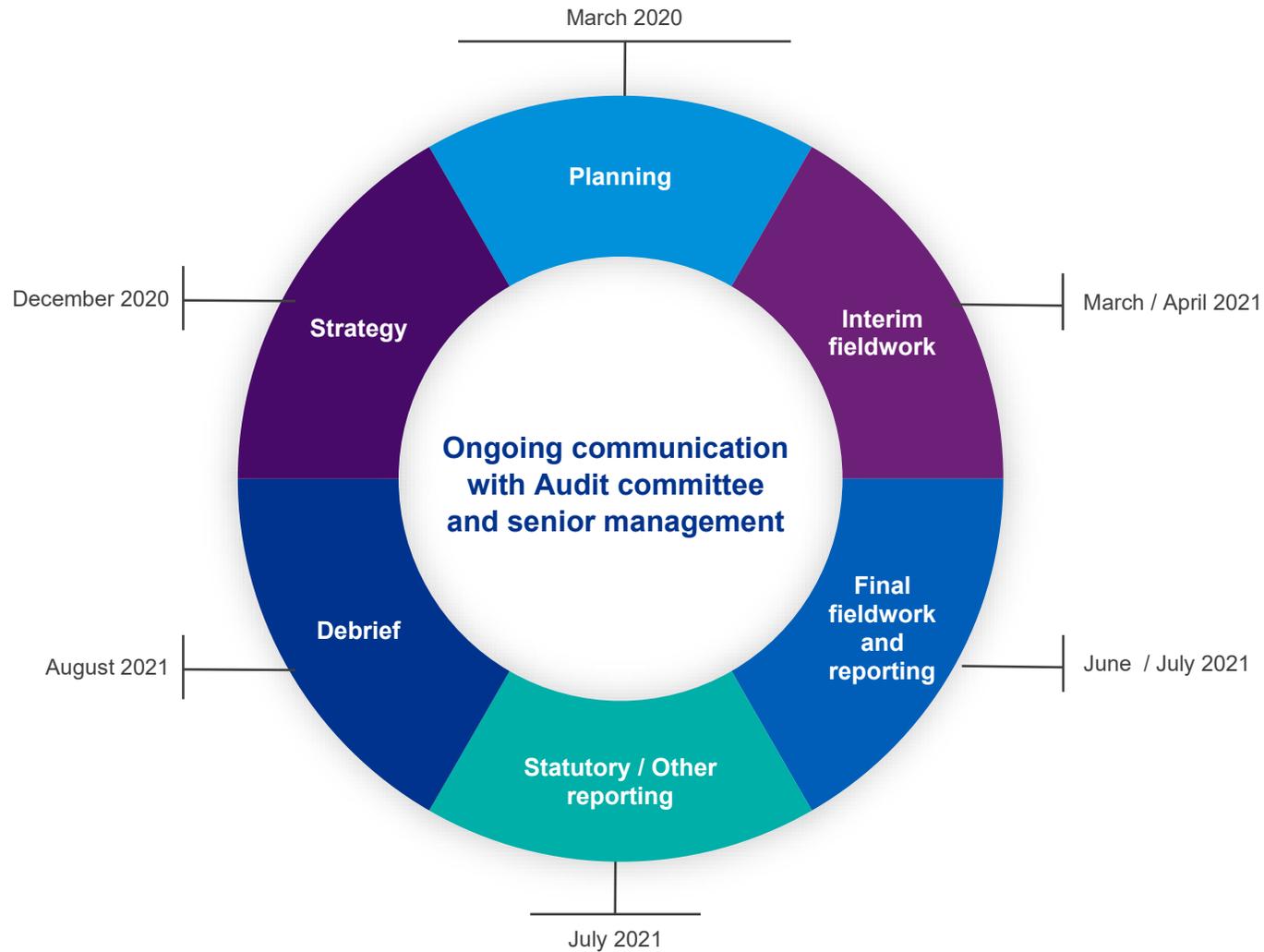
Materiality determination	Comments	Group amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$14.7 million	\$14.5 million
Benchmark	Based on an estimate of total expenses for the year. This benchmark is consistent with the prior year.	\$1,050 million
% of Benchmark	The corresponding percentage for the prior year's audit was 1.5%	1.4 %
Other Relevant Metric	Based on an estimate of total assets for the year.	\$2,618 million
% of Other Relevant Metric	The corresponding percentage for the prior year's audit was 0.6%	0.6 %
Other Relevant Metric	Based on an estimate of accumulated surplus as at year end.	\$2,196 million
% of Other Relevant Metric	The corresponding percentage for the prior year's audit was 0.7%	0.7%

We will report to the Audit Committee:

 Corrected audit misstatements

 Uncorrected audit misstatements

Key deliverables and milestones



New audit standards

New auditing standards that are effective for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures Effective for audits of Entities with year-ends on or after December 15, 2020	Expected impact on the audit: <ul style="list-style-type: none">— more emphasis on the need for exercising professional skepticism— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)— more focus on how we respond to levels of estimation uncertainty— more emphasis on auditing disclosures related to accounting estimates— more detailed written representations required from management	CPA Canada Client Briefing

Independence Matters



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.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the financial statements	\$82,700	\$81,100
Impact of CAS 540	\$3,000 – \$6,000	-
COVID 19 impact and related	-	\$6,000

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: KPMG's audit approach and methodology

Appendix 3: Lean in Audit™

Appendix 4: Audit and Assurance Insights



Appendix 1: Required communications

Report

A draft report will be provided at the completion of the audit.

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.

Internal control deficiencies

Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be, communicated to management.

Required inquiries

Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.

Appendix 2: KPMG's audit approach and methodology

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

Issue identification

Continuous updates on audit progress, risks and findings before issues become events.

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards.

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

Appendix 3: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	<u>Learn more</u>
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	<u>Learn more</u>
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	<u>Learn more</u>
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>



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