Audit Committee

Agenda

Monday, June 15, 2015
9:30 a.m.

2nd Floor Council Chambers
320 Esplanade
Sydney, N.S.

Committee Members: Deputy Mayor George MacDonald
Councillor Clarence Prince
Councillor Charlie Keagan
Councillor Ivan Doncaster
Councillor Lowell Cormier
Audit Committee

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2\textsuperscript{nd} Floor Council Chambers
320 Esplanade
Sydney, N.S.

Roll Call

1. Approval of Minutes:
   ➢ October 16\textsuperscript{th}, 2014 (previously distributed)

2. a. Audit Planning Report 2015:
   Darren Chiasson, CA, Associate Partner MGM & Associates & Sonny MacDougall, CA, Partner MGM (See page 3)

Adjournment
Audit plan for Audit Committee approval

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This Audit Planning Report is confidential and intended solely for the use of the Audit Committee with respect to carrying out and discharging their responsibilities and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this report has not been prepared for, and is not intended for, any other purposes.

This Audit Planning Report is prepared for the year ending March 31, 2015 and is designed to provide an overview for the Audit Committee of the Municipality of the audit procedures to be performed by MGM & Associates in discharging its audit responsibilities.
Key Responsibilities Regarding Financial Reporting

Management
- Prepare financial statements and notes in accordance with Canadian generally accepted accounting principles.
- Design, implement and maintain effective internal control over financial reporting.
- Exercise sound judgment in selecting and applying critical accounting policies.
- Implement policies and procedures designed to:
  - safeguard assets
  - prevent, detect and correct errors
  - prevent and detect fraud.
- Provide representations to external auditors.
- Assess quantitative and qualitative impact of misstatements discovered during the audit on the fair presentation of the financial statements.

Independent Auditors
- Maintain independence. Confirm independence in accordance with relevant professional, regulatory and legislative requirements.
- Report directly to the Audit Committee.
- Conduct audit in accordance with Canadian generally accepted auditing standards.
- Conduct audit in accordance with the audit plan approved by Audit Committee.
- Express an opinion on the financial statements.
- Communicate openly with Audit Committee and management.

Audit Committee
- Create a culture of honesty and ethical behaviour; set the proper tone and emphasize fraud prevention.
- Oversee management, including monitoring that management establishes and maintains internal control to provide reasonable assurance regarding reliability of financial reporting.
- Recommend the nomination and compensation of external auditors to Council.
- Directly oversee the work of the external auditors including reviewing, discussing, and approving audit plan.
- Review the annual financial statements and recommend approval to Council.
Audit Deliverables

Council
- Audit opinion on financial statements in accordance with Canadian generally accepted accounting principles

Provincial Government
- Audited Financial Statements
- Management Letter

Audit Committee
- Audit Planning Report
- Audit Findings Report
- Management Letter
**Risk Assessment**

- Client Acceptance
  - Preliminary procedures
  - Audit pre-conditions
- Team Discussions
- Overall Audit Strategy
- Risk Assessment Procedures
  - Assumed Risks of Material Misstatement
  - Of the FS & Assertion Levels

**Risk Response**

- Overall Responses
  - Design Further Audit Procedures
- Tests of Control
- Tests of Detail
- Sufficient Appropriate Audit Evidence

**Reporting**

- Evaluate the Audit Evidence Obtained
- Analytical Procedures
- Conclusions Drawn Based on Evidence Obtained
  - Form Opinion
  - Based on Evidence Obtained

**Our Audit Process**
Planning: Materiality

Materiality (definition): A misstatement in the financial statements that is likely to change or influence the decisions of persons relying on the financial statements. Materiality takes into account both quantitative and qualitative factors.

Management
- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Correct all material misstatements
- Must not make intentional misstatements even if not material
- Provide written representation re immateriality, individually and collectively, of uncorrected audit differences

Independent Auditors
- Understand management’s process for identifying, communicating and correcting misstatements
- Consider whether misstatements are indicative of fraud
- Recommend management correct all misstatements
- Communicate corrected and uncorrected misstatements to management and the Audit Committee

Audit Committee
- Understand management’s process for identifying, communicating and correcting misstatements
- Understand management’s tolerance for uncorrected misstatements
- Monitor “tone at the top”
- Discuss corrected and uncorrected misstatements
- Encourage management to correct all misstatements
Quantitative measure of materiality for planning purposes

We define a level of materiality to provide a quantitative starting point for planning the precision of our audit.

Reporting materiality

Reporting materiality is the threshold we use to determine whether corrections must be made at the completion of the audit.

As part of our Audit Findings Report, we will communicate to you all corrected misstatements identified by us during the audit as well as uncorrected misstatements identified by us during the audit that management has determined to be immaterial.

At that time, we will discuss with you the reporting materiality for the Municipality.
Planning: Fraud and Error

A number of legal, regulatory and standard-setting initiatives have created increased expectations of Management, Audit Committees and Auditors to prevent, detect and remediate fraud.

CPA Assurance Handbook Section 340, The Auditor’s Responsibility Related to Fraud in the Audit of Financial Statements, includes a requirement for audit procedures directed at testing for fraud. The objective of these procedures is as follows:

- To identify any fraud risk factors that may increase the risk that the financial statements could be materially misstated; and,
- To address any factors identified in a manner sufficient to obtain reasonable assurance that the financial statements are free from any material misstatements arising from fraud or error.

Specific audit procedures which we will perform to address this issue include:

- Risk assessments at the planning stage.
- Specific enquiries of management, the Audit Committee and others within the Municipality.
- Obtain an understanding of how the Audit Committee exercises oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Procedures to address the risk of management override of controls, such as journal entry testing.
- Procedures around revenue recognition, presumed by professional standards to be a risk factor.
- Focused review of accounting estimates/judgment areas.
- Testing of mitigating controls and additional substantive testing as required.
- Full consideration of the qualitative effects of each misstatement or potential misstatement identified – amount, nature and direction to determine whether any indications of fraudulent financial reporting exist.
Those charged with governance of an entity, in particular the Audit Committee, in its oversight of the financial reporting process, have responsibility for the Municipality’s systems for monitoring risk, financial reporting and compliance with the law. This includes the oversight of the Municipality’s process for identifying the risks of fraud and of the internal control the Municipality has established to mitigate specific fraud risks identified.

As your auditors’ we are required to make the following enquiries of the Audit Committee:

- Does the Audit Committee have any knowledge of any actual, suspected or alleged fraud affecting the Municipality?
- Have there been any changes in the way in which the Audit Committee exercises its oversight of (a) management’s processes for identifying and responding to risks of fraud and error and (b) the internal controls that management has established to mitigate these risks?  
- Does the Audit Committee still share the view that the risks of fraud at the Municipality are low?
### Planning: Audit Response

#### Identified Financial Reporting Risks on Significant Accounts or Disclosures

<table>
<thead>
<tr>
<th>Significant Accounts and Disclosures</th>
<th>Inherent Risks(^2)</th>
<th>Planned Audit Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relevant assertions(^2)</td>
<td>Risk of Error</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Cash and bank indebtedness</td>
<td>CEA</td>
<td>Moderate</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>CEAV</td>
<td>Low</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>CEAV</td>
<td>Low</td>
</tr>
<tr>
<td>Net prepaid benefit expense</td>
<td>CEAVP</td>
<td>Low</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>CEA</td>
<td>Moderate</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>CEA</td>
<td>Low</td>
</tr>
</tbody>
</table>

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\(^1\) An account balance is considered “significant” if there is more than a remote likelihood that an account could contain misstatements that individually, or when aggregated with others, could have a material effect on the financial statements. All note disclosures are considered significant.

\(^2\) Relevant assertions have been abbreviated as follows: completeness (C), existence (E), accuracy (A), valuation (V), rights and obligations (R), presentation (P).

\(^3\) Inherent risk is the susceptibility of a financial statement assertion to misstatement due to error or fraud, which could be material either individually or when aggregated with other misstatements, assuming that there were no related internal controls.

\(^4\) Fraud risk is the susceptibility of an account to be misstated because of fraudulent financial reporting or misappropriation of assets.
### Planning: Audit Response

**Identified Financial Reporting Risks on Significant Accounts or Disclosures (Continued)**

<table>
<thead>
<tr>
<th>Significant Accounts and Disclosures</th>
<th>Inherent Risks</th>
<th>Planned Audit Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relevant assertions</td>
<td>Risk of Error</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued employee benefits</td>
<td>CEAV</td>
<td>Yes</td>
</tr>
<tr>
<td>Solid waste management facilities liabilities</td>
<td>CEA</td>
<td>Yes</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Tangible capital assets and work in progress</td>
<td>CEAV</td>
<td>Low</td>
</tr>
</tbody>
</table>

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<th>Planned Audit Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk of Error</td>
<td>Risk of fraud</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Inventory, prepaid expenses and other</td>
<td>CEAV</td>
<td>Low</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Water rate revenue</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Grants in lieu of taxes</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Other revenues</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Payroll expense</td>
<td>CEA</td>
<td>Yes</td>
</tr>
<tr>
<td>All other expenses</td>
<td>CEA</td>
<td>Low</td>
</tr>
</tbody>
</table>

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# Executing the Audit Service Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Role/Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Team</strong></td>
<td></td>
</tr>
<tr>
<td>Sonny MacDougall</td>
<td>Serves as primary contact for your audit committee and management. Has the overall authority and responsibility for the audit engagement and key conclusions reached by the engagement team on all accounting, auditing and tax matters.</td>
</tr>
<tr>
<td>Darren Chiasson</td>
<td>Responsible for providing technical assistance to the audit team throughout all aspects of the audit. Will ensure the design of an efficient audit and assist in the review of major issues as they arise. Brings to the team technical strength along with diversified audit experience to help ensure that the lead audit engagement partner has the resources to meet the needs of the audit committee and management.</td>
</tr>
<tr>
<td>Christopher Edwards</td>
<td>Serves as the audit liaison between the Municipality and MGM &amp; Associates. Responsible for planning the audit, scheduling and supervising the professionals who perform the day-to-day audit work for your organization, reporting directly to the lead partner.</td>
</tr>
</tbody>
</table>
## Audit Timetable

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>Sept</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Committee reporting deliverables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testing &amp; process documentation</td>
<td>Interim</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Substantive procedures</strong></td>
<td></td>
<td></td>
<td>Year end audit work</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Current Context for our Audit
### Maintaining our Independence

<table>
<thead>
<tr>
<th>Independence requirements</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor reports to Audit Committee</td>
<td>▪ Our audit plan outlines our proposed schedule for discussing our audit findings report.</td>
</tr>
</tbody>
</table>
| Audit Committee pre-approval of all MGM & Associates’ services | ▪ Audit Committee pre-approves services on an engagement by engagement basis.  
▪ No prohibited services have been provided by MGM & Associates. |
| Compensation of audit partners on audit team                 | ▪ Receive no direct compensation for selling non-audit services.                |
| Communication                                                 | ▪ We will confirm our independence annually.                                  |
We estimated our audit fees for the year ending March 31, 2015 to be $41,100 which includes 10 hours of accounting assistance used at your discretion.

These fees are based on the following assumptions:

- Management will be available to us as necessary throughout the audit process.
- We find no material weaknesses or other deficiencies in internal control over financial reporting that have a significant effect on our audit approach.
- Regular communication on plans and progress.
### Services Planned for the Year Ending March 31, 2015

<table>
<thead>
<tr>
<th>Nature of service</th>
<th>Audit related</th>
<th>Tax</th>
<th>Non-audit related</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of financial statements for the years ended March 31, 2015 in accordance with Canadian generally accepted auditing standards</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conversion of internal financial statements to PSAB</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Capital compliance and Gas tax audits, as required</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>