



A Community of Communities

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



CBRM

A Community of Communities

Cape Breton Regional Municipality

Audit Committee

Agenda

Monday, June 15th, 2015

9:30 a.m.

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

Roll Call

1. Approval of Minutes:

- October 16th, 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 Planning Report

Cape Breton Regional Municipality

Year ended March 31, 2015

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Audit plan for Audit Committee approval

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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.

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.

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

Audit Committee

- Audit Planning Report
- Audit Findings Report
- Management Letter

Council

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

Provincial Government

- Audited Financial Statements
- Management Letter

Our Audit Process

Risk Assessment

Client
Acceptance

Planning

Preliminary procedures Team Discussions
Audit pre-conditions Overall Audit Strategy

Risk Assessment Procedures

Assumed Risks of Material Misstatement
Of the FS & Assertion Levels

Risk Response

Overall Responses

Design Further
Audit Procedures

Perform
Procedures

Tests of
Detail

Tests of
Control

Sufficient Appropriate
Audit Evidence

Reporting

Evaluate the Audit
Evidence Obtained

Form
Opinion

Tests of
Detail

Analytical
Procedures

Conclusions Drawn
Based on Evidence Obtained

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

Planning: Materiality

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.

Planning: Fraud and the Role of the Audit Committee

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

Significant Accounts and Disclosures ¹	Inherent Risks ³			Planned Audit Approach				
	Relevant assertions ²	Risk of Error	Risk of fraud ⁴	Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
				Evaluate design and implementation	Test operating effectiveness			
Cash and bank indebtedness	CEA	Moderate	Yes	Yes	Yes	No	Yes (confirmation)	Yes (confirmation)
Taxes receivable	CEAV	Low	No	Yes	Yes	Yes	Yes	No
Accounts receivable	CEAV	Low	No	Yes	Yes	Yes	Yes	No
Net prepaid benefit expense	CEAVP	Low	No	No	No	No	Yes	Yes (Actuary)
Accounts payable and accrued liabilities	CEA	Moderate	Yes	Yes	Yes	Yes	Yes	No
Deferred revenue	CEA	Low	No	No	No	No	Yes	No

(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.

(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.

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

(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)

Significant Accounts and Disclosures ¹	Inherent Risks ³			Planned Audit Approach				
	Relevant assertions ²	Risk of Error	Risk of fraud ⁴	Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
				Evaluate design and implementation	Test operating effectiveness			
Accrued employee benefits	CEAV	Yes	No	No	No	Yes	No	Yes (actuary for pension liability)
Solid waste management facilities liabilities	CEA	Yes	No	No	No	Yes	No	No
Long-term debt	CEA	Low	No	No	No	Yes	Yes (confirmation)	Yes (confirmation)
Tangible capital assets and work in progress	CEAV	Low	No	Yes	No	Yes	No	No

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Planning: Audit Response Identified Financial Reporting Risks on Significant Accounts or Disclosures (Continued)

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	Relevant assertions ²	Risk of Error	Risk of fraud ⁴	Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
				Evaluate design and implementation	Test operating effectiveness			
Inventory, prepaid expenses and other	CEAV	Low	No	No	No	Yes	Yes	No
Tax revenue	CEA	Low	Yes	Yes	Yes	Yes	Yes	No
Water rate revenue	CEA	Low	Yes	Yes	Yes	Yes	Yes	No
Grants in lieu of taxes	CEA	Low	No	No	No	Yes	Yes	No
Other revenues	CEA	Low	Yes	Yes	No	Yes	Yes	No
Payroll expense	CEA	Yes	Yes	Yes	Yes	Yes	Yes	No
All other expenses	CEA	Low	Yes	Yes	Yes	Yes	Yes	No

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

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Fraud risk is the susceptibility of an account to be misstated because of fraudulent financial reporting or misappropriation of assets.

Executing the Audit Service Team

Name

Role/Experience

Core Team

Sonny MacDougall

Lead Audit Engagement Partner

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.

Darren Chiasson

Quality Control Partner

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.

Christopher Edwards

Audit Senior Manager

Serves as the audit liaison between the Municipality and MGM & 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.

Audit Timetable

	April	June	July	August	Sept
Audit Committee reporting deliverables		Audit plan			Audit findings
Testing & process documentation	Interim				
Substantive procedures			Year end audit work		

Current Context for our Audit Maintaining our Independence

Independence requirements	Current status
Auditor reports to Audit Committee	<ul style="list-style-type: none"> ■ Our audit plan outlines our proposed schedule for discussing our audit findings report.
Audit Committee pre-approval of all MGM & Associates' services	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Receive no direct compensation for selling non-audit services.
Communication	<ul style="list-style-type: none"> ■ We will confirm our independence annually.

Audit Fees and Assumptions

- 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

Nature of service	Audit related	Tax	Non-audit related
Audit of financial statements for the years ended March 31, 2015 in accordance with Canadian generally accepted auditing standards	✓		
Conversion of internal financial statements to PSAB			✓
Capital compliance and Gas tax audits, as required	✓		

