

Audit Committee

Agenda

Wednesday, August 24, 2022

2:00 p.m.

**Council Chambers
2nd Floor, City Hall
320 Esplanade, Sydney, NS**

Committee Members: Deputy Mayor Earlene MacMullin - Chair
Councillor Cyril MacDonald
Councillor Glenn Paruch
Councillor Stephen Parsons
Councillor Lorne Green
Mark Galley, Citizen
Rakesh Kochhar, Citizen

CBRM Audit Committee

Agenda

**Wednesday, August 24, 2022
2:00 p.m.**

**Council Chambers
2nd Floor City Hall,
320 Esplanade, Sydney, NS**

Roll Call

1. **Approval of Minutes:** (previously distributed)
 - **January 18, 2022**

2. **Approval of Agenda:** (Motion Required)

3. **MNP – Presentation:**
 - a) **2022 Audit Service Plan:** Mr. Darren Chiasson, CPA, CA - Partner, Business Advisor (See page 3)

Adjournment



Cape Breton Regional Municipality

2022 Audit Service Plan

Report to the Audit Committee

March 31, 2022

Darren Chiasson, CPA, CA
T: 902.567.6401
E: darren.chiasson@mnp.ca



Wherever business takes you

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Audit Service Plan Overview

We are pleased to present our Audit Service Plan for Cape Breton Regional Municipality and its subsidiaries (the "Municipality") which outlines the strategy we will follow to provide the Municipality's Audit Committee with our Independent Auditor's Report on the March 31, 2022 consolidated financial statements. We are providing this Audit Service Plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Additional materials provided along with this plan include both our Engagement Letter and draft Independence Communication. Our Engagement Letter is the formal written agreement of the terms of our audit engagement as negotiated with management and outlines our responsibilities under Canadian generally accepted auditing standards. Our draft Independence Communication formally confirms in writing MNP's independence.

Topics for Discussion

We are committed to providing superior client service by maintaining effective two-way communication. Topics for discussion include, but are not limited to:

- Changes to your business operations and developments in the financial reporting and regulatory environment
- Business plans and strategies
- Any other issues and/or concerns
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- The management oversight process
- Your specific needs and expectations

The MNP Audit Approach

Audit Materiality

The scope of our audit work is tailored to reflect the relative size of operations of the Municipality and our assessment of the potential for material misstatements in the Municipality's consolidated financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures). In determining the scope, we emphasize relative audit risk and materiality, and consider a number of factors, including:

- The size, complexity, and growth of the Municipality;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.



We propose to use \$6,022,000 as overall materiality for audit planning purposes.

Auditor’s Approach to Internal Control

For the March 31, 2022 audit, we are planning to place low reliance on the Municipality’s accounting system. This level of reliance is consistent with the prior year end, and will involve mainly substantive tests of details.

Key Changes and Developments

Based on our knowledge of the Municipality and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed giving consideration to these factors.

ISSUES AND DEVELOPMENTS		SUMMARY
	NEW REPORTING DEVELOPMENTS	<ul style="list-style-type: none"> PS 3280 Asset Retirement Obligations (New)
	NEW ASSURANCE DEVELOPMENTS	<ul style="list-style-type: none"> CAS 315 Identifying and Assessing the Risks of Material Misstatement (Amendment)

Detailed information on Key Changes and Developments are included as Appendix A.

Risk Assessment

Our audit process focuses on significant risks identified during the pre-planning and planning and risk assessment stage, ensuring that audit procedures are **tailored to your specific circumstances** and appropriately address those risks.

Based on the preliminary risk assessment procedures performed, we have identified the following significant and high risks which will be addressed during our audit. We have also outlined the proposed audit response to address those risks. We will update our risk assessment as the audit progresses for additional risks identified and will inform management of any additional significant risks identified.

SIGNIFICANT RISK AREA	PROPOSED AUDIT RESPONSE
Taxes and water utility revenue Risk that all revenue received has not been recorded.	Revenue is a presumed fraud risk and therefore considered a significant risk. MNP will perform substantive analytical procedures as well as a test of details using a random selection based on a high risk factor.
Government grants, transfers and grant-in-lieu revenue	Revenue is a presumed fraud risk and therefore considered a significant risk.

SIGNIFICANT RISK AREA	PROPOSED AUDIT RESPONSE
Risk that all revenue received has not been recorded.	MNP will review supporting documentation for individual items exceeding our high value threshold as well as a test of details of the remaining population using a random selection based on a high risk factor.
<p>Other revenue</p> <p>Risk that all revenue received has not been recorded.</p>	<p>Revenue is a presumed fraud risk and therefore considered a significant risk.</p> <p>MNP will review supporting documentation for individual items exceeding our high value threshold as well as a test of details of the remaining population using a random selection based on a high risk factor.</p>
<p>Solid waste management facilities liabilities</p> <p>The liability is subject to significant management judgement and estimate uncertainty.</p>	MNP will obtain management's assessment of the liability. We will recalculate the balance, review assumptions used, such as inflation and discount rates, and agree to collaborative information.
<p>Accrued employee benefits</p> <p>The information used to calculate portions of the liability are not compiled annual and therefore subject to significant management judgement and estimate uncertainty.</p>	MNP will obtain management's assessment of the liability. We will recalculate the balance, review assumptions used, such as retirements and wage increases, and agree to collaborative information.

Audit Team

In order to ensure effective communication between the Audit Committee and MNP, we outline below the key members of our audit team that will be responsible for the audit of Cape Breton Regional Municipality and the role they will play:

RETURNING TEAM MEMBERS	CONTACT INFORMATION
Darren Chiasson, CPA, CA, Partner	E: Darren.Chiasson@mnp.ca
Christopher Edwards, CPA, CA, Senior Manager	E: Christopher.Edwards@mnp.ca
Evan Baillie, CPA, Designated Professional	E: Evan .Baillie@mnp.ca
Owen MacPhee, Accountant	E: Owen.MacPhee@mnp.ca

NEW TEAM MEMBERS	CONTACT INFORMATION

NEW TEAM MEMBERS	CONTACT INFORMATION
Devon MacLean, Accountant	E: Devon.MacLean@mnp.ca
Ryan MacLellan, Accountant	E: Ryan.MacLellan@mnp.ca

Our partners and senior management are committed to providing you with the highest level of attention and oversight throughout the terms of this engagement, reflecting MNP's staffing model and client service philosophy. Through consistent attention from leaders, our engagement team will maintain responsibility and authority over all matters of the engagement and will drive service delivery and issue resolution. In addition, the engagement team will be actively involved and have hands-on involvement with service delivery, ensuring engagement objectives will be met.

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other MNP professionals whose consultation will assist us to evaluate and resolve complex, difficult and/or contentious matters identified during the course of our audit.

Any changes to the audit team will be discussed with you to ensure a seamless process and that all concerned parties' needs are met.

Timing of the Audit

KEY DELIVERABLE	EXPECTED DATE
Year-end fieldwork procedures	August 15, 2022 to September 9, 2022
Presentation of March 31, 2022 Audit Findings Report to the Audit Committee	Mid September 2022
Presentation of Management Letter to the Audit Committee	Mid September 2022
Issuance of Independent Auditor's Report	Late September 2022

Fees and Assumptions

DESCRIPTION	2022 ESTIMATE
CBRM consolidated base audit fee as per our January 6, 2022 proposal	\$ 39,650
CBRM Water Utility base audit fee as per our January 6, 2022 proposal	\$ 10,000
Total	\$ 49,650

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the engagement partner, so a mutually agreeable solution can be reached.

Invoices will be rendered as work progresses in accordance with the following schedule:

DESCRIPTION	AMOUNT
Progress billing #1 (at completion of planning)	\$ 12,400
Progress billing #2 (at start of year-end field work)	\$ 24,850
Final billing – upon release of auditor’s report	\$ 12,400
Total	\$ 49,650

We look forward to discussing our Audit Service Plan with you, as well as any other matters of interest to you.

Sincerely,



Chartered Professional Accountants

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Appendix A – Key Changes and Developments

We would like to bring to your attention the following accounting and auditing developments, which may have some impact on your financial reporting.

Issues and Developments Summary

New Reporting Developments

PS 3280 Asset Retirement Obligations (New)

In August 2018, new PS 3280 *Asset Retirement Obligations* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3280 establishes standards on how to account for and report a liability for asset retirement obligations (ARO). As asset retirement obligations associated with landfills are included in the scope of new PS 3280, PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability* will be withdrawn.

The main features of this standard are as follows:

- An ARO represents a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner.
- When an asset is no longer in productive use, the associated asset retirement costs are expensed.
- Measurement of the ARO liability should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date.
- Subsequent measurement of the ARO liability results in either a change in the carrying amount of the related tangible capital asset or an expense. The accounting treatment depends on the nature of the remeasurement and whether the asset remains in productive use.
- The best method to estimate the liability is often a present value technique.

This standard was to be effective for fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section is now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

New Assurance Developments

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

In May 2020, the Auditing and Assurance Standards Board (AASB) issued the revised CAS 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, to align with the International Auditing and Assurance Standards Board's (IAASB) changes to International Standards on Auditing (ISA) 315 (revised), with the same title.

The revised CAS 315 incorporates changes to establish more robust requirements and detailed guidance to assist auditors in performing appropriate risk assessment procedures corresponding with the size and nature of the entity. It also includes changes to enhance the application of professional skepticism in audits. The revised CAS 315 accomplishes the following:

- Distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- Clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- Highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling based on the complexity of the situation;
- Clarifies the definition of "significant risk" and introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- Introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- Introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- Separates the assessment of inherent and control risk;
- Enhances the auditor's considerations regarding the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- Introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- Uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- Clarifies the threshold for identifying possible risks of material misstatement in CAS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*.

As a result of issuing the revised CAS 315, requirements for several other standards have been amended to better articulate the auditor's responsibilities regarding identifying and assessing the risks of material misstatement:

- CAS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
- CAS 330 *The Auditor's Responses to Assessed Risks*
- CAS 402 *Audit Considerations Relating to an Entity Using a Service Organization*
- CAS 540 *Auditing Accounting Estimates and Related Disclosures*

The revised CAS 315 and other conforming amendments to other standards are effective for audits of financial statements for periods beginning on or after December 15, 2021. Earlier application is permitted.

MADE ^{IN} CANADA

And proud of it!

At MNP we're proud to be the national accounting, consulting and tax firm that is 100% Made in Canada.

Our history defines who we are and our approach to business. Being a Canadian firm has helped shape our values, our collaborative approach, and the way we work with our clients, engaging them every step of the way.

We have a unique perspective. Our decisions are made here – decisions that drive Canadian business and help us all achieve success — and we know the impact that our choices have on the cities and towns we call home.

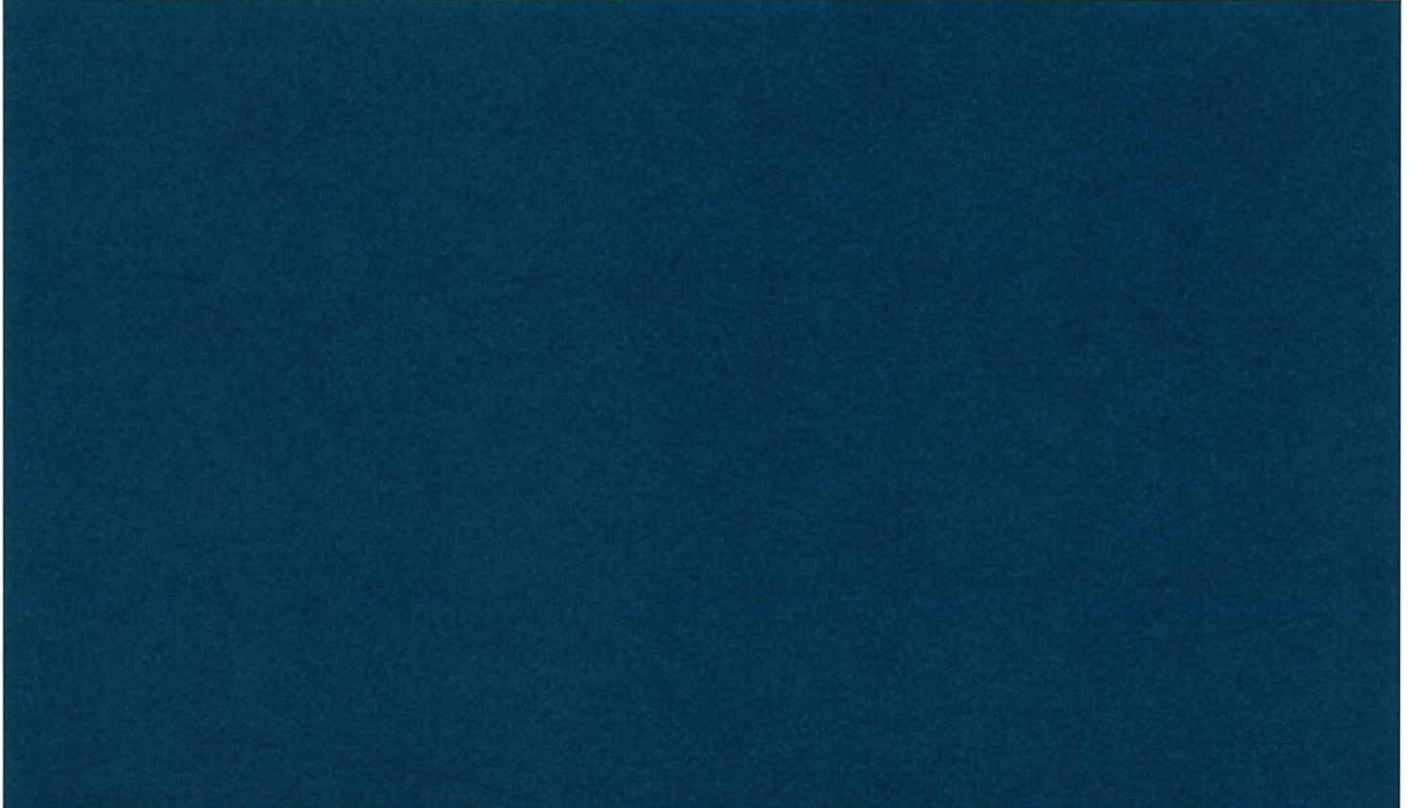
Throughout our six decades of work, we've seen our communities are more than just a place we do business in. They're a place where our families live, play, and thrive, and we work to make them the best places they can be.

Being 100% Canadian is something we wear proudly. This country provides us with great opportunities, and we're here to help our clients seize the opportunities so we can create a brighter future for the generations to come.



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