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AUDIT

Halifax Regional Municipality

Audit Findings Report

For the year ending March 31, 2012

For the Audit & Finance Standing Committee meeting to
be held on June 20, 2012

KPMG LLP, Chartered Accountants

kpmg.ca



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Significant audit, accounting and reporting matters

Matters to discuss

Included in this report are matters we have highlighted for discussion at the audit committee meeting. We look forward to discussing these matters and our findings with you.

Changes from the Audit Plan

We have highlighted below changes between the Audit Planning Report previously presented to you and the actual audit procedures completed during the audit.

Component Auditor

For the component audit where KPMG is not the auditor, KPMG is required to consider the environment within which the component auditor operates in and the consistency or similarity of factors concerning each component auditor such as:

- Laws and regulations
- Professional oversight, discipline and external quality assurance
- Education and training, and
- Professional organizations and standards

This information may be requested in the group audit instructions which we reported in the Audit Planning Report would be sent to the non-KPMG auditors of Halifax Regional Water Commission (Grant Thornton) and the Halifax Metro Centre (Ernst & Young).

Changes from the audit plan

We updated our review of significant components. We determined that the total assets and total revenues at the Halifax Metro Centre were below our threshold for significance (10% of total revenue or total assets). As a result we determined that no group audit instructions would be sent to Ernst & Young. We performed a review of the yearend balances presented by the Halifax Metro Centre, consistent with other non-significant boards and commissions.

Over-all significant components of the HRM subject to audit for the purpose of the consolidated financial statements by KPMG or the component auditors under KPMG's direction represented 96.0% of revenue and 99.7% of assets.

Areas of financial reporting risk

We have highlighted below our findings related to areas of financial reporting risk as identified in the audit planning report presented previously, including:

- Completeness and accuracy of taxation revenue
- Presumed risk of fraud related to revenue
- Classification of expenses between capital and operating
- Completeness, existence and accuracy of expenses and related amounts payable

We report that there was no change to our planned audit approach or findings to report at this time not previously discussed in our report.



Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures
- corrected misstatements, including disclosures.

Uncorrected misstatements

We have not identified misstatements that remain uncorrected. As a result of correcting a prior period error related to sick time (see previous discussion) the following schedule outlines the impact to the current year's annual surplus:

	Annual surplus effect (000's)	Financial position (000's)		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Sick time liability	\$(12,000)	-	-	-

We have communicated all misstatements to management which are listed in the representation letter included in the Appendices.



Appendices

Draft audit report

Draft Independence letter

Draft management representation letter

KPMG's Audit Quality Framework



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INDEPENDENT AUDITORS' REPORT

To the Mayor and the Councillors of the Halifax Regional Municipality

We have audited the accompanying consolidated financial statements of the Halifax Regional Municipality, which comprise the consolidated statement of financial position as at March 31, 2012, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Municipality's preparation and fair presentation of the consolidated financial statements 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 Municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Halifax Regional Municipality as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Chartered Accountants
June XX, 2012
Halifax, Canada



- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement, extent of fees charged, and other independence issues related to the services
- 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 (and its related entities) that may reasonably be thought to bear on our independence up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Nova Scotia as of the date of this letter.

As indicated above, this letter includes all relationships between our firm and the Entity that may reasonably be thought to bear on independence. With respect to other auditors (which collectively audited approximately 28% of the assets and 2% of the revenues reflected in the consolidated financial statements), we, pursuant to professional standards, among other things, satisfied ourselves as to their professional reputation and independence, including obtaining a confirmation from the other auditors that they are independent under applicable professional standards. You may wish to obtain more information from the other auditors and have discussions with them about independence matters.

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,

Chartered Accountants

KPMG LLP
Chartered Accountants
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Canada

June 6, 2012

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 consolidated financial statements (hereinafter referred to as "financial statements") of Halifax Regional Municipality ("the Entity") as at and for the period ended March 31, 2012.

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 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:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 28, 2011 and amended February 1, 2012, for:
 - a) the preparation and fair presentation of the financial statements
 - b) providing you with all relevant information and access
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

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 management is 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 and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

- 10) We approve the corrected misstatements identified by you during the audit described in Attachment II.

UNCORRECTED FINANCIAL STATEMENT DISCLOSURES:

- 11) The effects of the uncorrected financial statement disclosures described in **Attachment III** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

ASSETS & LIABILITIES - GENERAL:

- 12) The Entity has satisfactory title to all owned assets.
- 13) We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or assigned as security for liabilities, performance of contracts etc., not disclosed in the financial statements.
- 14) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

CONTRACTUAL AGREEMENTS:

- 15) 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 covenants in the Entity's debt agreements.

ENVIRONMENTAL MATTERS:

- 16) The Entity has appropriately recognized, measured and disclosed environmental matters in the financial statements.

EMPLOYEE FUTURE BENEFITS:

- 17) The employee future benefit costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

EXPERTS/SPECIALISTS:

- 18) The information provided by us to Mercer (Canada) Ltd. and Aon Hewitt ("the experts") 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 nor 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 matters that have had an impact on the independence and objectivity of the experts.

Yours very truly,

Richard Butts, Chief Administrative Officer

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 Public Sector Accounting Standards *related party* is defined as:

- When one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Public Sector Accounting Standards 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, regardless of whether any consideration is exchanged. 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.

Attachment III – Uncorrected Financial Statement Disclosures

- 1. Segmented disclosure** – The Municipality’s financial statements should separately disclose the following information, in notes or schedules, about each of a government's segments identified in accordance with paragraph PS 2700.07:
 - (a) the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
 - (b) segment expense by major object or category;
 - (c) segment revenue by source and type;
 - (d) the aggregate of the income of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable; and
 - (e) a reconciliation between the information disclosed for segments and the consolidated information in the financial statements.

Driver	What it does	What it means to you
<p>Commitment to technical excellence and quality service delivery</p>	<p>their specific skill sets</p> <p>The right tools for the right job</p> <p>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</p>	<p>as your business grows and changes</p> <ul style="list-style-type: none"> • An audit opinion that continues to meet your needs as a participant in the capital markets <p>Assists you with:</p> <ul style="list-style-type: none"> • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
<p>Performance of effective and efficient audits</p>	<p>We understand that how an audit is conducted is as important as the final result.</p> <p>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</p>	
<p>Commitment to continuous improvement</p>	<p>Comprehensive and effective monitoring</p> <p>We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</p>	

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