

THE MUNICIPALITY OF THE COUNTY OF KINGS  
**AUDIT COMMITTEE AGENDA**  
 Thursday, May 28, 2020  
 6:00 p.m. via WebEx

Item	Description	Required Action	Responsible	Page
1.	Roll Call		Chair	
2.	Additions to the Agenda	Decision	All	
3.	Approval of Agenda	Decision	All	
4.	Disclosure of Conflict of Interest Issues	Decision	Chair	
5.	Approval of Minutes: April 23, 2020	Decision	Chair	2
6.	Business Arising from Minutes	Discussion	All	
<b>New Business</b>				
7.	Audit Plan & Strategy	Presentation	Jessica Clahane, Grant Thornton	5
8.	Process Control Review of Payroll & Tax Sale (Management Response) <i>*Briefing to follow</i>	Briefing	Mike Livingstone, Manager of Financial Reporting	-
9.	COVID-19 Supplementary Budget	Discussion	Greg Barr, Director of Finance & IT	-
10.	Work Plan Update	Discussion	Greg Barr, Director of Finance & IT	26
<b>Correspondence: None</b>				
11.	Other Business			
12.	Public Comments			
13.	Next Meeting: • June 25, 2020 (WebEx or in person TBD)	Decision	All	
14.	Adjournment	Decision		

**Municipality of the County of Kings  
Audit Committee**

**Meeting, Date  
and Time**

Audit Committee Meeting was held on Thursday April 23, 2020  
at 6:00 pm via WebEx video conferencing

**(2) Roll Call:**

*Committee Members:*

In attendance were:  
Councillor Spicer – Chair  
Councillor Winsor – Vice Chair  
Councillor Hodges  
Councillor Raven  
Quentin Hill - Citizen Member  
Macaoel Baxter - Citizen Member

*Staff:*

Greg Barr, Director of Finance & IT Services  
Katrina Roefs, Financial Analyst  
Amie Johnstone, Recording Secretary

*Absent with Regrets:*

None

**Meeting Called to order:**

Councillor Spicer called the meeting to order at 6:06pm.

**(2) Additions to the  
Agenda:**

None.

**(3) Approval of the  
Agenda:**

**On the motion of Councillor Winsor and seconded by Quentin Hill,  
the agenda be approved.  
Motion carried.**

**(4) Disclosure of Conflict  
of Interest Issues:**

None.

**(5) Approval of the  
Minutes from  
Dec 19, 2019:**

**On the motion of Macael Baxter and seconded by Councillor Raven,  
the Minutes from February 27, 2020 be approved.  
Motion carried.**

**(6) Business arising from  
the previous minutes:**

None.

**New Business:**

The chair noted that he would have to excuse himself at 7pm for another meeting he is scheduled to attend and confirmed that the vice chair would take over at that point. To ensure all members are present for the training module, item #9 will be moved to occur before #8 in the agenda.

**(7) Software and Virtual  
Meeting Orientation**

The Committee chair asked that everyone keep their mics muted until they have a question to help with the background noise. All votes will be cast verbally with the chair asking each person individually.

**(9) Audit Committee  
Training-  
Module #4:  
Provincial Reporting  
Requirements**

Katrina Roefs presented the internally developed module #4 outlining the annual schedule for reporting as well as a description of each required report.

Through questions at the end of the presentation staff confirmed the Greenwood Water is the Municipality’s only recognized utility under the UARB. As of right now all Reports will be filed electronically so there are no anticipated delays or concerns related to reporting and COVID-19. Any properties owned by towns are billed through property tax and have no in-lieu amounts.

**(8) 2020-2021 Approved Budget Review**

Greg Barr took the committee through the executive summary review of the approved 2020-2021 budget, noting that the amount for J class roads will slightly differ due to recent council approvals. Council approved many individual motions to complete the budget approval, the 1<sup>st</sup> of which related to the creation of a COVID-19 relief fund. COVID-19 has had some effect on the budget with work currently happening on a supplemental budget; details can be found on page 5 of the proposed budget document on the county web site.

Highlights of the 2020-2021 budget include:

- Tax & sewer rates remain unchanged
- Increase in Fire Department funding
- Increased total expenditures
- Aggressive capital and special project budgets
- Reduction in departmental expenditures
- Only a slight reduction to combined reserves

**(10) Online Provincial Training Update**

All committee members have completed the on-line training as shown in this chart for the record,

Name	Completed	Notes
Councillor Spicer	✓	I did find the modules interesting and thought they were well done.
Councillor Winsor	✓	I have to say that they were very well done and very informative. In particular I found Modules 4 and 5 (“Alleged Wrongdoing” and “Risk and internal Controls”) particular useful and enlightening. I suggest that we go through those as a group...one at one meeting and the second at the next meeting
Councillor Hodges	✓	
Councillor Raven	✓	Not substantive, more a table of contents for what training could cover if committee members had more time or felt they needed a better understanding of specific areas.
Quentin Hill	✓	Well done
Macael Baxter	✓	

**On the motion of Councillor Windsor and seconded by Quentin Hill, The Audit Committee of the Municipality of the County of Kings have completed the Audit Committee Training Modules as promulgated by the Department of Municipal Affairs and Housing and wish to pass along to the Department our congratulations and appreciation on a very informative and helpful tool to understanding and carrying out our mandate.**

**Motion carried.**

Staff will draft the letter and once approved by the Chair will this will be mailed to the DMAH.

The committee confirmed that the in person training will no longer be needed. Additionally staff will review on-line modules, particularly #4 & #5 and bring back suggestions to increase awareness and the comfort level addressing any concerns of the committee.

**(11) Work Plan update**

Greg Barr reviewed the work plan with the committee.

Item #4: now complete

Item #5: Greg is finalizing his response when it will then come to the committee for any additional input.

Item #6 & #7: Identification of additional items will likely be pushed to later in the year due to the delays associated with COVID-19

**(11) Other Business:** None.

**(12) Public Comments** None.

**(13) Next Meeting:** May 28, 2020 at 6pm likely via WebEx video conferencing

**Adjournment:** **On the motion of Councillor Raven and seconded by Councillor Hodges the meeting be adjourned.**  
**Motion Carried.**

**Approvals:**

Audit Committee

# Municipality of the County of Kings

For the year ended March 31, 2020

Report to members of the Audit Committee  
Audit strategy

May 28, 2020

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# Contents

Executive summary	1
COVID-19 – Financial reporting impacts	2
Audit plan and risk assessment	5
Other planning matters	8
Audit fees	9
Team, timing and communications	10
Technical updates – highlights	11

# Appendices

Appendix A – Overview and approach
Appendix B – Accounting developments
Appendix C – Auditing developments

# Executive summary

## Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the consolidated financial statements of the Municipality of the County of Kings (the "Municipality") for the year ended March 31, 2020. This communication will assist members of the Audit Committee in understanding the terms of the audit engagement, our proposed audit strategy and the level of responsibility assumed by us.

The information in this document is intended solely for the information and use of Council, Audit Committee, management. It is not intended to be distributed to or used by anyone other than these specified parties.

We have obtained our engagement letter dated January 24, 2019, which outlines our responsibilities and the responsibilities of management.

## Status of our audit plan

We have substantially completed our initial planning of the audit of the consolidated financial statements of the Municipality.

## Approach

Our audit approach requires that we establish an overall strategy that focuses on risk areas. We identify and assess risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The greater the risk of material misstatement associated with an area of the consolidated financial statements, including disclosures, the greater the audit emphasis placed on it in

terms of audit verification and analysis. Where the nature of a risk of material misstatement is such that it requires special audit consideration, it is classified as a significant risk.

Our approach is further discussed in the body of the report and in detail in the Appendix.

## COVID-19

The potential financial reporting impacts of the Coronavirus Disease ("COVID-19") pandemic are summarized in the first section of our report. These were a particular focus in our risk assessment for the current year. As a result of considering the impact of COVID-19 related circumstances on the Municipality, we identified new audit risks in the areas of disclosure of subsequent events information and going concern.

## Independence

We have a rigorous process where we continually monitor and maintain our independence. The process of maintaining our independence includes, but is not limited to:

- Identification of threats to our independence and putting into place safeguards to mitigate those threats. For example, we evaluate the independence threat of any non-audit services provided to the Municipality
- Confirming the independence of our engagement team members

We have identified no information regarding our independence that in our judgement should be brought to your attention.

# COVID-19 – Financial reporting impacts

The spread of COVID-19 is severely impacting economies around the globe, causing extensive disruptions to many industries and business operations and a level of economic uncertainty that is unprecedented in our time. In addition to the impact on ongoing operations, these events may affect the Municipality's financial reporting. While every entity will be impacted differently, the table below summarizes, at a high level, some key COVID-19 related financial reporting considerations that should be considered by Towns and Municipalities.

Matter	Impact	Considerations
<b>Subsequent events</b>	<p>In determining whether the impact of COVID-19 requires adjustments to the Municipality's consolidated financial statements, management must first determine whether the impact occurred during the fiscal year, or subsequent to year-end. Entities are required to distinguish between subsequent events that are adjusting (provide further evidence of conditions that existed at the balance sheet date) and non-adjusting (indicate conditions that arose after the balance sheet date). Adjusting subsequent events are reflected in the recognition and measurement of amounts reported in the financial statements, while the impact of non-adjusting subsequent events may be required to be disclosed in the notes to the financial statements. Significant subsequent events that may require adjustment or disclosure include items such as: supply chain disruptions, waivers or modifications of contractual terms in lending arrangements or other contractual arrangements, announcing or commencing the implementation of a major restructuring or downsizing, and/or declines in fair values of investments after the reporting period.</p>	<p>Management should determine whether COVID-19 represents an adjusting or non-adjusting subsequent event, bearing in mind that the virus only became widespread in January 2020 and the magnitude of its impact increased from there. Where COVID-19 is determined to be a material non-adjusting subsequent event, management should determine the appropriate disclosures for the consolidated financial statements, including the nature and estimated financial effect of each specific impact identified.</p>
<b>Going concern</b>	<p>The preparation of the consolidated financial statements on a going concern basis is appropriate if management has determined that the Municipality, and consolidated components, have the ability to continue as a going concern for a period of at least twelve months from the balance sheet date. Management's assessment generally takes into consideration all available information about the future, including events that have occurred after the year-end. Current circumstances related to COVID-19 have resulted in many entities encountering financial difficulties, which could call into question use of the going concern assumption.</p> <p>If there is material uncertainty about the Municipality's ability to continue as a going concern, the Municipality should include going concern disclosure in the notes to its financial statements and there will be an impact on the auditor's report. If management concludes that the Municipality may be liquidated (either by choice or because it has no realistic alternative but to do so), the going concern assumption would not be appropriate and the financial statements may have to be prepared on another basis, such as a liquidation basis.</p>	<p>Management should update their going concern assessment, considering all events that have occurred subsequent to year end and the wide-ranging impact of COVID-19 (including profitability, debt repayments, etc). In other words, everything that happens during the subsequent events period must be considered in determining if there is substantial doubt regarding the Municipality's ability to continue as a going concern, even if those events are otherwise considered non-adjusting.</p> <p>Material uncertainties around the going concern assumption should be disclosed in the consolidated financial statements and, depending on the going concern assessment, it may not be appropriate to prepare the consolidated financial statements on a going concern basis.</p> <p>In certain lending agreements, the inclusion of an emphasis of matter paragraph in the auditor's report related to the going concern assumption may result in debt being classified as current. Management should review the terms of its lending arrangements carefully to determine if this may be the case.</p>



Matter	Impact	Considerations
Other items	<p>The accounting impacts of COVID-19 are expected to be wide-ranging. For example:</p> <ul style="list-style-type: none"> <li>Employee future benefit costs and accruals could be affected by the Municipality's responses to COVID-19, due to the Municipality providing additional compensation to assist employees who are sick or who are working remotely, incurring termination costs or other unconventional responses to manage employee costs during the pandemic</li> <li>The pattern of revenue recognition may be affected (e.g. due to potential deferral of collection of taxes, interest deferral, new discounts and subsidies that are being offered, refunds or credits).</li> <li>Debt repayments, classification and, in some cases, recognition, may be affected (such as in the case where the Municipality's debtholder allows the deferral of principal repayments for a period of time). Also, management should also consider its ability to comply with covenants under this new economic climate.</li> </ul> <p>The list above is not exhaustive. An entity's management must consider all of the ways in which COVID-19 is impacting its business and the related effect on financial reporting.</p>	<p>To the extent that COVID-19 affects the amounts recorded in the financial statements, either due to impacts that occurred during the fiscal period or due to impacts that are considered adjusting subsequent events, management needs to determine the appropriate accounting treatment.</p> <p>If the areas affected are non-adjusting events, appropriate disclosure of the effects will be required.</p>
Disclosures	<p>In addition to the quantitative impact that COVID-19 may have on an entity's financial statements, management must also consider how the entity's financial statement note disclosures could be impacted. An entity may need to revise existing disclosures in its financial statements and/or add new disclosures (e.g., subsequent events, financial instrument risk, measurement uncertainty, going concern). Transparent and carefully worded disclosures will need to be included in the consolidated financial statements to convey how the Municipality's financial performance and financial position are impacted by COVID-19, and what new risks and uncertainties exist as a result of the pandemic.</p>	<p>Management should review existing consolidated financial statements disclosures to determine how they may be impacted by COVID-19 and consider what additional disclosures may be necessary.</p>

# Audit plan and risk assessment

We have planned our audit in accordance with our approach summarized in Appendix A.

## Materiality

The purpose of our audit is to provide an opinion as to whether the consolidated financial statements are prepared, in all material respects, in accordance with Canadian Public sector accounting standards as at March 31, 2020. Therefore, materiality is a critical auditing concept and as such we apply it in all stages of our engagement.

The concept of materiality recognizes that an auditor cannot verify every balance, transaction or judgment made in the financial reporting process. During audit planning, we made a preliminary assessment of materiality for the purpose of developing our audit strategy, including the determination of the extent of our audit procedures.

During execution of the audit, we will consider whether materiality should be re-assessed due to changes or events identified. At completion, we will consider not only the quantitative assessment of materiality, but also qualitative factors, in assessing the impact on the consolidated financial statements, our audit opinion and whether matters should be brought to your attention.

# Considerations

The following is a summary of matters that relate to changes to the Municipality and its environment that were considered in preparing our audit plan.

Matter	Discussion and impact
<b>Municipality specific changes or transactions</b>	At the time of planning, the audit team did not identify any changes in circumstances or significant transactions that would have an impact on the audit approach or should be communicated to the Audit Committee.
<b>Laws and regulations</b>	<p>An audit of financial statements is not designed to detect all instances of non-compliance with laws and regulations and does not represent an audit of the Municipality's compliance with applicable laws and regulations, however, if we become aware of any instances of non-compliance through our audit procedures we will communicate these to management and those charged with governance.</p> <p>While we have not identified any instances of non-compliance, we would like to know if you are aware of any instances of non-compliance.</p>
<b>Fraud</b>	<p>We are responsible for obtaining reasonable assurance that the consolidated financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected and this is particularly true in relation to fraud. The primary responsibility for the prevention and detection of fraud rests with those charged with governance and management.</p> <p>During our audit planning, we enquired of management as to their views on the risks of fraud and their processes for identifying and assessing fraud risks. We are not aware of any fraud-related matters that could affect our audit approach. However, we would like to obtain your input on the following areas:</p> <p>How you oversee management's processes for identifying and responding to the risks of fraud and the related internal controls that management has put in place</p> <p>Whether you are aware of any actual, suspected or alleged fraud affecting the Municipality</p>

## Significant risks

We identified the following significant risks on which we plan to focus our attention:

Area of risk	Why there is a risk	Planned audit response
<b>Fraud risk from revenue recognition</b>	There is a presumed risk of fraud in revenue. The risk primarily relates to tax, water, sewer, and other rate based revenues recognized including the appropriate cut off of these revenues.	<ul style="list-style-type: none"> <li>Perform recalculation of tax revenue from assessments provided by PVSC and approved tax rates.</li> <li>Perform a test of details on the transactions within the applicable revenue accounts. A test of details involves selecting a sample and tracing the items selected to the underlying supporting documentation, either in the form of invoices, statements of account, service contracts, or other similar items.</li> <li>Request confirmations of year-end receivable balances and/or trace receipt of subsequent payments</li> <li>Compare recorded revenues against expected amounts and perform further verification procedures on unexpected variances</li> </ul>
<b>Fraud risk from management override / segregation of duties</b>	This is a presumed fraud risk. Management is in a unique position where they are responsible for the design and implementation of controls over these financial reporting processes while also able to circumvent controls in order to relies personal gain, insert bias or otherwise manipulate financial information.	<ul style="list-style-type: none"> <li>Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Review accounting estimates for biases</li> <li>Evaluate the business rationale for significant transactions that are or appear to be outside the normal course of business</li> </ul>

## Other audit risks

Other areas we have identified where we plan to focus our attention are as follows:

Area of risk	Why there is a risk	Planned audit response
<b>Accounts payable understated or not recorded in the correct period</b>	The accounts payable balance may be understated due to unidentified obligations as at the year-end date	<ul style="list-style-type: none"> <li>Perform a search for unrecorded liabilities</li> <li>Inquiry procedures, including corroborating follow-up investigations were considered necessary</li> <li>Analytical procedures and testing of operating expenses incurred throughout the period</li> </ul>
<b>Compensated absences obligations and expenses understated</b>	Compensated absence obligations require a great deal of judgement and estimation pertaining to expected future outcomes. The related assumptions and calculations often require the expertise of a third party actuary.	<ul style="list-style-type: none"> <li>Trace recognized obligations and expenses to the actuarial valuation and review of the key facts and assumptions used in preparing the valuation.</li> </ul>

# Other planning matters

The following is a discussion of relevant planning matters we have considered that are specific to the Municipality of the County of Kings.

## Group audit

In forming our opinion on the consolidated financial statements, the type of work we plan to perform on the financial information of the components is as follows:

Component	Component auditor	Audit response and engagement team involvement
<b>Valley Regional Solid Waste-Resource Management Authority</b>	<b>Levy Casey Carter MacLean</b>	<ul style="list-style-type: none"> <li>Significant components based on size and audit risk, the engagement team will take a targeted approach:</li> <li>Perform procedures on significant transactions and areas of significant risk</li> <li>Review audit working papers</li> <li>Where necessary, maintain regular communication with the component auditor</li> </ul>
<b>Kings Regional Rehabilitation Centre</b>	<b>Morse Brewster Lake</b>	
<b>Kings Transit Authority</b>	<b>BDO LLP</b>	<ul style="list-style-type: none"> <li>Non-significant components based on size and audit risk, the engagement team will take an analytical approach:</li> <li>Perform analytical procedures and where necessary, perform further audit procedures.</li> </ul>
<b>Valley Community Fibre Network Authority</b>	<b>Grant Thornton</b>	
<b>Valley Regional Enterprise Network</b>	<b>Bishop &amp; Company</b>	

We will coordinate our audit efforts with any component auditors and discuss/communicate relevant audit matters such as materiality, risk assessment, areas of audit focus, timing and required information for our audit of the consolidated financial statements. Our risk assessment and level of involvement in the work of component auditors varies depending on the significance of the component and may include a site visit(s), detailed review of their working papers and performing supplemental audit procedures as appropriate.

## Use of experts

We intend to use the work of independent third-party specialists for the valuation of future employee benefits.

The Municipality obtained actuarial valuations for employee sick leave benefit obligations in fiscal 2017. Audit procedures relating to the valuations included evaluation of the expert's expertise, and the deliverable provided by the expert including the reliability and relevance of their work.

Public sector accounting standards specifies actuarial valuations for accounting purposes would generally be done once every three years. The current period represents the third fiscal period from the original valuation.

# Audit fees

## Estimated fees

Service	Current year fees	Prior year fees
Annual audit	\$ 29,700	\$ 29,450
<b>Total*</b>	<b>\$ 29,700</b>	<b>\$ 29,450</b>

\*before administrative costs, disbursements and applicable taxes

## Deliverables

Deliverable
Communication of audit strategy
Report on the March 31, 2020 consolidated financial statements
Communication of audit results

# Team, timing and communications

## Timing and communications

We are committed to delivering exceptional client service and executing our audit in the most effective, efficient and timely manner. The planned timing of our audit work and the deliverables we will provide to members of the Audit Committee are as follows:

Stage or deliverable	Timing/Status
Planning	March 2020
Discussions and communications regarding planning	May 28, 2020
Performance of substantive audit procedures	July 2020
Communication of audit results	September 2020

In our communication of audit results, we will report on the following matters:

- Our views on significant accounting practices
- Significant difficulties, if any, encountered during the audit
- Misstatements, other than trivial errors
- Actual or suspected fraud or illegal acts
- Significant deficiencies in internal control
- Other significant audit matters, as applicable

## Team

Engagement team member	Role
<b>Gloria Banks, CPA, CA</b> Principal P +1 (902) 749-0036 E Gloria.Banks@ca.gt.com	As Lead Audit Services Principal, Gloria will act as the main point of contact; attending meetings and keeping in contact with management throughout the year.
<b>Jessica Clahane, CPA, CA</b> Senior Manager P +1 (902) 690-2011 E Jessica.Clahane@ca.gt.com	As Senior Manager, Jessica will provide oversight and direction to the field audit engagement team, as well as completing high level file and financial statement review.
<b>Victoria Ells, CPA</b> Senior Accountant P +1 (902) 690-2038 E Victoria.Ells@ca.gt.com	As Senior Accountant for your audit engagement, Victoria will play a leadership role in the audit planning and completion of audit fieldwork under the direction and supervision of both Gloria and Jessica. In this role, she will provide regular updates to the Director of Finance and if any significant issues need to be addressed, Victoria will work with the senior audit services team and the Director of Finance to resolve.



# Technical updates – highlights

## Accounting

Accounting standards issued by the Accounting Standards Board that may affect the Municipality in the current year and future years include:

- **Section PS 3400 Revenues**
- **Section PS 3280 Asset Retirement Obligations**
- **Section PS 3450 Financial Instruments**
- **Revised Conceptual Framework and Revised Reporting Model**

Further details of the changes to accounting standards, including management's preliminary comments on their applicability to the Municipality, are included in the Appendices. If you have any questions about these changes we invite you to raise them during our next meeting. We will be pleased to address your concerns.

## Assurance

Auditing standards issued by the Auditing and Assurance Standards Board that may change the nature, timing and extent of our audit procedures on the Municipality and our communication with members of the Audit Committee include:

- **Amendments to CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report**
- **Revisions to CAS 540, Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures**
- **Revisions to CAS 315, Identifying and Assessing Risks of Material Misstatement**

Further details of the changes to assurance standards, including management's preliminary comments on their applicability to the Municipality, are included in the Appendices. If you have any questions about these changes we invite you to raise them during our next meeting. We will be pleased to address your concerns.

# Appendix A – Overview and approach

Our audit is planned with the objective of obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, so that we are able to express an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with Canadian Public sector accounting standards. The following outlines key concepts that are applicable to the audit, including the responsibilities of parties involved, our general audit approach and other considerations.

## Roles and responsibilities

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<b>Role of the audit committee</b>	<ul style="list-style-type: none"><li>• Help set the tone for the organization by emphasizing honesty, ethical behaviour and fraud prevention</li><li>• Oversee management, including ensuring that management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting</li><li>• Recommend the nomination and compensation of external auditors to the board</li><li>• Directly oversee the work of the external auditors including reviewing and discussing the audit plan</li></ul>
<b>Role of management</b>	<ul style="list-style-type: none"><li>• Prepare financial statements in accordance with Canadian Public sector accounting standards</li><li>• Design, implement and maintain effective internal controls over financial reporting processes, including controls to prevent and detect fraud</li><li>• Exercise sound judgment in selecting and applying accounting policies</li><li>• Prevent, detect and correct errors, including those caused by fraud</li><li>• Provide representations to external auditors</li><li>• Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements</li></ul>
<b>Role of Grant Thornton LLP</b>	<ul style="list-style-type: none"><li>• Provide an audit opinion that the financial statements are in accordance with Canadian Public sector accounting standards</li><li>• Conduct our audit in accordance with Canadian Generally Accepted Auditing Standards (GAAS)</li><li>• Maintain independence and objectivity</li><li>• Be a resource to management and to those charged with governance</li><li>• Communicate matters of interest to those charged with governance</li><li>• Establish an effective two-way communication with those charged with governance, to report matters of interest to them and obtain their comments on audit risk matters</li></ul>

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# Audit approach

Our understanding of the Municipality and its operations drives our audit approach, which is risk based and specifically tailored to the Municipality of the County of Kings.

## The five key phases of our audit approach



Phase	Our approach
<b>1. Planning</b>	<ul style="list-style-type: none"> <li>We obtain our understanding of your operations, internal controls and information systems</li> <li>We plan the audit timetable together</li> </ul>
<b>2. Assessing risk</b>	<ul style="list-style-type: none"> <li>We use our knowledge gained from the planning phase to assess financial reporting risks</li> <li>We customize our audit approach to focus our efforts on key areas</li> </ul>
<b>3. Evaluating internal controls</b>	<ul style="list-style-type: none"> <li>We evaluate the design of controls you have implemented over financial reporting risks</li> <li>We identify areas where our audit could be more effective or efficient by taking an approach that includes testing the controls</li> <li>We provide you with information about the areas where you could potentially improve your controls</li> </ul>
<b>4. Testing accounts and transactions</b>	<ul style="list-style-type: none"> <li>We perform tests of balances and transactions</li> <li>We use technology and tools, including data interrogation tools, to perform this process in a way that enhances effectiveness and efficiency</li> </ul>
<b>5. Concluding and reporting</b>	<ul style="list-style-type: none"> <li>We conclude on the sufficiency and appropriateness of our testing</li> <li>We finalize our report and provide you with our observations and recommendations</li> </ul>

Our tailored audit approach results in procedures designed to respond to an identified risk. The greater the risk of material misstatement associated with the account, class of transactions or balance, the greater the audit emphasis placed on it in terms of audit verification and analysis.

Throughout the execution of our audit approach, we will maintain our professional skepticism, recognizing the possibility that a material misstatement due to fraud could exist notwithstanding our past experiences with the Municipality and our beliefs about management’s honesty and integrity.

## Internal control

Our audit will include gaining an understanding of the Municipality's internal control over financial reporting. Our understanding will focus on processes associated with the identified risk areas, as described in this report. We use this understanding to determine the nature, extent and timing of our audit procedures.

Our understanding may also result in valuable internal control findings for your consideration. Note that the auditor's objectives with regards to internal control are different from those of management and those charged with governance. For example, we primarily target controls that relate to financial reporting and not those that relate to the Municipality's operations or compliance which may also be relevant to its objectives. Therefore, management and those charged with governance cannot solely rely on our findings to discharge their responsibilities in this area.

## Quality control

We have a robust quality control program that forms a core part of our client service. We combine internationally developed audit methodology, advanced audit technology, rigorous review procedures, mandatory professional development requirements, and the use of specialists to deliver high quality audit services to our clients. In addition to our internal processes, we are subject to inspection and oversight by standard setting and regulatory bodies. We are proud of our firm's approach to quality control and would be pleased to discuss any aspect with you at your convenience.

## IDEA Data Analysis Software

We apply our audit methodology using advanced software tools. IDEA Data Analysis Software is a powerful analysis tool that allows audit teams to read, display, analyze, manipulate, sample and extract data from almost any electronic source. The tool has the advantages of enabling the audit team to perform data analytics on very large data sets in a very short space of time, while providing the checks, balances and audit trail necessary to ensure that the data is not corrupted and that the work can be easily reviewed. SmartAnalyzer, an add-on to IDEA, further improves the efficiency and effectiveness of the audit by providing automated routines for certain common analytical tasks, such as identifying unusual and potentially fraudulent journal entries. Grant Thornton continues to invest in developing industry-leading audit data analytical tools.

# Appendix B – PSAS

## Accounting developments

Public Sector Accounting Standards	Effective date
<p><b>Section PS 3400 Revenues</b></p> <p>New Section PS 3400 <i>Revenue</i> establishes standards on how to account for and report on revenue. It does not apply to revenues for which specific standards already exist, such as government transfers, tax revenue or restricted revenues. The Section distinguishes between revenue that arises from transactions that include performance obligations (i.e., exchange transactions) and transactions that do not have performance obligations (i.e., non-exchange transactions). The main features of the new Section are:</p> <ul style="list-style-type: none"><li>• Performance obligations are defined as enforceable promises to provide specific goods or services to a specific payer</li><li>• Revenue from transactions with performance obligations will be recognized when (or as) the performance obligation is satisfied by providing the promised goods or services to the payer</li><li>• Revenue from transactions with no performance obligations will be recognized when a public sector entity has the authority to claim or retain the revenue and identifies a past transaction or event that gives rise to an asset</li></ul>	<p>Fiscal years beginning on or after April 1, 2022.</p> <p>Earlier adoption is permitted.</p>
<p><b>Section PS 3280 Asset retirement obligations</b></p> <p>New Section PS 3280 <i>Asset Retirement Obligations</i> establishes standards on how to account for and report a liability for asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.</p> <p>Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use.</p> <p>As a result of the issuance of Section PS 3280, the Public Sector Accounting Board (PSAB) approved the withdrawal of Section PS 3270 <i>Solid waste landfill closure and post-closure liability</i> as asset retirement obligations associated with landfills will be within the scope of PS 3280. PS 3280 does not address costs related to remediation of contaminated sites, which will continue to be addressed in Section PS 3260 <i>Liability for contaminated sites</i>. Some consequential amendments have been made to PS 3260 to conform with PS 3280 and further clarify the scope of each standard.</p>	<p>Fiscal years beginning on or after April 1, 2021.</p> <p>Earlier adoption is permitted.</p>
<p><b>Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation, Section PS 1201 Financial statement presentation, and PS 3041 Portfolio investments</b></p>	

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**Public Sector Accounting Standards****Effective date**

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PS 3450 *Financial instruments* is a new Section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Some highlights of the requirements include:

- a public sector entity should recognize a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument
- financial instruments within the scope of the Section are assigned to one of two measurement categories: fair value, or cost / amortized cost
- almost all derivatives are measured at fair value
- fair value measurement is required for portfolio investments in equity instruments that are quoted in an active market
- other financial assets and financial liabilities are generally measured at cost or amortized cost
- until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses
- when the public sector entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category
- additional disclosures with respect to financial instruments will be required, including the nature and extent of risks arising from a public sector entity's financial instruments

PS 2601 *Foreign currency translation* revises and replaces Section PS 2600 *Foreign currency translation*. Some highlights of the requirements include:

- the deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued
- until the period of settlement, foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations

PS 1201 *Financial statement presentation* revises and replaces Section PS 1200 *Financial statement presentation*. The main amendment to this Section is the addition of the statement of remeasurement gains and losses.

PS 3041 *Portfolio investments* revises and replaces Section PS 3040 *Portfolio investments*.

The issuance of these new sections also includes consequential amendments to:

- *Introduction to accounting standards that apply only to government not-for-profit organizations*
  - PS 1000 *Financial statement concepts*
  - PS 1100 *Financial statement objectives*
  - PS 2125 *First-time adoption by government organizations*
  - PS 2500 *Basic principles of consolidation*
  - PS 2510 *Additional areas of consolidation*
  - PS 3050 *Loans receivable*
  - PS 3060 *Government partnerships*
  - PS 3070 *Investments in government business enterprises*
  - PS 3230 *Long-term debt*
  - PS 3310 *Loan guarantees*
  - PS 4200 *Financial statement presentation by not-for-profit organizations*
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The new requirements are all required to be applied at the same time.

For governments - Fiscal years beginning on or after April 1, 2021. This effective date was amended in March 2018.

For government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook - Fiscal years beginning on or after April 1, 2012.

For all other government organizations - Fiscal years beginning on or after April 1, 2021. This effective date was amended in March 2018.

Earlier adoption is permitted.

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**Public Sector Accounting Standards****Effective date**

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PSG-6 *Including results of organizations and partnerships applying fair value measurement* was withdrawn as a result of the issuance of these sections.

In January 2019, the PSAB issued an exposure draft to clarify aspects of the Section's application and add new guidance to the transitional provisions of Section PS 3450.

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**Section PS 3430 Restructuring transactions**

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction.

Fiscal years beginning on or after April 1, 2018.

A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and individual liabilities transferred. The main requirements in the new Section are:

Earlier adoption is permitted.

- The net effect of a restructuring transaction is recognized as revenue or an expense by the entities involved (transferor/recipient)
- The recipient must recognize the individual assets and liabilities received in a restructuring transaction at their carrying amounts with applicable adjustments at the restructuring date
- The transferor and recipient cannot restate their financial position or results of operations as if the transaction had happened from inception
- The transferor and recipient must disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations

The issuance of this new Section also resulted in consequential amendments to Section PS 3050 *Loans receivable*.

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# Appendix C – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
<p><b>Amendments to CAS 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i></b></p> <p>New reporting standards were required to be applied for audits of entities with periods ending on or after December 15, 2018. One of the updated standards, CAS 701, dealt with the requirements when the auditor would be communicating matters judged to be most significant to the audit in the audit report, either because the auditor had chosen to do so or because law or regulation required key audit matters to be described in the auditor's report.</p> <p>In late 2019, the AASB finalized further amendments to the auditor reporting standards such that auditors would be required to communicate key audit matters in the auditor's report for complete sets of general purpose financial statements of entities listed on the Toronto Stock Exchange (TSX) and other listed entities, excluding entities required to comply with National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> ("NI 81-106").</p>	<p>The communication of key audit matters in the auditor's report is required for audits of entities listed on the TSX, other than entities required to comply with NI 81-106, for periods ending on or after December 15, 2020 and for other listed entities, other than entities required to comply with NI 81-106, for periods ending on or after December 15, 2022.</p>
<p><b>Revisions to CAS 540 <i>Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures</i></b></p> <p>In June 2018, the IAASB approved a revised version of ISA 540 <i>Auditing Accounting Estimates and Related Disclosures</i>. In revising the standard, the IAASB focused on improving the scalability of the ISA to very simple accounting estimates, as well as the most complex accounting estimates. The standard was also revised to clarify the relationship between ISA 540 (revised) and the other ISAs and the requirements when using the work of management's expert as audit evidence in testing how management made the accounting estimate. The AASB concluded that the changes to the ISA would be adopted as CASs, with no special amendments being necessary with respect to the Canadian auditing environment.</p>	<p>The revised standard is effective for audits of financial statements with periods beginning on or after December 15, 2019.</p>
<p><b>CSAE 3530 - <i>Special Considerations - Attestation Engagements to Report on Compliance</i> and CSAE 3531 - <i>Special Considerations - Direct Engagements to Report on Compliance</i></b></p> <p>These standards set out specific requirements and application material applicable when applying CSAE 3000 or CSAE 3001 (discussed above), as appropriate, to engagements to report on compliance.</p> <p>CSAE 3530 and CSAE 3531 will replace the following sections:</p> <ul style="list-style-type: none"><li>• Section 5800 - <i>Special Reports - Introduction</i></li><li>• Section 5815 - <i>Auditor's Reports on Compliance with Agreements, Statutes and Regulations</i></li><li>• Section 8600 - <i>Reviews of Compliance with Agreements and Regulations</i></li><li>• Paragraphs PS 5300.11-13 of <i>Auditing for Compliance with Legislative and Related Authorities in the Public Sector</i></li></ul> <p>The public interest considerations behind this project are to improve consistency in how practitioners perform these types of engagements and to require more transparency and clarity in reporting.</p>	<p>CSAE 3530 and CSAE 3531 are effective for compliance reports dated on or after April 1, 2019, with early adoption permitted.</p>



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**Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB**

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**Effective date****Section 7170 Auditor's Consent to the Use of the Auditor's Report in Connection with a Designated Document**

The AASB amended Section 7170 to include certain materials from Section 7500. Section 7500 has been withdrawn. The change to the structure of the Handbook makes it clear what standard the auditor must use when providing consent. The revised Section 7170 is used when the auditor is requested to provide consent in connection with audited financial statements or a document containing audited financial statements being filed with securities regulatory authorities (unless the document is addressed by Section 7150). Such items may be included to assist officers and directors of the entity (or acquirer of a business in the case of consent in connection with a Business Acquisition Report) in conducting a reasonable investigation for purposes of a due diligence defence or similar.

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The revised standard is applicable for consents issued on or after June 1, 2019.

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**Canadian Auditing Standards (CASs) and other Canadian Standards approved by the AASB but not issued**

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**Effective date****Revisions to CAS 315 Identifying and Assessing Risks of Material Misstatement**

In July 2018, the IAASB issued an Exposure Draft proposing changes to ISA 315 that could drive more consistent and effective identification and assessment of the risks of material misstatement by auditors. The AASB published an Exposure Draft of the equivalent Canadian standard, which included the same proposed revisions as the ISA with no Canada-specific amendments. The revised CAS 315 has been approved and is expected to be issued in the May 2020 CPA Canada handbook update. Key amendments to the standard include the following:

- Focusing on the applicable financial reporting framework in identifying and assessing risks of material misstatement
  - Updating the understanding of the system of internal control, including clarifying the work effort for understanding each of the components of internal control and "controls relevant to the audit", as well as the relationship between this understanding and the assessment of control risk
  - Updating aspects relating to IT, in particular to the IT environment, the applications relevant to the audit and general IT controls relevant to the audit
  - Introducing the new concepts of inherent risk factors, relevant assertions, significant classes of transactions, account balances and disclosures, and the spectrum of inherent risk
  - Separating the inherent risk and control risk assessments for assertion level risks, enhancing the requirements relating to financial statement level risks, and updating the definition of "significant risks"
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Periods beginning on or after December 15, 2021.

Municipality of the County of Kings  
Audit Committee Work Plan – Update May 28, 2020

Item	Description	Summarized Approach	Target Date	Responsibility	Update
1	Detailed Review of the Municipality's Financial Statements and audit management letters	Financial statements will be presented annually to the committee by our municipal auditors at the conclusion of the annual audit. Items discussed will include annual financial results, any management letter points, and any internal control weaknesses identified.	<b>Annually</b> on or before the Provincial filing deadline of September 30	- Finance Dept. will organize external auditors to make required presentation	<b>Last approved at Special Council on Nov 19, 2019</b>
2	Review of annual Hospitality Summary Report <a href="#">Link to approved Hospitality Policy FIN-05-020</a>	Municipalities are required to submit an annual summary report of hospitality expenditures which must first be reviewed by the audit committee.  Staff will present the summary annually for review by the committee	<b>Annually</b> on or before the Provincial filing deadline of September 30	- Finance Dept. will provide the summary report	<b>Last presented to the committee in Sept 2019</b>
3	Review of annual Business Expense Summary Report <a href="#">Link to approved Business Expense Policy FIN-05-008</a>	The Financial Reporting and Accounting Manual (FRAM) which are regulations under the Municipal Government Act has new provisions regarding expense requirements. <ul style="list-style-type: none"> <li>• Municipalities are required to adopt an expense policy</li> <li>• Quarterly summaries of expenses for Reportable Individuals (Mayor, Councilors, and CAO) must be posted to the municipal website.</li> <li>• An annual summary report must be filed with the Province – this report must be reviewed by the Audit Committee</li> </ul> Staff will present the summary annually for review by the committee	<b>Annually</b> on or before the Provincial filing deadline of September 30	- Finance Dept. will provide the summary report	<b>Last presented to the committee in Sept 2019</b>

Municipality of the County of Kings  
Audit Committee Work Plan – Update May 28, 2020

Item	Description	Summarized Approach	Target Date	Responsibility	Update
4	Audit Committee Training <a href="#">Link to FRAM</a>	<p>FRAM requires that committee members receive training on their roles.</p> <p>The Province has developed training modules which are available to be completed by the committee on-line or in person by DMAH.</p> <p>Internal Training modules have been developed for the committee members.</p>	<p>Provincial training – individually complete on-line training by Mar 25, 2020 &amp; new date TBD for in person training if needed.</p> <p>Internal Module #4: Provincial Reporting Requirements – Staff presentation at the April meeting</p>	<p>- Finance Dept. under management of Director of Finance</p>	<p><b>Letter sent to DMAH as moved at the April committee meeting.</b>  <b>Staff will bring forward an RFD to a future meeting to address the concerns discussed at the April meeting related to the provincial training modules (4&amp;5) by updating the work plan.</b></p> <p><u>Historical Information:</u>            - Municipal Auditors presented in Jan 2019            - All (4) internal training Modules completed            - All members of the committee have completed the provincial on-line training</p>
5 5 cont'd	Review of Processes and Controls/ development of documented standard operating procedures.	<p>Procedures and controls are currently in place for finance activities and are reviewed annually as part of the financial statement audit. However a more detailed examination has not taken place in recent years. Having the processes reviewed in detail by an external party will provide assurance over existing controls and also provide recommendations for areas of improvement while identifying any potential weaknesses.</p> <p>Grant Thornton, a firm that specializes in this type of engagement and are familiar with the current operations are to be engaged to provide a detailed external review of each process. Deliverables will include recommendations for any areas of improvement and documentation of current and/or suggested processes with standard operating procedures. Having these processes documented will ensure procedures are properly followed and will also assist in times of staff transition.</p> <p>Once the engagement is complete Grant Thornton will present their findings including any areas of weakness</p>	<p>Areas of focus for 2019/20:</p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Tax Sale</li> </ul> <p>Approved at February 5, 2019 Council meeting</p>	<p>- Director of Finance and Manager of Financial Reporting</p>	<p><b>A briefing is currently under review by the CAO; this will be the final report to the committee to close the reviews of these focus areas.</b></p>



Municipality of the County of Kings  
Audit Committee Work Plan – Update May 28, 2020

Item	Description	Summarized Approach	Target Date	Responsibility	Update
		Spending levels and authority levels should also be reviewed Fin-05-016 Procurement Card will need to be updated for any changes made to the Procurement Policy.			
8	Review of annual Financial Condition Indicators (FCIs)	Financial Condition Indicators will be presented annually to the committee by municipal staff. (Actual and forecasted impact to be included)	Annually Actual – after completion of audited financial statements and before September 30 <sup>th</sup> Forecast – prior to completion of budget	- Finance Dept. staff to schedule presentation to committee annually	<b>Last reviewed at the December 19, 2019 Audit Committee meeting with updated information included as correspondence in the February 27, 2020 agenda package.</b>
9	Assessment of Auditors	Annual review of auditors reporting noting any items to be added to future reports. Recommendation of auditor appointment in discussions with management.	Annually after completion of financial audit and presentation of auditors' report	- Committee to schedule a review after auditors' reports have been received. - Finance Dept. staff	<b>Last approved by committee on December 19, 2019 and Council approved this motion March 2020.</b>
10	Management report on Compliance	Review a report from management confirming compliance and reporting requirements.	<b>Annually</b> on or before September 30 <sup>th</sup>	- Finance Dept. staff to provide report. - Committee to ensure report is provided annually	<b>Last presented to the committee in Sept 2019</b>
11	Review of approved Municipal Budget	Once Council has approved the annual Municipal budget, the committee will review the document to familiarize themselves with the details.	Annually at the committee meeting following Council approving the budget.	- Finance Dept. staff present a review of approved Municipal Budget at a committee meeting following the approval.	<b>2020/21 Municipal budget was approved April 9, 2020. An overview of the approved budget was reviewed by the committee April 23, 2020. An update on supplementary budget will be provided at May 28, 2020 meeting</b>