



West Hants
something inspiring awaits

**WEST HANTS REGIONAL MUNICIPALITY
Audit Committee – Meeting Agenda
December 9, 2022, 1:00 p.m.
Via Zoom and Facebook Livestreamed**

1. Call to Order
2. Declaration(s) of Conflict of Interest
3. Announcements
4. Approval of Agenda, including additions or deletions
5. Approval of June 6, 2022 Minutes, including additions or deletions
6. New Business
 - (a.) Presentation of Financial Statements – Andy Forse, Kent & Duffett
 - (b.) Financial Update to October 31, 2022 (time permitting) – Acting Financial Services Director, Diana Gibson
7. Date of Next Meeting
8. Adjournment



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**WEST HANTS REGIONAL MUNICIPALITY
Audit Committee – Meeting Minutes
December 9, 2022, 1:00 p.m.
Via Zoom and Facebook Livestreamed**

Present :	Abraham Zebian	Mayor / Committee Chair
	Jeff Hartt	Councillor, District 4
	Laurie Murley	Councillor, District 10
	Jane Davis	Resident Member
	Kathryn Duffy	Resident Member
	Andy Forse	Auditor, Kent & Duffett
	Diana Gibson	Acting Director of Financial Services
	Mark Phillips	Chief Administrative Officer (CAO)
	Carmen Dewar-Miller	Admin Assistant, Financial Services

1. Call to Order – Mayor Zebian called the meeting to order at 1:00 p.m.
2. Declaration(s) of Conflict of Interest – No declarations
3. Announcements – No announcements
4. Approval of Agenda, including additions or deletions

**MOVED by Councillor Murley and Resident Member Davis that the agenda be approved.
Motion Carried.**

5. Approval of June 6, 2022 Minutes, including additions or deletions

**MOVED by Councillor Hartt and Resident Member Davis that the minutes be approved.
Motion Carried.**

6. New Business
 - (a.) Presentation of Financial Statements - Andy Forse, Kent & Duffett

Auditor Forse stated that his presentation would not be as lengthy as last year (the first year for full results for the West Hants Regional Municipality). Last year's audit brought some unique results and quirks to the financial process that were not applicable to this year's audit.

Auditor Forse advised that he would briefly review the audit process to give an idea of what an audit is, what it is and is not designed to accomplish and a summary of findings. He will conclude with the management letter (a required piece of documentation from the province of Nova Scotia), which summarizes the key components of the audit, items found that might require improvement or other issues discovered through the audit process this year.

Auditor Forse reviewed the audit concepts of reasonable assurance and materiality. Reasonable assurance is approximately 95-98% accurate. Auditors need enough, high-quality, persuasive evidence to provide reasonable assurance. Materiality is the qualitative concept of the magnitude of a misstatement. How much of a misstatement would change a person with reasonable financial and business expertise's opinion of the financial results. \$200,000 is the qualifying quantitative magnitude of misstatement that would change someone's opinion. A transposition error of \$500,000 would change opinion as would an undetected theft of \$50,000 cash. Any type of misstatement could be material if it changes opinion.

Auditors gather a large amount of evidence using software, AI and sophisticated ratio techniques to form their opinion. They allow the evidence to guide them. There were some corrections made within the West Hants audit, but the auditors are prepared to present an audit opinion in the form of an "unqualified" audit report, that the financial statements are free from material misstatement. No reasonable person's opinion would change by anything that hasn't been corrected.

An unqualified opinion in this case means that there are no qualifications (i.e., "yes but" or "except for"). In the auditors' opinion, all areas of the financial statements are clear from financial misstatement.

Auditors take a risk-based approach. Areas deemed to be higher risk (i.e., inappropriate expenditures), get more thorough testing. Areas deemed to be lower risk (i.e., prepaid expense account), get less extensive testing. Auditors do not ensure everything is correct to the penny. They look for a reasonable level of precision.

The most common user of these financial statements would be West Hants' lender, Municipal Finance Corporation (MFC). They lend the municipality money for capital projects and their opinion towards lending to the municipality could change based on audit results.

Auditors test for fraud and misappropriation of assets (theft). No evidence of either issue was discovered. West Hants has controls in place that are sufficiently designed and operating to a satisfactory degree to prevent fraud. Auditors have a difficult task when it comes to detecting collusion. There is no reason to suspect collusion. It is a rare occurrence in municipal and business auditing. No evidence of intentional misstatements whatsoever.

Auditor Forse concluded his summary of the audit process and asked for any questions.

Councillor Hartt asked how many corrections were required.

Auditor Forse replied that there were in excess of 30 but not to 40. A higher volume than they are used to seeing and can be attributed in part to the fact that key financial staff were missing for the audit.

It is normal to see a trivial number of corrections, especially with thousands of accounts. The odds of being completely accurate are low. Less than 10 would be a normal year (on any audit). They conduct audits where they see in excess of 50 to 100 corrections. West Hants is not at the top end of the scale. More corrections than usual and more than the auditors would like to see.

Resident Member Duffy asked if Auditor Forse feels that this is a one-time issue due to the extenuating circumstances (absences), or indicative that further discussion within or outside of Audit Committee is required.

Auditor Forse replied that the number of corrections was at least significantly affected by the absence of key financial staff. He has recommendations for staff training and mentoring that would be useful to existing staff, especially when they are recently elevated to a new role or taking on new duties. Current staff are extremely capable and hardworking but somewhat inexperienced and could have used more support. Important to point out that municipal accounting is in the top three or four most challenging types of accounting in the industry here in Canada. It has its own set of indicators and processes. The financial reporting is unique to itself. Extensive on-the-job training is required after hiring as it is difficult to prepare in advance for municipal accounting.

An attempt was made to bring in extra support but that attempt failed. It is challenging to find financial staff right now. This year staff did not have the resources they needed. Probably a one-time occurrence. It would not be an unwise decision to provide staff with mentoring and extra training. In Auditor Forse's opinion, this is the most important topic on the agenda today.

Resident Member Duffy asked CAO Phillips if it would be appropriate for staff to prepare a short implementation plan related to Auditor Forse's recommendations, to be ready for the next Audit Committee meeting.

CAO Phillips advised that pending the reading of the management letter and receipt of Auditor Forse's recommendations, there will be steps going forward. The municipality does have resources (external and internal) that could help provide customized and generic support across the department.

At this point Auditor Forse read the management letter. Key takeaways included:

- Errors in the financial results
 - During the audit process they identified a high volume of unintentional misstatements in the recorded financial results for the period under audit that were not initially identified by the entity's internal controls or

- financial reporting process. This includes misstatements involving estimation, judgement and account balances.
- They performed additional testing and concluded the nature of the misstatements to be unintentional (no fraud or misappropriation of assets was detected).
 - Acknowledgement of the circumstances around the audit period with key staff missing and difficulties finding suitable replacement short-term.
 - Their implication of this issue would be that it is not unusual for there to be trivial amounts of misstatements both in volume and magnitude. The volume of misstatements this year was significant and would have resulted in material misstatement had they not been corrected.
- Recommendations
 - Based on their audit they conclude that the municipality should invest resources in additional temporary staff when key financial personnel are away from their duties for extended periods of time.
 - Additional training and mentoring to key financial staff especially for new staff or when staff roles are elevated or they take on new duties.
 - An internal review process to perform an ongoing review of the accuracy of financial information on a regular basis. Performing monthly or quarterly reviews will ensure misstatements are identified and corrected prior to the audit process.

Auditor Forse offered the following additional comments:

- There is some review that happens on the income statement side.
- There is a wonderful financial presentation performed regularly, summarizing how the municipality is doing on revenues and expenses, with comparisons to budget and year-to-year.
- The vast majority of corrections this year were all along the balance sheet side, hence the need for a comprehensive quarterly review.
- Cash was not misstated. Robust reconciliation process in place.
- One area that could use more attention going forward is Payables. Liabilities were showing higher / worse than they actually were.
- Balance sheet side is not as critical as income and expense but still important.
- Interest expense was off.
- It may resolve itself in one- or two-year's time, depending on key absences.

Councillor Hartt asked if this led to the longer time to complete the audit.

Auditor Forse advised that it did. The process became very slow. On the balance sheet side, significant time was required to test and make corrections.

Councillor Hartt asked if there was no way to speed up the audit process to get us here before December?

Auditor Forse replied that last year was a very difficult, extremely unique audit process. There hasn't been a similar example of two municipal units creating a new municipal

unit. Kent and Duffett were under the gun non-stop to the end of October. As a result, Auditor Forse did not feel entirely comfortable with a few trivial items that lingered into this year's audit. Very small in terms of magnitude but the auditors were not prepared to wrap things up quickly without the normal two-to-three-week quality control process at the end of the audit. Ensures auditors have a level of comfort with their audit file. This meeting could not have been held sooner.

Auditor Forse moved on to the financial results, stating that they were positive. He started with the Statement of Financial Activities, noting that the 2021 numbers included a one-time Conditional Transfer of almost \$16 million. It is more accurate to compare 2022 to budget. He pointed out three items when comparing this year's actuals to budget which would explain higher than budgeted revenues:

- Taxes are considerably over budget (good, more revenue), mainly a result of the Deed Transfer Tax (\$1 million over budget).
- "Other", which has no budgeted line, represents mostly capital grants and other non-budgeted grants received. A healthy amount of grants came in.
- Unconditional Transfer, formerly called an equalization grant, now referred to as a financial capacity grant from the province of Nova Scotia. Appears to be twice as much as last year, double the amount budgeted. Great news.
- Of note as well, Proceeds from Disposal of Assets are rarely budgeted for, but this year brought in \$415,000.

On the Expenditure side, Auditor Forse noted:

- \$4.4 million amortization is not an unexpected item, a variance in budget due to a quirk in the system. There is a Public Sector accounting requirement to provide budget for water assets but not general capital fund. Difference between budgeted and actual amortization is always going to look ridiculous in Auditor Forse's opinion.
- Expenditures are consistent to last year and down a little bit. Nice to see solid quality control over expenditures.
- Other Transfers (such as MFC loans) decreased a little bit, lovely to see.
- There is nothing alarming or unusual within expenditure line items.

On the Balance Sheet / Statement of Financial Position Auditor Forse identified the municipality's cash position (indicative of how the year went), has improved significantly. Seeing a \$3 million increase in cash and almost \$2 million increase in payables. Nothing alarming, the cash increase is a nice sign.

Audit Committees should always be asking, is the municipality properly funded? While not offering a recommendation or conclusion, Auditor Forse can point to areas in the financial statements that are indicative. Cash plus receivables less accounts payable – have results gone up or down? The municipality has gone up nearly a million dollars, great to see.

Auditor Forse pointed out that the municipality's tangible assets have increased. \$6.5 million in capital assets less the \$4.4 million in amortization, some paid in cash/operations. Healthy looking balance sheet. Fine use of cash and debt servicing is

well within expected ranges. Common and not alarming to see a net debt position - most municipal units are heavily invested in tangible capital assets. It has come up since last year. Nice to see a trend towards a net assets position. All points to signs of a well-run, well-funded municipal unit.

Auditor Forse is happy to answer questions. It was a good, solid, strong year. Expenditures remained consistent with an increase in revenues due in large part to the Financial Capacity Grant (ongoing), and Deed Transfer Tax.

Councillor Hartt asked how the money from ACOA for the Martock project affects our balance.

Auditor Forse responded that this money comes in and briefly hits a reserve account until a matching expenditure comes in (\$1.2 million). Expenditures aren't fully spent. Not all of that amount would technically hit the income statement. The full \$1.2 is not recorded until you meet the matching expenditure. This is a side quirk of public accounting. Happens if you spend operational cash on capital assets. Expenditures would fall under Rec he believes and can find out. Councillor Hartt would like that information.

Mayor Zebian questioned the Valley Resource Management line under Financial Assets.

Auditor Forse responded that this has been a lingering issue for a few years. Director Rochon has made a significant attempt to resolve it one way or another. There is not enough accounting evidence to take it off our financial statements. He cannot make any recommendations on what should be done legally. Accounting evidence is required to show that it doesn't belong there, and so far this has not been available. He suggested making it an agenda item when Director Rochon returns.

Auditor Forse reminded committee members that statements remain in "draft format" and are considered confidential until they are approved by council at the next meeting.

Councillor Hartt asked about councillors' expenses. What if a councillor did not have any expenses? Are expenses still allowed to be allotted to that councillor?

Auditor Forse replied that there are certain types of expenses such as training that would be allocated to councillors. The auditors do very thorough testing on that area specifically as it is highly sensitive. Kent and Duffett made the recommendation to publicize council expenses and this recommendation was adopted province wide. Nothing at all was unreasonable for any councillor.

Councillor Hartt asked if is it normal procedure for CAO expenses to also be there?

Auditor Forse responded yes. This is mandated under the Municipal Finance Act and these expenses are recorded (top of the list).

Mayor Zebian offered the committee's thanks to Auditor Forse who in turn thanked municipal staff, particularly Acting Director Gibson. This process does not happen without the cooperation of staff.

Auditor Forse leaves the meeting at 2:03pm.

Acting Director Gibson presents a drafted motion for the committee to take to council.

**MOVED by Councillor Murley and Resident Member Duffy that Audit Committee recommends that Council approve the West Hants Regional Municipality's Audited Consolidated Financial Statements ending March 31, 2022 as presented to the Audit Committee.
Motion Carried.**

- (b.) Financial Update to October 31, 2022 (time permitting) – Acting Financial Services Director, Diana Gibson

Acting Director Gibson summarized this report for the committee. This is the committee's first meeting regarding the 2022-2023 fiscal year. At this point in the year, current projections show a \$28,000 surplus. On the revenue side the largest contributor to this would be our surplus in Deed Transfer Tax. Originally budgeted to \$1.8 million but due to continuing, heavy activity, the budget number was increased to \$2.1 million. Based on the most recent numbers received, we will likely increase the projection again next month.

On the expense side our largest result for the surplus can be attributed to Salaries and Benefits. Municipal departments continue to struggle to fill positions. At this point in the year, it is unlikely that we will reach full budget.

Mayor Zebian commented that going forward it would be prudent for Council to keep an eye on Deed Transfer, staying on the conservative side in the event that the real estate market goes quiet. We don't want to find ourselves in a deficit.

Acting Director Gibson agrees that it would be a good decision to increase but stay conservative.

7. Date of Next Meeting – Will look to schedule a meeting early in the new year.
8. Mayor Zebian called for a motion to adjourn.

**MOVED by Councillors Hartt and Murley that the meeting be adjourned.
Motion Carried.**

Meeting adjourned at 2:10 p.m.

X

Committee chair