



**West Hants**  
something inspiring awaits

**WEST HANTS REGIONAL MUNICIPALITY  
Audit Committee – Meeting Agenda  
March 11, 2024, 6:00 p.m.  
Council Chambers, 76 Morison Drive, via Zoom & Facebook Livestreamed**

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1. Call to Order
2. Declaration(s) of Conflict of Interest
3. Announcements
4. Approval of Agenda, including additions or deletions
5. Approval of October 16, 2023 Minutes, including additions or deletions
6. Presentation
  - (a.) West Hants Regional Municipality 2023-2024 Audit Plan – Auditor Andy Forse, Kent & Duffett
7. New Business
  - a.) Financial Update to December 31, 2023 – Director Rochon
8. Director's Update – Director Rochon
9. Date of Next Meeting
10. Adjournment



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Audit Committee – Draft Meeting Minutes**

**March 11, 2024, 6:00 p.m.**

**Council Chambers, 76 Morison Drive, via Zoom & Facebook Livestreamed**

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**Present :**

Abraham Zebian	Mayor / Committee Chair
Jeff Hartt	Councillor, District 4
Laurie Murley	Councillor, District 10
Kathryn Duffy	Resident Member
Meagan Halverson	Resident Member
Carlee Rochon	Director of Financial Services
Mark Phillips	Chief Administrative Officer (CAO)
Carmen Dewar-Miller	Admin Assistant, Financial Services
Andy Forse	Auditor, Kent & Duffett

1. Call to Order – Mayor Zebian called the meeting to order at 6:02 p.m.
2. Declaration(s) of Conflict of Interest – there were no conflicts
3. Announcements – Mayor Zebian acknowledged that the West Hants Regional Municipality is in Mi'kma'ki, the ancestral and unceded territory of the Mi'kmaq People. These lands are governed by the Treaties of Peace and Friendship, signed in 1726.
4. Approval of Agenda, including additions or deletions  
**Moved by Councillor Murley and Resident Member Duffy that the agenda be approved.**  
**Motion Carried.**
5. Approval of October 16, 2023 Minutes, including additions or deletions  
**Moved by Councillor Murley and Resident Member Halverson that the October 16, 2023 Minutes be approved.**  
**Motion Carried.**
6. Presentation
  - (a.) West Hants Regional Municipality 2023-2024 Audit Plan – Auditor Andy Forse, Kent & Duffett  
Auditor Forse's team was in recently to begin audit planning and control testing for the year. This will be year four of their five-year audit tender.

Auditor Forse reviewed the concept of materiality. What level of misstatement (error or omission) would change the opinion of a user of the municipality's financial statements. The number assigned to materiality remains unchanged at \$430,000. This number helps them assign some testing levels. The Province (our principal lender) would have a very different threshold than a user (resident). The auditors take that into consideration. While materiality has not changed, would the auditors allow a misstatement of \$420,000 to go uncorrected? Historically they have not. Nor does management want them to let that go unchecked. Even something trivial or the slightest hint of someone wanting a correction, they would make the correction. It has been close to seven years of a good working relationship with Director Rochon to ensure that statements are precise and accurate year to year. It has been a comforting environment to work in and the auditors are excited to start the process this year.

The auditors perform a risk based audit. Their job, in the planning stage especially, is to assess the risks for material misstatements. There are two types of misstatement; intentional (fraud, misappropriation of assets) and unintentional. In excess of 90% of the errors that the auditors come across are unintentional. They have to assess the risk of both.

Last year there were a variety of new audit standards introduced, with Asset Retirement Obligations (ARO) having the biggest impact to the financial statements. There were a significant amount of these to record last year. As this was brand new, the likelihood of error was higher. ARO required extra attention and double the amount of work as on other types of assets or liabilities that were similar in scope.

Auditor Forse did not divulge details or specifics of the areas where the auditors did a higher or lower level of testing as this information could be used by financial staff. They always do some work on every single area but more attention is given to the high risk areas. It is important to note that an audit is not 100% verification. Auditors use their professional judgement and tools at hand to give a high level of precision, providing between 95-98% accuracy and assurance that our financial statements are free from material misstatements.

Auditor Forse's best analogy is the tv show, "Law and Order". The first part of the show involves an investigation and the during the second part, opinions and conclusions based on the evidence gathered are formed. Similar to what auditors do except that they do not take a side, they look from an unbiased, objective position and form their opinions based on the evidence.

Auditors are the only profession that is paid by one entity (municipality) but reports on behalf of the end users of the entity's financial statements (residents).

The auditors do a very thorough level of testing. They have always appreciated West Hants' management's similar thoroughness and precision.

Yearly, the auditors must assess and report on their independence to the Audit Committee. Once again there is no impairment to objectivity, no close personal relationships, no owing of a large amount of money, no harassment, or bullying. In the coming days a letter to this effect will be issued to Director Rochon.

The audit work schedule for year-end will be finalized in the next week or so. Planning went well when they were in for a few days in February. They expect to come back over June, July and August and finish in time to meet the September 30 deadline.

During audit testing there were no findings that raised any suspicions of any type of misstatement, either intentional or unintentional. Auditor Forse will be issuing a letter in approximately a week. It will summarize this meeting and the audit plan in general. In the back of the letter, there will be two questions posed to the audit committee which require a documented response back, either via email or letter. These questions are related to fraud and are as follows:

- What oversight if any do you provide over management's processes for identifying and responding to fraud? These processes could be policies, procedures, programs, controls or general oversight that serve to prevent, detect or deter fraud.
- Do you have any knowledge of actual, suspected or alleged fraud including misappropriation of assets or manipulation of the financial statements? If so, please provide details on how the fraud or allegations of fraud were addressed.

It is important for the auditor to communicate yearly with the Audit Committee on the concept of fraud. Instances of fraud are not common but they have occurred locally/provincially prior to a clean couple of years. Fraud occurs from a breakdown of internal control. Internal controls are a set of policies and procedures that act to detect or prevent fraud. Preventative controls are far superior to detective controls, as detecting means something has actually happened. Preventative controls can be electronic, segregation of duties, approvals, authorizations and oversight.

The Audit Committee should monitor budget. From an audit perspective, closely monitoring how you've met your budget targets is an important oversight function. Studies have shown the number one preventative control was an effective governance oversight function. The second best key control is segregation of duties.

West Hants' controls are designed very effectively. The "gold standard" is met year after year in terms of design effectiveness. Good preventative and detective controls.

You have to assess the design of controls. Are they working as intended? The control must be enforced. This year there was a very, very small occurrence of a missing control in action. One or two unsigned cheques were discovered during planning that were cleared by the bank, who should have picked it up, but didn't.

The auditors do hundreds of samples of internal controls with very few occurrences if any, of a breakdown. The Audit Committee should be happy with that.

Auditor Forse reviewed the following Audit Committee responsibilities:

- Assist and provide direction in the audit vetting process where and when appropriate
- Meet with Auditors as necessary, and prior to release and approval of the financial statements, review the audit disclosures and compliance issues
- Help set the tone of the organization by emphasizing honesty, ethical behaviour and fraud prevention
- Oversee management including ensuring the management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting
- Where necessary review matters raised by the auditors with appropriate levels of management, reporting their findings back to the auditors (management letter follow-up)
- Make known to the auditors any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements that are known to them
- Provide guidance and direction to the auditors on any additional work they feel should be undertaken in response to issues raised throughout the year
- Make inquiries as appropriate into findings of the auditors with respect to corporate governance, management conduct, financial statements, information flow and systems of internal controls, as well as any issues that have popped up during the year through Council or management

- Be able to review draft financial statements including presentations, disclosures and supporting notes and schedules for accuracy, completeness and appropriateness

Committee members should have some high-level, general financial knowledge as well as some knowledge of financial statements and the ability to read and interpret them and raise issues if necessary. West Hants has had a wonderful track record and zero issues along those fronts.

Auditor Forse did update that there are no new standards being introduced this year. There are some new standards coming in the next year and the following year which can be discussed after this audit is completed. There are some minor changes to revenue recognition next year and some fairly comprehensive changes to financial statements the following year.

Auditor Forse was asked who sets the September 30 deadline for completing the audit and has this deadline been met over the last few years.

The province sets this deadline. Two years ago, it was December when the statements were approved. There were significant staff shortages and turnover and a new entity. The Province was okay that year with a deadline extension due to the extraordinary circumstances. Otherwise, the deadline has historically been met.

Auditor Forse mentioned that the only difference last year is that the Financial Indicator Report (FIR) has still not been submitted, but that deadline was extended as the province themselves made changes to the report. It is due imminently (now) but not considered overdue for anything the municipality or the auditors have done.

It was requested that Auditor Forse send his list of Audit Committee responsibilities to the committee members, which he will do.

Auditor Forse was asked if a consultant's report surrounding ARO will be required going forward.

Auditor Forse responded that with regard to the new ARO policy, there was an initial general sense of frustration with lack of guidance from the province surrounding what was needed by way of note disclosures and audit work. Last summer, good clarity was provided including some samples of note disclosures. In addition, more guidance is being provided and comparisons between municipal units' financial statements have created more conformity. There is no talk of requiring a consultant's report, even for the landfill.

Auditor Forse stated that there is really nothing large enough in the Maritimes that he can see that would require a consultant's report. This is good news as a

report like this could take 12-18 months to create and cost hundreds of thousands of dollars. To date, no one has felt there have been any gaps in the process that would require a consultant's report.

More detail was requested surrounding the internal controls piece, specifically with regard to the unsigned cheques.

Auditor Forse advised that 75% of testing was completed during their planning phase in February and the balance of testing is done when they come back in the summer. In this instance they were actually testing something else when they happened to notice one cheque on the same page with no signatures. They followed up and got source documentation. It was discovered that the bank actually cashed the unsigned cheque, something they should not have done.

When a potential issue is discovered the auditors' process is to increase the sample. They thought it would be prudent to do an additional round of testing but did not find any more unsigned cheques. Additional sampling will be done in June, July and August as well.

The auditors did not reach out to the bank directly. It is fairly common that a single signature will be cashed, but not common for a cheque with no signature to be cashed. You cannot rely upon the bank and auditors must ensure that through their testing process, they are thorough and catching as much as possible.

A question was raised surrounding the water utilities. Last year Auditor Forse noted that based on revenue losses, a rate study was warranted. How deep did the auditors get into the utilities? Recently Council made a motion to audit the utilities based on the fact that on the Windsor side, one year we were flush and last year this utility was losing money.

Auditor Forse recalled that the Windsor water utility went from a 150K surplus to approximately a 500K deficit. The biggest part of that was debt repayment in the form of a one-time balloon payment. Also, there was a significant drop in revenue related to meter-related losses and an increase in expenditures due to a catastrophic issue with equipment. The water utility is audited however the auditors do not assess whether rates are appropriate. They are here to report on accuracy.

Auditor Forse's recommendation would be to do an analysis on the last three years of the Windsor Water Utility and then a projection of what you expect the next three years to look like. This could be done for West Hants as well, although to his recollection West Hants was appropriately funded with no issues. An analysis would be more worthwhile as it is not an issue of accuracy but more an

issue of operational effectiveness. A forecast process will show where things are going to sit in three years if changes are not made to the rate.

Director Rochon added to Auditor Forse's comments regarding reasons for the Windsor Water Utility deficit. There was a technical occurrence with one of the water treatment-related items causing a catastrophic equipment failure (2022-23), the balloon payment (500K when normally around 200K), and revenue off by approximately 200K related to a credit that was going through the system.

Auditors can calculate annual tax revenue very precisely. Water is a little bit different as usage is not consistent month-to-month and quarter-to-quarter. They do a sample of a couple of months and a projection forward, then a follow-up set of samples. High level of testing and follow-up calculation. They take individual bills and compare meter readings. They also test the largest customer, this year to last year, and a few other random samples, some analytical testing, and individual average customer revenue testing.

Auditor Forse was asked how Audit Committee members can feel and provide assurance outside of the information and assurances given to them by the auditors. Without seeing actual cheques, receipts, and supporting paperwork, they are looking to the Auditors to direct them as a committee. They base their decisions off of what is given to them.

Per Auditor Forse, there is a 90/10 relationship between auditors and the committee. Auditors provide 90% of the information through annual reports, comments, and management letters. He advised committee members to look to the Director of Finance and ask questions when warranted (overspending),. Asking questions, or giving the impression that questions will be asked, can deter fraud. You can also request follow-up or an investigation if something gives you cause for concern. Having the attitude towards ethical behaviour is important.

Auditor Forse was asked if when the auditors are looking at a receipt and a cheque, do they check where the money went and that it seems reasonable.

He responded that they do. The auditors test specifically for vendor names. They have to be very thorough, checking amounts, accuracy, support, approval, signatures, authorization and that the vendor is the right one. High-risk, would-be expenditures are submitted to a high level of testing. There is incentive there.

Auditor Forse was asked where the threshold amount of \$430K came from.

He responded that this number actually has not changed since consolidation. They take a percentage of total expenditures, between 1% – 1 ½ %. This gives them a testing threshold. It is an aggregate number. One error or 100 errors, should either meet the threshold, are exactly the same to them. This is not to say that errors below this threshold escape them. At the request of Director Rochon,

they have made entries for hundreds of dollars to ensure that things are accurate.

Auditor Forse was asked if they check tender information such as; public competition; tender amounts lining up with the contract, and; change requests being put through for amounts over authorized.

The auditors look at tenders after they are approved. If a significant tender was over the tender amount they would make sure there was some sort of approval process in place to check that. It is not part of the financial statement audit to verify that the minimum number of bids were received or that a tender was advertised publicly.

## 7. New Business

### a.) Financial Update to December 31, 2023 – Director Rochon

Director Rochon reviewed this report for committee members. Revenues, expenditures and financial implications (projected deficit) were highlighted in Director Rochon's report, which also included actual vs budget figures as of December 31, 2023.

Clarification was requested on two items mentioned as part of the higher General Government expenditure projection. Chambers furniture covers the chairs for Council Chambers and is an item that Director Rochon will be removing from the projections. The Dial-A-Ride funding was not originally incorporated due to a budgeting error which has since been identified and fixed.

Director Rochon was asked why the RCMP is projecting higher. She advised that this was due to a budgeting estimate error. This is being mitigated through RCMP reserve funding. The balance of this fund is approximately 700K-800K.

The increased costs for meetings was questioned. These costs were attributed to new mobile meeting kits for off-site meetings where projection, zoom and livestream capabilities were required. There has also been an increase in the number of meetings and workshops. Hard to compare these costs to pre-COVID years, as pre-COVID we were two separate entities.

The two major capital repairs for Hantsport Fire and Windsor Fire apparatus were identified for the committee as non-expected maintenance.

Facilities within General Admin were confirmed as being part of the budgeting error.

No major increases or expenses are projected for Council in the last three months.

8. Director's Update – Director Rochon

There has been a motion from Council to audit the water utilities. It will be up to this committee to appoint an auditor and then receive the auditor's report prior to it being forwarded to Council for review. This audit will not change any previous results on the financial statements as these have been sent to the UARB and province already. This audit will be conducted as more of a review.

The municipality is in the midst of a water utility rate study. There will be a UARB rate hearing to determine whether the water utilities will consolidate and what new rates may be decided upon. The hearing outcome could change the following year's audit presentation. The UARB could come back and say they want an interim audit for the utilities to the date that they approve the new consolidated entity. They could alternately allow a full audit for the year that would encompass the two separate utilities and the new, consolidated utility

Council approved consolidation of the sewer systems, with new rates taking effect April 1. Staff are in the process of consolidating the sewer budgets and chart of accounts.

Our next meeting will tentatively be held in May. There will be discussion surrounding policies and internal controls along with the financial update as of March 31.

Director Rochon was asked about the debt ratio forecast and whether we know where we sit currently.

Director Rochon responded that she is still working on projections. More information to come during budget meetings. She has reached out to the province regarding our 2021-22 Financial Condition Indicator (FCI) update (through FIR). This update is still in draft mode for release in April or May. She hopes to have this information for our May meeting along with the debt ratio for 2021-22.

FIR is a report we prepare for the province which they use to prepare financial indicators including a municipal unit report that compares our financial indicators to other regions. From the draft report that she has seen we are looking very healthy although it is worth noting that until we build three years' worth of historical data there will still be some grey indicators within the report.

Typically, we would see this report in July of last year. It is later than normal. Based on the information received from our Municipal Advisor as well as another provincial staff member, this report will be available in April. The province is going through significant updates related to new standards. They have had to make changes to their financial reporting framework for municipalities as well as to the excel document for the FIR that we complete.

Director Rochon was asked about the timeline for the water utilities audit.

She advised that currently staff are working through consolidations for sewer and water and preparing for the rate hearing. Once complete, a scope will be developed for the procurement process. She is anticipating the same timeline as with the regular audit. This will commence after the UARB hearing.

9. Date of Next Meeting – tentative for May, probably a heavier meeting. More in-depth policy review. Mentioned reviewing the 5 modules on roles and responsibilities, she will circulate prior to the next meeting.
10. Adjournment – Mayor Zebian asked for a motion to adjourn the meeting.  
**Moved by Resident Member Halverson and Councillor Murley that the meeting be adjourned.**  
**Motion Carried.**

*The meeting adjourned at 7:19 p.m.*

**X**

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Committee Chair