Toronto and Region Conservation Authority

Audit Findings Report
for the year ended December 31, 2019

KPMG LLP

June 12, 2020

kpmg.ca/audit

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Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Executive Committee, in your review of the results of our audit of the financial statements of Toronto and Region Conservation Authority ("the Authority") as at and for the year ended December 31, 2019.

Audit risks and results

Our audit is risk-focused. In planning our audit, we have taken into account key areas of focus for financial reporting.

Finalizing the Audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of investment confirmation from CIBC Mellon
- Completing our discussions with the Executive Committee
- Completing our subsequent event review procedures
- Receipt of signed management representation letter (dated upon board approval)
- Obtaining evidence of the Board's approval of the financial statements

We will update the Executive Committee, and not solely the Chair (as required by professional standards), on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Independence

We are independent with respect to Toronto and Region Conservation Authority within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Audit Materiality

Materiality has been determined based on total expenses. We have reviewed the scope of work across segments and activities across the entity. We have determined materiality to be $3.2M (2018 - $2.9M) for the year ended December 31, 2019.

See page 5.

[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the executive committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Uncorrected differences

We did not identify differences that remain uncorrected.

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates.

Items requiring the use of significant estimates include allowance for doubtful accounts, accrued liabilities, vacation pay entitlements, derivative financial instrument and tangible capital assets. Please refer to note 1 (l) to the financial statements.

Significant accounting policies and practices

There was no change to the significant accounting policies during the year.

The Authority adopted a new public sector accounting standard in 2019. See page 13 for consideration regarding the implementation of the new standard in the current year financial statements.

Performance improvement observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

We have identified performance improvement observations which were communicated to management. See page 15 for further details of our observations and management's response.

Financial impact of COVID-19

We have discussed the financial impact of COVID-19 on the operations of the Authority with management, and the Authority's response to the pandemic. Due to the uncertainty of the future financial impact to the Authority, management has added a subsequent event to the notes to the financial statements.

See pages 3 and 4.

Audit Response to COVID-19 Pandemic

Subsequent Events	Our audit approach
Timing regarding the year-end audit	Our Firm is fully paperless and the audit was conducted remotely. Our platform, CLARA, provided management and the audit team with a digital collaboration site. As such, we were ready to complete the audit as scheduled and as communicated in the audit planning report.
Investments	— Considerations for any permanent impairment in investments as at December 31, 2019 and subsequent to year-end. — We recalculated gains/losses recognized relating to change in investment balances and ensured all investments are presented at their appropriate fair market value and obtained third party confirmations. We reviewed investment statements as at April 30, 2020 and noted no significant or adverse changes in the fair value of the investments.
Accounts Receivable	— Consideration of any changes in collectability assessment in light of COVID-19. We substantively tested a sample of accounts receivable by tracing to subsequent receipt and noted no issues with valuation.
Subsequent Events	Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social dislocating impact. As such enhanced subsequent events procedures are warranted. There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows: — Type 1 - Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures. — Type 2 - Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made. Audit response: — This qualifies as a Type 2 subsequent event — A description of the assessment of the impact of these events has been disclosed in note 19 to the financial statements — We discussed the going concern assumption and reviewed management's 2021 forecast in response to COVID-19.

Audit Response to COVID-19 Pandemic (continued)

Subsequent Events	
Resources for Management, Board and Committee members	*COVID-19 Alerts (Live Link)* *Please visit our COVID-19 website for resources regarding the topics below. This site is being updated daily based on information being released by Federal, Provincial and Municipal news releases.* — *Business continuity guide* — *Immediate actions to take* — *Medium to long-term actions* — *Tax considerations and a summary of Federal and Provincial programs* — *Legal considerations* — *Financial reporting and audit considerations* — *Global perspectives*

NOTE: the remainder of this document is normalized for our audit approach as undertaken.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	Determined to perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $2.9 million	$3.2 million
Benchmark	Based on total expenses for the year. This benchmark is consistent with the prior year. The corresponding amount for the prior year's audit was $116.5 million	$129.6 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2.50%	2.50%

Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

1	**Significant Risk**	Management override of controls

Significant financial reporting risk	Why is it significant?
Fraud risk from management override of controls	This is a presumed fraud risk. Professional standards presume the risk of management override of controls exist in all companies. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.

- Using our Data & Analytics software, we tested manual and automated journal entries by extracting all journal entries recorded in the general ledger system and other adjustments. Using these extractions, we selected a sample of journal entries and verified if they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.
- We evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is considered adequate.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.

No issues were noted.

Audit risks and results

2	**Other areas of focus**	Audit procedures performed over significant accounts and transactions

Other area of focus	Why is it significant?
Cash and Investments	These are material account balances and disclosures

Our response and significant findings

- We confirmed cash balances at year end with RBC Royal Bank.
- We reviewed the year end bank reconciliations for all accounts, vouching significant items to supporting documentation.
- We confirmed the investment balances at year end with RBC Dominion Securities Inc. and CIBC Mellon.
- We performed substantive analytical procedures on investment income and gains/losses on investments.
- We reviewed the carrying value of investments in comparison with their fair value to assess if an impairment charge is required.
- We performed cut-off testing over a sample of transactions in the last month of 2020 and the first month of 2021 to assess if they were recognized in the correct period.
- We reviewed the Authority's compliance with the Investment policy dated June 24, 2016 which outlines policies and controls over investment policies. As at December 31, 2019, the Authority was in compliance with all policies.
- We reviewed management's presentation of cash and investments in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate

No exceptions were noted during testing.

Audit risks and results

3 **Other areas of focus (Con't)** Audit procedures performed over significant accounts and transactions

Other area of focus	Why is it significant?
Revenue, Deferred Revenue and Accounts Receivable	These are material account balances and disclosures.

Our response and significant findings

- We tested each revenue stream by vouching revenue items to source documentation on a sample basis:
  - We tested a sample of deferred revenue receipt and release transactions and agreed to supporting documentation.
  - We tested a sample of government funding and authority generated revenue by agreeing to supporting documentation.
  - We agreed municipal levies revenues to approved budgeted amounts and to payment receipts.
- We performed testing over the completeness of revenue by reviewing a sample of transactions at the end of 2020 and the beginning of 2021 to assess whether they were recorded in the correct period.
- For all revenue sources, we reviewed the Authority's revenue recognition policy in accordance with appropriate PSAB standards.
- We reviewed accounts receivable sub-ledgers for credit balances, unusual amounts, and aged balances, and we vouched a sample of balances to supporting documentation including payment receipt.
- We obtained a confirmation from the Living City Foundation with respect to amounts owing to the Authority.
- We reviewed management's presentation of revenue sources in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

No exceptions were noted during testing.

Audit risks and results

4 **Other areas of focus (Con't)** Audit procedures performed over significant accounts and transactions

Other area of focus	Why is it significant?
Tangible Capital Assets	These are material account balances and disclosures.
Compensation Expense and Vacation Pay Entitlements	These are material account balances and disclosures.

Our response and significant findings

- We tested a sample of additions to tangible capital assets and work-in-progress and agreed each sample to supporting documentation.
- We tested a sample of transfer of tangible capital assets out of the work in progress account and agreed to sufficient appropriate evidence that the asset was completed and put into use.
- We performed substantive analytical procedures over amortization of tangible capital assets.
- We tested a sample of disposals and agreed to board minutes authorizing significant dispositions.
- We reviewed management's presentation of tangible capital assets in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

No exceptions were noted during testing.

- We obtained an understanding of the processes surrounding payroll.
- We performed substantive analytical procedures over compensation expenses and substantively tested employee headcount for existence and completeness.
- We tested significant payroll accruals as at year-end by agreeing to payroll registers and payment subsequent to year-end.
- We reviewed the listing of employee vacation accruals and tested on a sample basis by agreeing to employee files and reviewing the maximum allowable carry-forward amounts in accordance with the Authority's policies.
- We reviewed management's presentation of compensation on expenses in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

No exceptions were noted during testing.

Audit risks and results

5 **Other areas of focus (Con't)** Audit procedures performed over significant accounts and transactions

Other area of focus	Why is it significant?
Expenses, Payables and Accrued Liabilities	These are material account balances and disclosures.

Our response and significant findings

- We selected a sample of expense transactions and agreed to supporting invoices to assess accuracy of amounts recorded and their classification.
- We reviewed supporting documentation for significant accruals.
- We performed a trend analysis and actual version budget of expenses and reviewed significant variances with management
- We performed a search for unrecorded liabilities to assess the completeness of liabilities.
- We held inquiries with management, reviewed Board minutes, and reviewed all legal correspondence during the fiscal year to evaluate potential legal liabilities and contingencies. To assess the existence and completeness of liabilities, we obtained a legal confirmation letter from the Authority's legal counsel.
- We reviewed management's presentation of expenses and liabilities in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate with the reporting framework.

During our testing, we noted that certain invoices that related to insurance coverage of periods after December 31, 2019, were recorded in payables and accrued liabilities with a corresponding entry in prepaid expenses (other assets). As at year-end, the Authority did not prepay the invoices therefore we proposed an adjusting entry to reduce payables and accrued liabilities and prepaid expenses (other assets) in the amount of $1.97M. Management has agreed to record this adjustment and the adjustment has been reflected in the financial statements.

Audit risks and results

6 **Other areas of focus (Con't)** Audit procedures performed over significant accounts and transactions

Other area of focus	Why is it significant?
Financing and Interest Rate Swap Agreements dated February 26, 2019	Significant financial statement disclosures.

Our response and significant findings

- With respect to the financing agreement between the Authority and CIBC dated February 26, 2019:
  - We reviewed the terms and conditions of the executed financing agreement with CIBC dated February 26, 2019.
- We obtained confirmation of the debt balance as at December 31, 2019 from CIBC.
- We reviewed the Authority's compliance with certain financial and non-financial covenants in accordance with the financing agreement.
- With respect to the interest rate swap agreement with CIBC dated February 26, 2019:
  - We reviewed the terms and conditions of the interest rate swap agreement with CIBC dated February 26, 2019.
  - We obtained a confirmation from CIBC of the mark-to-market value of the interest rate swap as at December 31, 2019.
  - We engaged KPMG valuations specialist to assess the reasonability of CIBC's estimates of the mark-to-market value of the swap as at December 31, 2019.
- We reviewed management's presentation of the financing and interest rate swap agreement in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate with the reporting framework.

During our testing we noted that the interest rate swap mark-to-market value of $3.1M was not being recognized in the financial records. Since the interest rate swap qualifies as a derivative financial instrument as at December 31, 2019, we have proposed an entry to recognize the derivative financial instrument liability in the amount of $3.1M with an offsetting entry to unrealized loss on derivative financial instrument. Management has agreed to record this adjustment and the adjustment has been reflected in the financial statements.

Technology in the audit

We have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Journal Entry Analysis	We utilized our proprietary D&A tool, IDEA, to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. We are satisfied with the results of our testing of specific relevant journal entries.
Data Extraction & Analytics Tools	We utilized data and analytics in the audit to evaluate the completeness of the journal entry population through a roll-forward of selected accounts. This consists of a summation of all automated and manual journal entries posted in the selected GL accounts during the fiscal year and comparison of the calculated final balances to the account balances as at and for the year ended December 31, 2019 as reported by management. We did not identify any issues in regards to the completeness of journal entries.

Significant accounting policies and practices

Initial selections

There were no initial selections of significant accounting policies and practices. The following new other accounting policy was selected and applied during the period as per the requirement of Public Sector Accounting Standards. This accounting policy was applied prospectively for the consolidated financial statements for the year ended December 31, 2019.

Changes

Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 1(l) to the financial statements.

Beginning in fiscal 2019, the Authority is now required to adopt the following new public sector accounting standard (PSAS):

PS 3430 – Restructuring Transactions

- This section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of asset and/or liabilities, together with related program and operating responsibilities. Individual assets and liabilities received in a restructuring transaction should be recognized by the recipient if they meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definition of assets and liabilities and applicable recognition criteria at the restructuring date.
- The Authority has internal policies to identify and monitor restructuring transactions. Our findings from our review of internal policies and procedures were consistent in this regard. At the completion of the audit, we will obtain from management a signed representation letter indicating that there were no restructuring transactions not identified to us or disclosed in the consolidated financial statements.

As at December 31, 2019 and for the year then ended, the Authority does not have any restructuring transactions, as defined by the PS3430, to report.

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

Professional standards require that we request of management that all identified differences be corrected. We have already made this request of management.

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Performance improvement observations

We have communicated to management some performance improvement observations identified during the audit. Below is a summary of these performance improvement observations and management's response:

Observation	Description and potential effect	Management Response
Accounting procedures manual – documentation required	During the audit, we noted that the Authority does not have formal written procedures available for certain reporting processes and activities performed by accounting personnel. For instance, it took the finance team a considerable amount of time to produce the deferred revenue continuity schedules due to the departure of the analyst who was previously responsible for this and the absence of the Controller (due to maternity leave). Further, it was noted that the finance team had to retrieve the emails of the previous employee to determine how to complete the procedure. Although the Authority regularly communicates changes in organizational policies through memoranda, due to the growth and continued diversity of the Authority's operations, we believe additional standardization would benefit the organization in its efforts to maintain timely, accurate, and reliable financial information. Such standardization can be achieved in the form of an accounting manual and checklists that documents the procedures for key accounting and reporting activities. In view of the continuing growth of the Authority and the resulting increase in complexity of the accounting functions and reporting requirements, failure to have such a process manual could result in disruption of operations, lost time in training new personnel in the event of employee departures, and misunderstandings of required procedures. Also, effective designation of responsibilities and duties, as well as modification of existing systems, is more difficult when adequate documentation of existing responsibilities, activities and systems is not available. We recommend that an accounting procedures manual be developed and implemented to provide an effective system for financial reporting. The procedures manual should address all major financial reporting activities.	Through the development of TRCA's Policy Committee, this observation has also been noted internally by staff, who have commenced developing policies and procedures impacting TRCA's operations. Several financial policies have already been brought forward and approved, including those pertaining to procurement, and there are existing plans to continue development throughout 2020 and 2021, to ensure that written procedures are sufficient to support standardization of the organization's financial procedures.

Current developments and audit trends

Public Sector Accounting Standards

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

The following are upcoming changes that will be effective in future periods as they pertain to Public Sector Accounting Standards. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations (applicable for the year ending December 31, 2022 with a retrospective application effective December 31, 2020)	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021 (Authority's 2022 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: o consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; o carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; o begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Standard	Summary and implications
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (Authority's 2023 year-end). – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 Financial Instruments, PS2601 Foreign Currency Translation, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021 (the Authority's 2022 year-end). – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments was issued in December 2018. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits*, Compensated Absences and Termination Benefits. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Standard	Summary and implications
2019 – 2020 Annual Improvements	– PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance). – The annual improvement process: o clarifies standards or other guidance; or o corrects relatively minor unintended consequences, conflicts or oversights. – Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.
Public Private Partnerships (“P3”)	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards (IPSAS). This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision- making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. Over 2017-2021 period, PSAB intends to do the following: o conduct research on differences between Canadian Public Sector Accounting Standards and International Accounting Standards; o learn about experiences of other jurisdictions that choose to follow IPSAS; publish a consultation paper to get the opinion of stakeholders; – and, develop options for PSAB’s International strategy.

Standard	Summary and implications
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018 and has closed. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 Financial Statement Concepts and PS 1100 Financial Statement Objectives. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: o Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. o Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). o Restructuring the statement of financial position to present non-financial assets before liabilities. o Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). o A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
Purchased Intangibles	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.

Current developments and audit trends

Our discussions with you and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Link to report

Appendices

Content

Appendix 1: Other Required Communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor’s report	Management representation letter
The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.	In accordance with professional standards, a copy of the management representation letter are provided to the Executive Committee. The management representation letter is attached.

Audit quality

Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.

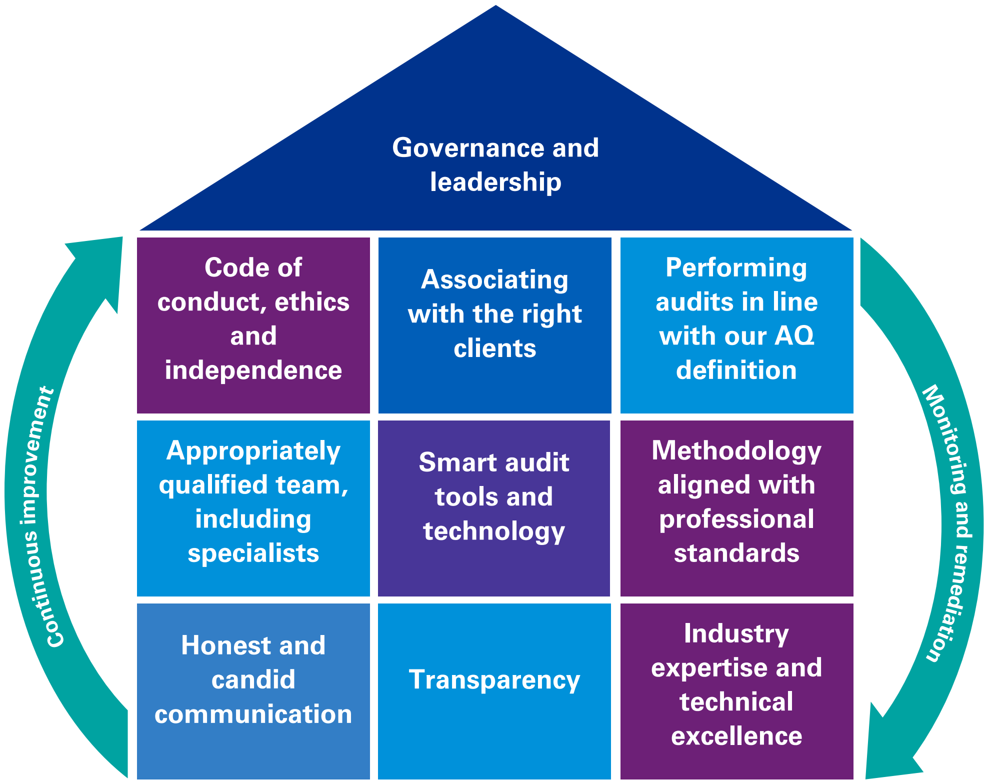
The following links are external audit quality reports for referral by the Executive Committee:

- CPAB Audit Quality Insights Report: 2019 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2019 Fall Inspection Results

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

– Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
– All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

Appendix 3: Key Audit Matters – Identification

Key audit matters (KAMs) are those matters that were communicated to those charged with governance which required <u>significant audit attention</u> in performing the audit and that, in the auditor's professional judgment, were of the <u>most significance</u> in the audit of the financial statements in the current period.

Currently, the communication of KAMs in the auditors' report is only applicable when:

1. The auditors' report will refer to International Standards on Auditing and the audit is for a complete set of general purpose financial statements of a listed entity
2. Required by law or regulation; or
3. The auditor is engaged to do so

However, the AASB approved amendments to bullet #1 which now require auditors' to communicate KAMs in the auditors' report for audits of complete sets of general purpose financial statements of:

- Toronto Stock Exchange listed entities (TSX listed entities) for periods ending on or after December 15, 2020.
- Other listed entities (non-TSX listed entities) for periods ending on or after December 15, 2022.

The above <u>excludes</u> TSX listed entities / Non-TSX listed entities that comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*.

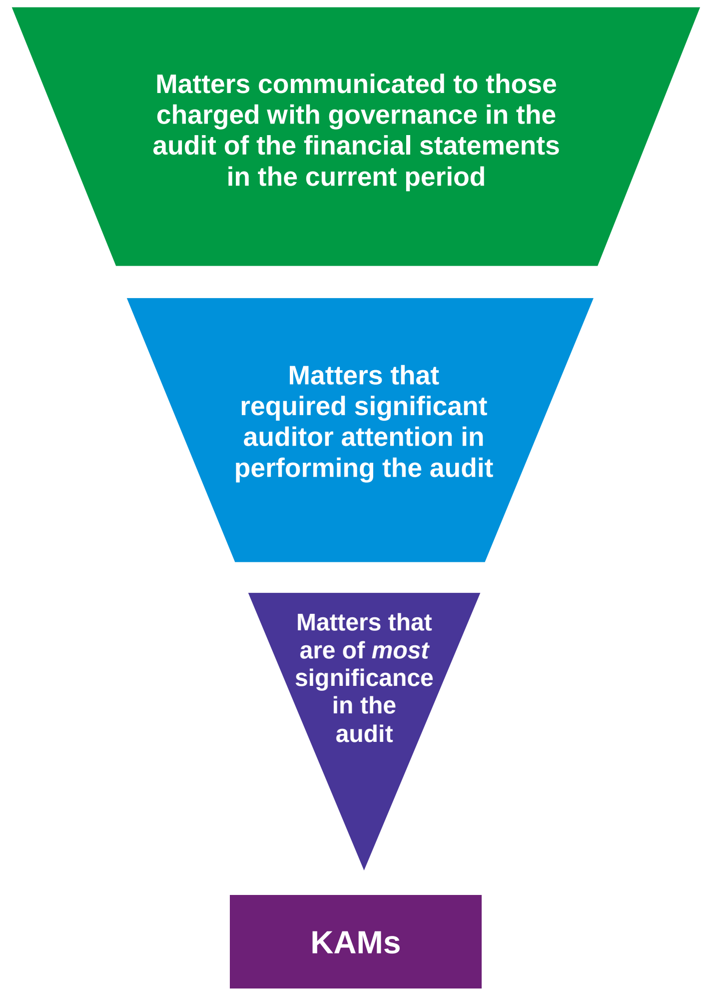
The above <u>includes</u> auditors' reports on separate/non-consolidated financial statements.

The total population of potential KAMs begins with all matters communicated to the audit committee during the audit of the current period.

The auditor is required to identify from that total population of potential KAMs, which matters required significant auditor attention in performing the audit. In doing so, the auditor is required to take into account the following:

– Areas of higher assessed risks of material misstatement identified
– Areas of significant risks identified
– Significant auditor judgments relating to areas in the financial statements that are subject to a high degree of estimation uncertainty
– The effect of the audit of significant events or transactions that occurred during the period

From that population of potential KAMs, the auditor identifies those matters that are of "most" significance in the audit. The use of the term "most" significance in the audit. The use of the term "most" is not intended to limit the number of KAMs to one. However, lengthy lists of KAMs may be contrary to the notion that such matters are of most significance to the audit.



Appendix 4: Preparing for PSAB Standard Changes

See attached on following pages.

KPMG

Preparing for PSAB Standard Changes

Are you ready to implement PSAB's impactful series of new standards?

Public sector entities are preparing to implement three significant Public Sector Accounting standards through 2022. These standards will impact not only your accounting policies, but also how Finance engages key stakeholders.

Asset Retirement Obligations

PS3280 addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.

PS3280 will apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. Three transition options are available – retroactive, modified retroactive, prospective.

Asset retirement activities are defined to include all activities related to an asset retirement obligation. These may include but are not limited to:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed
- decontamination created by the normal use of the tangible capital asset
- post-retirement activities such as monitoring
- constructing other tangible capital assets in order to perform postretirement activities

With the introduction of PS3280 PSAB has withdrawn existing Section PS3270, solid waste landfill closure and post-closure liability.

Some examples of asset retirement obligations which fall under scope of proposed PS3280 include:

- end of lease provisions (from a lessee perspective)
- removal of radiologically contaminated medical equipment
- wastewater or sewage treatment facilities
- firewater holding tanks
- closure and post-closure obligations associated with landfills
- septic beds
- fuel storage tank removal

Under PS3280, an asset retirement obligation should be recognized when, as at the financial reporting date, ALL of the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset
- the past transaction or event giving rise to the liability has occurred
- it is expected that future economic benefits will be given up
- a reasonable estimate of the amount can be made

Whether you are an education or health institution or a government entity (federal, provincial, municipal or Indigenous) this accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.

Are You Ready?

1. *Has a project plan been developed for the implementation of this section?*
2. *Has Finance communicated with key stakeholders, including Council or Board on the impact of this section?*
3. *Does Finance communicate with representatives of the Public Works, Asset Management, Facilities Management or Legal functions through the financial reporting process?*
4. *Has a complete inventory been developed of all inactive or active assets or sites, to provide a baseline for scoping of potential retirement obligations?*
5. *If a complete inventory has been developed, does it reconcile back to information currently reported in the entity's financial statements for tangible capital assets or contaminated sites?*
6. *Does your entity have data on non-recorded assets or sites (ie: assets which were originally expensed on purchase, or recorded at no book value) which could have retirement obligations?*
7. *Does your entity have an active solid waste landfill site?*
8. *If yes, does your entity have an existing estimate of the full costs to retire and monitor the landfill site?*
9. *Is your entity aware of any of its buildings which have asbestos?*
10. *If so, does your entity have information to inform a cost estimate to remove/ treat the asbestos?*
11. *Is your entity aware of underground fuel storage tanks or boilers which must be removed at end of life?*
12. *If so, does your entity have information to inform a cost estimate to remove the tanks?*
13. *Is your entity aware of any lease arrangements where it will be required to incur costs to return the premises to pre-existing conditions at the end of the lease?*
14. *Has your entity determined if it has any sewage or wastewater treatment plants which have closure plans or environmental approvals which require full or partial retirement of the plant at the end of its life?*
15. *Is your entity aware of any other contractual or legal obligations to retire or otherwise dismantle or remove an asset at the end of its life?*

Revenues

PS3400 outlines a framework describing two categories of revenue – transactions with performance obligations (exchange transactions) and transactions without performance obligations (unilateral transactions).

- This section will apply to fiscal years beginning on or after April 1, 2022, with earlier adoption permitted.
- This Section may be applied retroactively or prospectively.
- This section will not impact the present accounting for taxation revenues and government transfers.

Transactions which give rise to one or more performance obligations are considered to be exchange transactions. Performance obligations are defined as enforceable promises to provide goods or services to a payer as a result of exchange transactions. Revenue from an exchange transaction would be recognized when the public sector entity has satisfied the performance obligation(s), at a point in time or over a period of time.

If no performance obligations are present, the transaction would represent unilateral revenue, and be recognized when the public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources.

Public sector entities will need to review their revenue recognition policies for in-scope transaction types. Impacted areas may include:

- Development charges
- Permits
- Licences
- Advertising programs

Are You Ready?

1. *Has the entity identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (ie: the entity is required to provide a good or service to earn that revenue)?*
2. *If so, has the entity reviewed its accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met?*
3. *Has the entity quantified the impact of any change in accounting policy, or determined that there is no impact?*

Financial Instruments

PS3450 establishes standards on how to account for and report all types of financial instruments including derivatives.

- This Section applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
- Government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook applied this Section to fiscal years beginning on or after April 1, 2012.
- This section must be adopted with Section PS 2601, Foreign Currency Transaltion.
- Specific transition requirements are outlined in the section.

This section prescribes a fair value measurement framework for derivatives, and equity instruments that are quoted in an active market.

Where an entity manages risks, the investment strategy, or performance of a group of financial assets, financial liabilities or both on a fair value basis, they may also be meased at fair value.

Other financial instruments are measured at cost/ amortized cost.

Changes in the fair value of a financial instrument in the fair value category are recognized in the Statement of Remeasurement Gains and Losses as a remeasurement gain or loss until the financial instrument is derecognized.

- Upon derecognition, the remeasurement gain or loss is realized in the Statement of Operations.

Are You Ready?

1. *Does the entity hold any financial assets which are equity or derivative instruments?*
2. *Has the entity determined if it has any embedded derivatives that might arise from existing contractual arrangements?*
3. *Does the entity have other financial assets which it assesses performance of based on fair value, and for which it might elect a fair value measure?*
4. *If yes to any of the above three questions, does the entity have readily observable market data to inform a fair value measure?*
5. *Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section?*
6. *Does the entity enter into transactions involving foreign exchange?*
7. *Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?*

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