The Corporation of the City of Richmond Hill

For the year ended December 31, 2020

Report to the Audit Committee
Audit strategy and results

June 8, 2021

Melanie Dugard, CPA, CA
Principal
T 416-607-7303
E Melanie.Dugard@ca.gt.com

Allison Frizzell, CPA, CA
Senior Manager
T 416-607-2638
E Allison.Frizzell@ca.gt.com

Contents

Appendices

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the consolidated financial statements of The Corporation of the City of Richmond Hill (the "City") for the year ended December 31, 2020. This communication will assist the Audit Committee in understanding our overall audit strategy and results of audit procedures and includes comments on misstatements, significant accounting policies, sensitive estimates and other matters.

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

We have obtained our engagement letter dated December 18, 2020, which outlines our responsibilities and the responsibilities of management.

We were engaged to provide the following deliverables:

Deliverable	Timing
Report on the December 31, 2020 consolidated financial statements	July 9, 2021
Communication of audit strategy and results	June 29, 2021

Status of our audit

We have substantially completed our audit of the consolidated financial statements of the City and the results of that audit are included in this report.

We will finalize our report upon resolution of the following items that were outstanding as at June 8, 2021:

- Receipt of signed management representation letter (a draft has been attached in the appendices);
- Approval of the consolidated financial statements by Council;
- Procedures regarding subsequent events; and
- Receipt of responses to our legal enquiries.

Approach

Our audit approach requires that we establish an overall strategy that focuses on risk areas. We identify and assess risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The greater the risk of material misstatement associated with an area of the consolidated financial statements, including disclosures, the greater the audit emphasis placed on it in terms of audit verification and analysis. Where the nature of a risk of material misstatement is such that it requires special audit consideration, it is classified as a significant risk.

Our approach is discussed further in the Appendix A.

Audit risks and results

We highlight our significant findings in respect of COVID-19 impacts on audit risks and responses, risks, accounting practices and other areas of focus.

COVID-19 impact on audit risks and responses

Area of focus	Matter	Our response and findings
Impact of COVID-19	The COVID-19 virus became widespread in January 2020 and the magnitude of its impact increased thereafter. Management determined the impact resulting from COVID-19 and has included the appropriate disclosures in the financial statements. Management believes the City will continue as a going concern and there are no indicators of impairment that would require assets to be tested for impairment.	• Reviewed management's assessment of the impact of COVID-19 on year end balances and the City's accounting policies • Discussed with management regarding the impact on the next 12 months of operations for purposes of evaluating the going concern assumption. • Reviewed the appropriateness of financial statement disclosures. No issues noted. Disclosure has been added to the financial statements with respect to the ongoing uncertainty of the COVID-19 pandemic on residents and businesses and the measures the City has taken to help those in need.

Significant risks

Area of focus	Why there is a risk	Our response and findings
Fraud risk from revenue recognition	There is a presumed risk of fraud in revenue. The risk primarily relates to User Charges and other fee revenue recognized.	• Performed analytical review related to user charges revenue and corroborate explanations as required. • Performed tests of details on user charges and other fee revenues. • Verified the completeness of revenue and receivables by reviewing management's estimate for the year-end accrual. No issues noted.
Fraud risk from management override	Manipulation to financial results can occur through journal entries.	• Performed data analytics and tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases • Evaluated the business rationale for significant transactions that are or appear to be outside the normal course of business No issues noted.

Other areas of focus

Our risk assessment process identified certain significant risks, which are included under “Audit risks and results” in our report. In addition, we identified certain other areas where we focused our attention as follows:

Risk area	Why it is a risk area	Audit procedures and findings
Taxation	Recorded tax revenues and receivables may not be valid due to fraud or error.	• Tested the existence of taxation and other receivables at December 31, 2020. • Recalculated the net taxable assessment based on verified assessment rolls and approved levies. • Assessed the adequacy of allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of the underlying property.
Purchases and payables	The accrued liabilities may be understated due to inaccurate estimates.	• Performed analytical assessment of expenses based on expectations and corroborate large variances by testing the underlying data or discussions with personnel outside of the finance group. • Reviewed supporting documentation and management estimates with respect to the completeness and accuracy of significant year-end accruals.
Provisions for employee benefits	Provision may be misstated based on assumptions used.	• Reviewed assumptions used by management, and any available independent reports. • Reviewed qualifications of actuary and confirmed their independence for audit purposes.
Employee compensation expenses	Accrued liabilities may be understated for payroll-related costs, and expenses may be understated.	• Reviewed the calculation of salary and wage accruals to determine if the amounts were calculated appropriately. • Performed analytical assessment of employee-related expenses based on expectations. • Performed tests of details on employee-related expenses.
Grants and subsidies	Allocation of grants may not be appropriate and recognition of revenue may not meet grant conditions.	• Reviewed the allocation of funds between fiscal periods to determine if it is appropriate and teste of revenue recognition in accordance with grant terms and conditions. • Reviewed grant terms to determine if any deferrals, receivables or payables are appropriate.

Risk area	Why it is a risk area	Audit procedures and findings
Commitments and contingencies	Commitments and contingencies may be misstated or undisclosed.	• Verified the accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers. • Examined supporting documentation and discussions with management.
Tangible capital assets	Valuation of additions, including contributed assets, as well as appropriateness of amortization.	• Reviewed supporting documentation for capital asset additions with respect to the validity of the additions, on a test basis. • Reviewed disposals to determine if any gain/loss is calculated appropriately. • Recalculated depreciation expense. • Reviewed capital project costs to determine if any additional costs should be capitalized.

Use of experts

We used the work of independent third party specialists for the following:

Employee future benefits liability

Accounting practices

Area of focus	Matter	Our response and findings
Sensitive accounting estimates and disclosures	The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The estimates made by management relate to the liability for employee benefits and other obligations, allowance for uncollectible receivables, and amortization of tangible capital assets.	• The City has recognized liabilities in the financial statements for future employee benefits and Workplace Safety and Insurance Board Obligations. Employee benefits include vested sick leave, workers safety and insurance, long term disability, vacation pay and retiree benefits. The objective is to recognize a liability in the reporting period in which employees have provided the services that gives rise to the benefits. The amounts recorded by the City are determined based on actual entitlements less usage and an actuarial valuation for post-employment benefits. The calculation of the liability for employee benefits requires management to make certain estimates, including rate of annual compensation increase, inflation rate and discount rate. The liability is determined through actuarial valuation. As part of our audit, we review the reasonability of the assumptions used by the actuary and communicate with the actuary with respect to their independence and ability to provide information in accordance with the CPA Canada's Public Sector Handbook. • For other revenues, amounts are billed but may not be collected as of December 31, 2020. For uncollected accounts, management estimates the collectability of these receivables based on their age and considering the success of efforts to date in communicating with the customer. As part of our audit we review the age of the receivables and search for any subsequent receipts or relevant communications to assess managements estimate for reasonability. • For tangible capital assets, we review the rates and methods of amortization for consistency with other public sector organizations and for reasonability. We recalculate annual amortization expense.
Fraud and illegal acts	Our audit procedures were performed for the purpose of forming an opinion of the financial statements and although these procedures might bring possible fraudulent or illegal activities to our attention, our audit procedures are less likely to detect material misstatements arising from fraud or other illegal acts because such acts are usually accompanied by acts designed to conceal their existence.	We did not detect any fraudulent or illegal activities or material misstatements resulting from fraudulent or illegal activities during our audit.

Adjustments and uncorrected misstatements

Adjustments

We have no adjusted misstatements to report:

Uncorrected misstatements

We have no non-trivial unadjusted misstatements to report.

Summary of disclosure matters

Our audit did not identify any unadjusted non-trivial misstatements of disclosure matters.

Other reportable matters

Internal control

The audit is designed to express an opinion on the consolidated financial statements. We obtain an understanding of internal control over financial reporting to the extent necessary to plan the audit and to determine the nature, timing and extent of our work. Accordingly, we do not express an opinion on the effectiveness of internal control.

If we become aware of a deficiency in your internal control over financial reporting, the auditing standards require us to communicate to the Audit Committee those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

The following internal control observation was noted during the audit.

Segregation of duties – journal entries

Observation:

During our review of the journal entry process, it was noted that, although management does not have the ability to create and approve manual journal entries, certain individuals in management do have the ability to reverse entries without review or approval. We recommend that management consider limiting this access or implementing review controls or other monitoring controls to address the risk of fraud or error.

Management response:

Management agrees with Grant Thornton's comments. Currently, there are limitations in the ERP system which does not provide workflow for this type of approval. The City will implement a temporary manual process to have the next-level supervisor review and approve reversals of journal entries. Records will be kept of all approvals. Also, a system audit report is being developed to provide a record of processed reversal entries to be reviewed by management periodically.

Independence

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

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

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

Technical updates – highlights

Accounting

Accounting standards issued by the Accounting Standards Board that may affect the City in future years include:

- Section PS 3400 Revenues
- Section PS 3280 Asset retirement obligations
- Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation, Section PS 1201 Financial statement presentation, and PS 3041 Portfolio investments

We would highlight to you that Section PS 3280 Asset retirement obligations will take effect for fiscal years beginning on or after April 1, 2022, although earlier adoption is permitted. We note that a number of our public sector clients are starting to invest time in establishing a plan for implementation of this standard. This section establishes standards on how to account for and report a liability for asset retirement obligations, which are legal obligations associated with the retirement of a tangible capital asset.

Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use.

Further details of the changes to accounting standards are included in the Appendices.

Assurance

Auditing standards issued by the AASB that may change the nature, timing and extent of our audit procedures on the City and our communication with the Audit Committee include:

- Revisions to CAS 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures

Further details of the changes to assurance standards are included in the Appendices.

Appendix A – Overview and approach

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

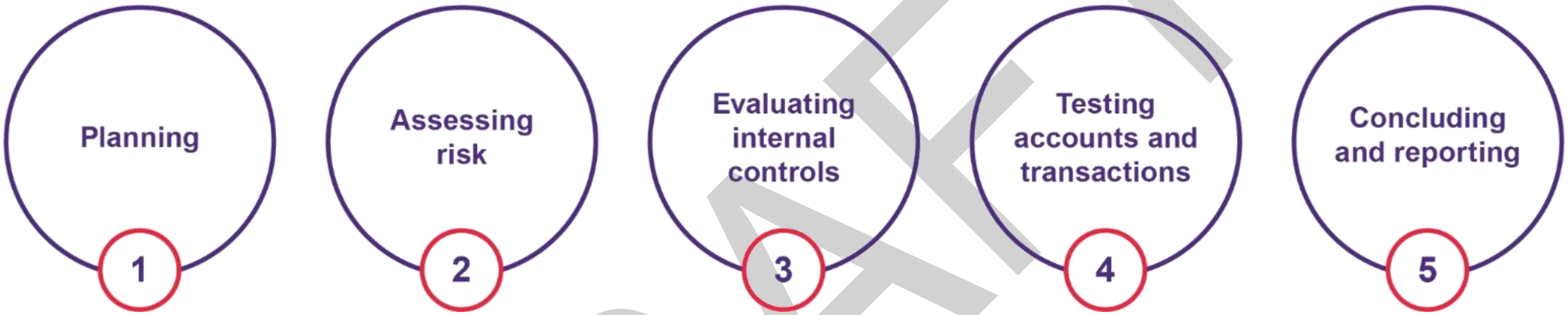
Roles and responsibilities

Role of the audit committee	• Help set the tone for the organization by emphasizing honesty, ethical behaviour and fraud prevention • Oversee management, including ensuring that management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting • Directly oversee the work of the external auditors
Role of management	• Prepare financial statements in accordance with Canadian public sector accounting standards • Design, implement and maintain effective internal controls over financial reporting processes, including controls to prevent and detect fraud • Exercise sound judgment in selecting and applying accounting policies • Prevent, detect and correct errors, including those caused by fraud • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements
Role of Grant Thornton LLP	• Provide an audit opinion that the financial statements are in accordance with Canadian public sector accounting standards • Conduct our audit in accordance with Canadian Generally Accepted Auditing Standards (GAAS) • Maintain independence and objectivity • Be a resource to management and to those charged with governance • Communicate matters of interest to those charged with governance • Establish an effective two-way communication with those charged with governance, to report matters of interest to them and obtain their comments on audit risk matters

Audit approach

Our understanding of the City and its operations drives our audit approach, which is risk based and specifically tailored to The Corporation of the City of Richmond Hill.

The five key phases of our audit approach



Phase	Our approach
1. Planning	• We obtain our understanding of your operations, internal controls and information systems • We plan the audit timetable together
2. Assessing risk	• We use our knowledge gained from the planning phase to assess financial reporting risks • We customize our audit approach to focus our efforts on key areas
3. Evaluating internal controls	• We evaluate the design of controls you have implemented over financial reporting risks • We identify areas where our audit could be more effective or efficient by taking an approach that includes testing the controls • We provide you with information about the areas where you could potentially improve your controls
4. Testing accounts and transactions	• We perform tests of balances and transactions • We use technology and tools, including data interrogation tools, to perform this process in a way that enhances effectiveness and efficiency
5. Concluding and reporting	• We conclude on the sufficiency and appropriateness of our testing • We finalize our report and provide you with our observations and recommendations

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

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

Materiality

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

The concept of materiality recognizes that an auditor cannot verify every balance, transaction or judgment made in the financial reporting process. During audit planning, we made a preliminary assessment of materiality for the purpose of developing our audit strategy, including the determination of the extent of our audit procedures. During the completion stage, we consider not only the quantitative assessment of materiality, but also qualitative factors, in assessing the impact on the consolidated financial statements, our audit opinion and whether the matters should be brought to your attention. We assessed materiality at 2% of total revenues, which is consistent with the 2019 audit.

Fraud risk factor considerations

We are responsible for planning and performing the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement caused by error or by fraud. Our responsibility includes:

- The identification and assessment of the risks of material misstatement of the consolidated financial statements due to fraud through procedures including discussions amongst the audit team and specific inquiries of management
- Obtaining sufficient appropriate audit evidence to respond to the fraud risks noted
- Responding appropriately to any fraud or suspected fraud identified during the audit

Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected and this is particularly true in relation to fraud. The primary responsibility for the prevention and detection of fraud rests with those charged with governance and management.

We are required to communicate with you on fraud-related matters, including:

- Obtaining an understanding of how you exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks
- Inquiring as to whether you have knowledge of any actual, suspected or alleged fraud affecting the entity

The following provides a summary of some of the fraud related procedures that are performed during the audit:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the consolidated financial statements
- Reviewing accounting estimates for biases
- Evaluating the business rationale (or the lack thereof) for significant transactions that are or appear to be outside the normal course of operations

Quality control

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

IDEA Data Analysis Software

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

Appendix B – Draft Independent auditor's report

Independent Auditor's Report

Grant Thornton LLP
Suite 200
15 Allstate Parkway
Markham, ON
L3R 5B4

T +1 416 366 0100
F +1 905 475 8906

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Richmond Hill

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Richmond Hill ("the City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, change in net financial assets and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the financial position of the Corporation of the City of Richmond Hill as at December 31, 2020, and its results of operations, its changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Markham, Canada
July 9, 2021

Chartered Professional Accountants
Licensed Public Accountants

Appendix C – Draft Management representation letter

Appendix D – PSAS Accounting developments

Public Sector Accounting Standards	Effective date
Section PS 1150 *Generally Accepted Accounting Principles* Section PS 1150 has been amended to require public sector entities to look to accounting pronouncements published by the International Public Sector Accounting Standards Board (IPSASB) as the first accounting framework to consult in situations not covered by primary sources of GAAP. When a standard from the IPSASB exists, it must be consulted first before standards issued by other bodies authorized to issue accounting standards. This amendment would only be applied only to new transactions or other events after the effective date for which the entity has no existing accounting policy. It also does not require the revision of existing accounting policies.	Fiscal years beginning on or after April 1, 2021.
Section PS 1000 *Financial statement concepts,* Section 1201 *Financial Statement Presentation,* and PSG-8 *Purchased intangibles* Section PS 1000 has been amended to remove the prohibition of recognition of purchased intangibles in public sector financial statements. Consequentially, Section PS 1201 has also been amended to remove disclosure requirements for unrecognized purchased intangibles since entities can now recognize purchased intangibles in their financial statements. Entities still reporting in accordance with Section PS 1200 *Financial Statement Presentation* can also adopt the amendments and recognize purchased intangible assets. New Public Sector Guideline, PSG-8 *Purchased intangibles*, has been issued to explain the scope of the intangibles that are allowed to be recognized in the financial statements given this amendment to Section PS 1000. However, it is important to note that no further recognition, measurement, disclosure and presentation guidance has been provided. The main features of PSG-8 include: • A definition of purchased intangibles • Examples of items that are not purchased intangibles • References to other guidance in the PSA Handbook on intangibles • Reference to the asset definition, general recognition criteria and the GAAP hierarchy for accounting for purchased intangibles • Retrospective or prospective application is permitted.	Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.
Section PS 3400 *Revenues* New Section PS 3400 *Revenue* establishes standards on how to account for and report on revenue. It does not apply to revenues for which specific standards already exist, such as government transfers, tax revenue or restricted revenues. The Section distinguishes between revenue that arises from transactions that include performance obligations (i.e., exchange transactions) and transactions that do not have performance obligations (i.e., non-exchange transactions). The main features of the new Section are: • Performance obligations are defined as enforceable promises to provide specific goods or services to a specific payer • Revenue from transactions with performance obligations will be recognized when (or as) the performance obligation is satisfied by providing the promised goods or services to the payer • Revenue from transactions with no performance obligations will be recognized when a public sector entity has the authority to claim or retain the revenue and identifies a past transaction or event that gives rise to an asset	*****NEW***** Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2022, but as a result of the COVID-19 pandemic, the Public Sector Accounting Board (PSAB) has deferred the effective date by one year.)

Public Sector Accounting Standards	Effective date
Section PS 3280 *Asset retirement obligations* New Section PS 3280 *Asset Retirement Obligations* establishes standards on how to account for and report a liability for asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. Asset retirement costs associated with a tangible capital asset increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner, while asset retirement costs associated with an asset no longer in productive use are expensed. Measurement of the liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date. A present value technique is often the best method to estimate the liability. Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset, or an expense, depending on the nature of the remeasurement or whether the asset remains in productive use. As a result of the issuance of Section PS 3280, the Public Sector Accounting Board (PSAB) approved the withdrawal of Section PS 3270 *Solid waste landfill closure and post-closure liability* as asset retirement obligations associated with landfills will be within the scope of PS 3280. PS 3280 does not address costs related to remediation of contaminated sites, which will continue to be addressed in Section PS 3260 *Liability for contaminated sites*. Some consequential amendments have been made to PS 3260 to conform with PS 3280 and further clarify the scope of each standard.	*****NEW***** Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2021, but as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)
Section PS 3450 *Financial instruments*, Section PS 2601 *Foreign currency translation*, Section PS 1201 *Financial statement presentation*, and PS 3041 *Portfolio investments* PS 3450 *Financial instruments* is a new Section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Some highlights of the requirements include: • a public sector entity should recognize a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument • financial instruments within the scope of the Section are assigned to one of two measurement categories: fair value, or cost / amortized cost • almost all derivatives are measured at fair value • fair value measurement is required for portfolio investments in equity instruments that are quoted in an active market • other financial assets and financial liabilities are generally measured at cost or amortized cost • until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses when the public sector entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category • additional disclosures with respect to financial instruments will be required, including the nature and extent of risks arising from a public sector entity's financial instruments PS 2601 *Foreign currency translation* revises and replaces Section PS 2600 *Foreign currency translation*. Some highlights of the requirements include: • the deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued • until the period of settlement, foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations, unless an irrevocable election is made at initial measurement to recognize exchange gains and losses on a financial asset or financial liability directly in the statement of operations. PS 1201 *Financial statement presentation* revises and replaces Section PS 1200 *Financial statement presentation*. The main amendment to this Section is the addition of the statement of remeasurement gains and losses. PS 3041 *Portfolio investments* revises and replaces Section PS 3040 *Portfolio investments*. The issuance of these new sections also includes consequential amendments to: • *Introduction to accounting standards that apply only to government not-for-profit organizations* • PS 1000 *Financial statement concepts* • PS 1100 *Financial statement objectives* • PS 2125 *First-time adoption by government organizations*	*****NEW***** The new requirements are all required to be applied at the same time. For governments - Fiscal years beginning on or after April 1, 2022. For government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook - Fiscal years beginning on or after April 1, 2012. For all other government organizations - Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. (NOTE: For public sector entities other than government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook, the effective date was previously April 1, 2021, but as a result of the COVID-19 pandemic, the PSAB has deferred the effective date by one year.)

Public Sector Accounting Standards	Effective date

- PS 2500 *Basic principles of consolidation*
- PS 2510 *Additional areas of consolidation*
- PS 3050 *Loans receivable*
- PS 3060 *Government partnerships*
- PS 3070 *Investments in government business enterprises*
- PS 3230 *Long-term debt*
- PS 3310 *Loan guarantees*
- PS 4200 *Financial statement presentation by not-for-profit organizations*

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

In April 2020, the PSAB issued amendments to clarify aspects of Section PS 3450's application and add new guidance to its transitional provisions.

The amendments introduce changes to the accounting treatment for bond repurchase transactions. Specifically, the amendments no longer require bond repurchase transactions to be treated as extinguishments, unless they are discharged or legally released from the obligation or the transactions meet certain criteria to be considered an exchange of debt.

The amendments also provide clarification on the application of certain areas of Section PS 3450, these include:

- Section PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable
- how a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract is accounted for, and
- derecognition of a financial asset does not occur if the transferor retains substantially all the risks and benefits of ownership

Finally, the amendments have added new guidance to the transitional provisions as follows:

- controlling governments should use the carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization
- any unamortized discounts, premiums, or transaction costs associated with a financial asset or financial liability in the cost/amortized cost category should be included in the item's opening carrying value, and
- in cases where derivatives were not recognized or were not measured at fair value prior to adopting PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses

Strategic plan for not-for-profit organizations in the public sector

Since 2012, government not-for-profit organizations (GNPOs) have been required to adopt PSAS but were given the option of applying the specific GNPO accounting standards in PSAS. Some GNPOs have utilized those standards, while others have not. The PSAB recognized that a "one-size-fits-all" approach may not be appropriate for all stakeholders. As a result, in PSAB's 2017-2022 Strategic Plan, the Board signaled intent to understand the needs and concerns of GNPOs and consider if some standards should be applied differently by them. In 2018, PSAB consulted with over 100 GNPO stakeholders to understand their fiscal and regulatory environment, their financial reporting needs, and their financial reporting perspectives in its first Consultation Paper. Diversity in the financial reporting framework, presentation of net debt and fund accounting, the impact of balanced budget requirements and endowments were some of the items stakeholders raised. In January 2021, PSAB released a second Consultation Paper. The purpose of the paper is to:

- summarize the feedback to Consultation Paper I;
- describe the options considered for a GNPO Strategy;
- describe the decision-making criteria used to evaluate the options; and
- propose a GNPO Strategy.

The deadline to respond to the Consultation paper is May 12, 2021.

International strategy

The PSAB has reviewed its current approach towards International Public Sector Accounting Standards (IPSAS) with the intent of developing options for its International Strategy. At its May 2020 meeting, PSAB decided that it will adapt IPSAS principles when developing future Canadian Public Sector Accounting Standards for the Public Sector Accounting Handbook. PSAB has issued a brief document summarizing its decision and what it means, entitled *In Brief – A plain and simple overview of PSAB's 2020 decision to adapt IPSAS principles when developing future standards*, as well as the *Basis for Conclusions* on how it reached its decision. This decision will apply to all projects beginning on or after April 1, 2021.

Concepts underlying financial performance

In response to feedback from stakeholders, the PSAB is proposing changes to its conceptual framework and its reporting model with a focus on measuring the financial performance of public sector entities. A conceptual framework is a clear set of related concepts that act as the foundation for the development of standards and the application of professional judgment. In January 2021, PSAB issued four important exposure drafts:

- *The Conceptual Framework for Financial Reporting in the Public Sector* - PSAB has proposed to issue a revised Conceptual Framework that would include 10 chapters:
    - Chapter 1: Introduction to the Conceptual Framework
    - Chapter 2: Characteristics of public sector entities
    - Chapter 3: Financial reporting objective
    - Chapter 4: Role of financial statements
    - Chapter 5: Financial statement foundations
    - Chapter 6: Financial statement objectives
    - Chapter 7: Financial statement information
    - Chapter 8: Elements of financial statements
    - Chapter 9: Recognition and measurement in financial statements
    - Chapter 10: Presentation concepts for financial statements

  The proposed Conceptual Framework would replace the existing conceptual framework in Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*
- *Financial Statement Presentation, Proposed Section PS 1202* – PSAB has proposed replacing the existing reporting model standard in Section PS 1201 *Financial Statement Presentation.* The proposed changes would make some significant changes to financial presentation for public sector entities
- *Consequential Amendments Arising from the Proposed Conceptual Framework* – This Exposure Draft will summarize the implications for the rest of the CPA Canada Public Sector Accounting (PSA) Handbook; and
- *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* – This Exposure Draft will summarize the implications for the rest of the PSA Handbook as a result of new proposed Section PS 1202.

The deadline for responses to the exposure drafts is May 12, 2021.

Appendix E – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
Revisions to CAS 540 *Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures* In June 2018, the IAASB approved a revised version of ISA 540 *Auditing Accounting Estimates and Related Disclosures.* In revising the standard, the IAASB focused on improving the scalability of the ISA to very simple accounting estimates, as well as the most complex accounting estimates. The AASB concluded that the changes to the ISA would be adopted as CASs, with no special amendments being necessary with respect to the Canadian auditing environment. The key changes to the revised standard include: • Explicit recognition of the spectrum of inherent risk and introduction of concept of inherent risk factors • Requirement for enhanced risk assessment procedures relating to understanding the entity, including internal control • Inclusion of objectives-based work effort requirements directed to methods, data and assumptions when responding to the risks of material misstatement • Enhanced “stand back” requirement for audit evidence obtained, including an increased emphasis on professional scepticism • Clarification of the relationship between CAS 540 (revised) and the other CASs and the requirements when using the work of management's expert as audit evidence in testing how management made the accounting estimate	The revised standard is effective for audits of financial statements with periods beginning on or after December 15, 2019.
Revisions to CAS 315 *Identifying and Assessing Risks of Material Misstatement* In July 2018, the IAASB issued an Exposure Draft proposing changes to ISA 315 that could drive more consistent and effective identification and assessment of the risks of material misstatement by auditors. The AASB published an Exposure Draft of the equivalent Canadian standard, which included the same proposed revisions as the ISA with no Canada-specific amendments. The revised CAS 315 has been issued and key amendments to the standard include the following: • Focusing on the applicable financial reporting framework in identifying and assessing risks of material misstatement • Updating the understanding of the system of internal control, including clarifying the work effort for understanding each of the components of internal control and "controls relevant to the audit", as well as the relationship between this understanding and the assessment of control risk • Updating aspects relating to IT, in particular to the IT environment, the applications relevant to the audit and general IT controls relevant to the audit • Introducing the new concepts of inherent risk factors, relevant assertions, significant classes of transactions, account balances and disclosures, and the spectrum of inherent risk Separating the inherent risk and control risk assessments for assertion level risks, enhancing the requirements relating to financial statement level risks, and updating the definition of "significant risks"	Periods beginning on or after December 15, 2021.

Canadian Exposure Drafts issued by the AASB	Effective date
Proposed changes to CAS 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*	
Many audits today are of group financial statements, also known as group audits, and these types of engagements can be very challenging. In April 2020, the IAASB issued an Exposure Draft proposing changes to ISA 600 and related ISAs with the goals of strengthening the auditor's approach to planning and performing group audits and clarifying the interaction of ISA 600 with other ISAs. The AASB has published an Exposure Draft of the equivalent Canadian standard, which includes the same proposed revisions as the ISA with no Canada-specific amendments. The Exposure Draft proposes changes that: • Clarify the scope and applicability of the standard • Emphasise the importance of exercising professional skepticism throughout the group audit • Clarify and reinforce that all CASs need to be applied in a group audit situation • Focus the group engagement team's attention on identifying and assessing the risks of material misstatement of the group financial statements and emphasise the importance of designing procedures to respond to those risks • Reinforce the need for robust communication between the group engagement team and component auditors • Include new guidance and considerations relating to testing common controls, addressing access restrictions, establishing materiality and documenting group audits	The comment period for the Exposure Draft has ended. An effective date for the revised standard has not yet been established.