The Corporation of the City of Richmond Hill

For the year ended December 31, 2022

Report to the Audit Committee
Audit strategy and results

June 20, 2023

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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, 2022. 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 were engaged to provide the following deliverables:

Deliverable
Report on the December 31, 2022 consolidated financial statements
Communication of audit strategy and results

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 20, 2023:

- 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
- Receipts 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 Appendix A.

Audit risks and results

We have executed our audit in accordance with our approach summarized in Appendix A. We highlight our significant findings in respect of accounting practices and other areas of focus.

Area of focus	Matter	Our response and findings
Fraud risk from revenue recognition – user charges and fees	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.
Accounts payable and accrued liabilities	There is a risk around completeness of accounts payable and accrued liabilities at year end.	• We performed a search for unrecorded liabilities by review of subsequent cash disbursements. • We performed an analysis of accruals at year end, compared to prior period, and test a sample of invoices. No issues noted.

Area of focus	Matter	Our response and findings
Taxation revenue and receivables	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, 2022. • 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. No issues noted.
Employee compensation expense	The employee compensation costs are a significant portion of expenses and there is a risk around completeness of these expenses.	• We performed analytical review of salaries and payroll expense and accruals. • We tested and verified the accuracy of the underlying data used for the analytical procedures, including a sample of employees, verifying pay rates and classification. No issues noted.
Tangible capital assets	Capital additions may be capitalized incorrectly or recognized in the wrong class.	• We examined supporting documentation for significant capital asset additions. • We performed testing to ensure that assets are capitalized in the proper class and that those expenditures not capitalized have been properly considered. • We reviewed management's assessment of the unamortized tangible capital assets and their assessment of impairment, if any. • We tested deferred capital contributions to ensure appropriate amounts are deferred. No issues noted.

Area of focus	Matter	Our response and findings
Other audit risk - **Retirement and other employee future benefits**	The risk primarily relates to the estimation uncertainty involved in the valuation of employee future benefits.	• We obtained and reviewed the liability valuation report for reasonability and compliance with accounting standards. • We compared valuation parameters to benefits plan to verify consistency and accuracy. • We reviewed assumptions used by valuation experts for reasonability. • We assessed disclosure for adequacy and compliance with accounting standards. No issues noted.

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, 2022. 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 recalculated 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.

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; and
- 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.

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.

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 standard. 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 standard • 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 standard • 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 standard as at December 31, 2022. 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.

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 management

We have a robust quality management 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 consistently 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 management 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 Management representation letter

Date

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

Dear Sir/Madam:

We are providing this letter in connection with your audits of the consolidated financial statements of City of Richmond Hill ("the City") as of December 31, 2022**,** and for the years then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of City of Richmond Hill in accordance Canadian public sector accounting standards.

We acknowledge that we have fulfilled our responsibilities for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the consolidated financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the consolidated financial statements would influence the decision of a reasonable person relying on the consolidated financial statements.

We confirm, to the best of our knowledge and belief, as of Date, the following representations made to you during your audit.

Financial statements

1. The consolidated financial statements referred to above present fairly, in all material respects, the financial position of the City as at December 31, 2022 and the results of its operations and its cash flows for the years then ended in accordance with Canadian public sector accounting standards, as agreed to in the terms of the audit engagement.

Completeness of information

2. We have made available to you all financial records and related data and all minutes of the meetings of council and committees of council, as agreed to in the terms of the audit engagement. Summaries of actions of recent meetings for which minutes have not yet been prepared have been provided to you. All significant board and committee actions are included in the summaries.

3. We have provided you with unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements. The adjusting journal entries which have been proposed by you, are approved by us and will be recorded on the books of the City.

5. There were no restatements made to correct a material misstatement in the prior period consolidated financial statements that affect the comparative information.

6. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.

7. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated financial statements or as the basis of recording a contingent loss.

8. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.

9. We have identified to you all known related parties and related party transactions, including revenues, purchases, loans, transfers of assets, liabilities and services, leasing arrangements guarantees, non-monetary transactions and transactions for no consideration.

Fraud and error

10. We have no knowledge of fraud or suspected fraud affecting the City involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the consolidated financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's consolidated financial statements communicated by employees, former employees, analysts, regulators or others.

12. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Recognition, measurement and disclosure

13. We believe that the methods, significant assumptions and data used by us in making accounting estimates and related disclosures are appropriate to achieve recognition, measurement and disclosure that is in accordance with Canadian public sector accounting standards. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the consolidated financial statements.

14. All related party transactions have been appropriately measured and disclosed in the consolidated financial statements.

15. The nature of all material measurement uncertainties has been appropriately disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.

16. Any business combination that occurred during the year has been properly accounted for with appropriate consideration of amounts that should be allocated to goodwill and other intangible assets.

17. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

18. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

19. All “off-balance sheet” financial instruments have been properly recorded or disclosed in the consolidated financial statements.

20. With respect to environmental matters:

    a. at year end, there were no liabilities or contingencies that have not already been disclosed to you;
    b. liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements; and
    c. commitments have been measured and disclosed, as appropriate, in the consolidated financial statements.

21. The City has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the City’s assets nor has any been pledged as collateral.

22. We have disclosed to you, and the City has complied with, all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

23. The Goods and Services Tax (GST) and Harmonized Sales Tax (HST) transactions recorded by the City are in accordance with the federal and provincial regulations. The GST and HST liability/receivable amounts recorded by the City are considered complete.

24. Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of Section PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits of the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Handbook.

25. There have been no events subsequent to the date of the statement of financial position up to the date hereof that would require recognition or disclosure in the consolidated financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

Other

26. We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the City's ability to continue as a going concern and have concluded that no such events or conditions are evident.

Yours very truly,

Shirley Tu, Manager, Financial Reporting and Accounting

Gigi Li, Director of Financial Services & Treasurer

Appendix C – 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 3450 ***Financial instruments and*** **Section PS 2601** ***Foreign currency translation***	
PS 2601 *Foreign currency translation* has been amended: • To provide an irrevocable accounting policy election for all financial assets and financial liabilities arising from a foreign currency transaction. This election allows a public sector entity to elect on initial recognition to recognize their exchange gains and losses on a financial asset or financial liability directly in the statement of operations. If this election is not chosen, unrealized foreign exchange gains and losses are included in remeasurement gains and losses until they are realized, upon which they are reclassified to the statement of operations • to require for financial assets and financial liabilities in the fair value category, that the exchange gain or loss component of the change in fair value is separated and recognized directly in the statement of operations in cases where the above accounting policy election was made and amounts subject to this election would not be considered remeasurement gains and losses For those public sector entities that applied PS 2601 to fiscal years beginning on or after April 1, 2012, the election may be made on a one-time basis, at the beginning of the fiscal year, for existing financial assets and financial liabilities arising from a foreign currency transaction. For any financial asset or financial liability for which this election is made, cumulative unrealized exchange gains and losses arising at the date of the election are recognized as an adjustment to the accumulated surplus or deficit at the beginning of the fiscal year in which this election is applied. Disclosure is required to indicate the use of this election and any adjustment to the accumulated surplus or deficit in the year of application. As a result of accounting policy election in PS 2601 noted above, PS 3450 has also been amended to require the disclosure of the carrying amounts of financial assets and financial liabilities in which exchange gains and losses are recognized directly in the statement of operations	For those public sector entities that applied PS 2601/PS 3450 to fiscal years beginning on or after April 1, 2012, the election in paragraph PS 2601.19A may be made on a one-time basis, at the beginning of the fiscal year, for existing financial assets and financial liabilities arising from a foreign currency transaction. This election may be applied no later than the fiscal year beginning on or after April 1, 2022. Earlier application is permitted.

Public Sector Accounting Standards	Effective date
Section PS 3160 *Public Private Partnerships* New Section PS 3160 *Public Private Partnerships* establishes standards on how to account for public private partnerships between public and private sector entities where infrastructure is procured by a public sector entity using a private sector partner that is obligated to design, build, acquire or better infrastructure; finance the infrastructure past the point where the infrastructure is ready for use and operate and/or maintain the infrastructure. Infrastructure typically includes items such as tangible capital assets (i.e., complex network systems), but may also include items that are intangible in nature. The main features of the new Section are: • The infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is also recognized when the public sector entity recognizes an asset. • The infrastructure asset and corresponding liability are initially measured at the cost of the infrastructure asset. • Subsequent measurement of the infrastructure asset is based on the asset cost amortized in a rational and systematic manner over the useful life of the asset. • Subsequent measurement of the financial liability is at amortized cost using the effective interest method. When all or a portion of the liability represents a performance obligation, revenue is recognized, and the liability reduced in accordance with the substance of the public private partnership agreement (as performance is achieved). • Retrospective or prospective application is permitted.	Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.
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	Fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2022, but in August 2020, as a result of the COVID-19 pandemic, the Public Sector Accounting Board (PSAB) has deferred the effective date by one year.)
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.	Fiscal years beginning on or after April 1, 2022.

Public Sector Accounting Standards	Effective date
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.	Earlier adoption is permitted. (NOTE: The effective date was previously April 1, 2021, but in August 2020, 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	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 in August 2020, 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 was 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 ended June 30, 2021 and the PSAB is deliberating the feedback received.

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 applies 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 was June 30, 2021 and the PSAB is deliberating the feedback received.

Appendix D – Auditing developments

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
Revisions to CAS 315 *Identifying and Assessing Risks of Material Misstatement* In July 2018, the IAASB issued an Exposure Draft proposing changes to ISA 315 that could drive more consistent and effective identification and assessment of the risks of material misstatement by auditors. The AASB published an Exposure Draft of the equivalent Canadian standard, which included the same proposed revisions as the ISA with no Canada-specific amendments. The revised CAS 315 has been 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.