Grant Thornton

The Corporation of the City of Richmond Hill

For the year ended December 31, 2023

Report to the Audit Committee
Audit strategy

November 14, 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, 2023. This communication will assist the Audit Committee in understanding the terms of the audit engagement, our proposed audit strategy and the level of responsibility assumed by us.

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

We have obtained our engagement letter dated September 25, 2023, which outlines our responsibilities and the responsibilities of management.

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.

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 noted no matters regarding independence to bring to your attention.

Audit plan and risk assessment

We have planned our audit in accordance with our approach summarized in Appendix A.

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 the Canadian public accounting standards as at December 31, 2023. 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. We have set our planning materiality at 3% of total revenues.

During execution of the audit, we will consider whether materiality should be re-assessed due to changes or events identified. At completion, we will 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 matters should be brought to your attention.

Considerations

The following is a summary of matters that relate to changes to the City and its environment that were considered in preparing our audit plan.

Matter	Discussion and impact
Laws and regulations	During the course of the audit, we will perform specified audit procedures to help identify instances of non-compliance with laws and regulations that may have a material effect on the consolidated financial statements. An audit of financial statements is not designed to detect all instances of non-compliance with laws and regulations and does not represent an audit of the City's compliance with applicable laws and regulations. While we have not identified any instances of non-compliance, we would like to know if you are aware of any instances of non-compliance.

Matter	Discussion and impact
Fraud	We are responsible for obtaining reasonable assurance that the consolidated financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, owing 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. During our audit planning, we will enquire of management as to their views on the risks of fraud and their processes for identifying and assessing fraud risks. At this time, we are not aware of any fraud-related matters that could affect our audit approach.
Accounting and auditing standards	In addition to the information in the Technical Highlights section, we have highlighted certain new standards and interpretations that are likely to have a significant impact on the financial reporting for The Corporation of the City of Richmond Hill in the current year. An overview of these particular standards and interpretations is included below. • PS 3450 *Financial Instruments* and PS 1201 *Financial Statement Presentation*. There will be additional disclosures in the financial statements as a result of these new standards. • PS 3280 *Asset Retirement Obligations*. There will be an adjustment in the financial statements this year to recognize a liability for asset retirement obligations, and a corresponding increase in tangible capital assets.

Significant risks

We identified the following significant risks on which we plan to focus our attention:

Area of risk	Why there is a risk	Planned audit response
Fraud risk from revenue recognition – user charges and fees	This is a presumed fraud risk. The risk primarily relates to user charges and other fee revenue recognized.	• Perform an analytical review related to user charges in revenue and corroborate explanations as required. • Perform tests of details on user charges and other fee revenues. • Test the existence of receivables at year end.
Fraud risk from management override	Manipulation to financial results can occur through journal entries.	• Perform data analytics and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases • Evaluate the business rationale for significant transactions that are or appear to be outside the normal course of business

Other audit risks

Other areas we have identified where we plan to focus our attention are as follows:

Area of risk	Why there is a risk	Planned audit response
Taxation revenue and receivables	Recorded tax revenues and receivables may not be valid due to fraud or error.	• Test the existence of taxation and other receivables at December 31, 2023. • Recalculate the net taxable assessment based on verified assessment rolls and approved levies. • Assess 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.	• Perform an 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. • Review 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.	• Review assumptions used by management, and any available independent reports. • Compare assumptions and rates to industry for reasonability • Review 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.	• Review the calculation of salary and wage accruals to determine if the amounts were calculated appropriately. • Perform analytical assessment of employee-related expenses based on expectations. • Perform tests of details on employee-related expenses.
Asset Retirement Obligation	Significant changes in assumptions underlying asset retirement obligations, such as the timing or method of settlement, or the expected costs to retire a tangible long-lived asset Complexity, subjectivity and degree of estimation uncertainty involved in measuring the amount of the asset retirement obligation, including the nature and extent of assumptions	• Obtain and inspect agreements and cash disbursements related to retirement of an asset subsequent to the period end. • Verify the reasonableness of the assumptions made by management including likelihood of the legal obligation to retire a tangible long-lived asset, the estimated cost of doing so, the timing of the settlement, and the discount rate applied. • Review of assumptions used by internal and external valuation experts for reasonability. • Assess disclosure for adequacy and compliance with PS 3280.

Area of risk	Why there is a risk	Planned audit response
Grants and subsidies	Allocation of grants may not be appropriate and recognition of revenue may not meet grant conditions.	• Review 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. • Review grant terms to determine if any deferrals, receivables or payables are appropriate.
Commitments and contingencies	Commitments and contingencies may be misstated or undisclosed.	• Verify the accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers. • Examine supporting documentation and discussions with management.
Tangible capital assets	Valuation of additions, including contributed assets, as well as appropriateness of amortization.	• Review supporting documentation for capital asset additions with respect to the validity of the additions, on a test basis. • Review disposals to determine if any gain/loss is calculated appropriately. • Recalculate depreciation expense. • Review capital project costs to determine if any additional costs should be capitalized.

Team, timing and communications

Timing and communications

We are committed to delivering exceptional client service and executing our audit in the most effective, efficient and timely manner. The planned timing of our audit work and the deliverables we will provide to the Audit Committee are as follows:

Stage or deliverable	Timing/Status
Meet with the Audit Committee and presentation of Report to the Audit Committee – Initial Communication on Audit Planning	November 14, 2023
Audit planning	November 20 – 25, 2023
Date for all confirmations	December 31, 2023
Year-end fieldwork	April 22 – May 17, 2024
Meeting with the Audit Committee and presentation of Report to the Audit Committee – Communication of Audit Results	July 2024

In our communication of audit results, we will report on the following matters:

- Our views on significant accounting practices
- Significant difficulties, if any, encountered during the audit
- Misstatements, other than trivial errors
- Actual or suspected fraud or illegal acts
- Significant deficiencies in internal control
- Other significant audit matters, as applicable

Team

Engagement team member	Contact information
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Technical updates – highlights

Accounting

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

- PS 3450 *Financial Instruments,* Section PS2601 *Foreign currency translation,* and PS 1201 *Financial Statement Presentation*
- PS 3400 *Revenues*
- PS 3280 *Asset Retirement Obligations*

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

Assurance

See Appendix C for auditing standards issued by the Auditing and Assurance Standards Board that may change the nature, timing and extent of our audit procedures on the City and our communication with the Audit Committee.

If you have any questions about the accounting and assurance changes, we invite you to raise them during our next meeting. We will be pleased to address your concerns.

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 the disclosed basis for accounting. 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 • Oversee the work of the external auditors including reviewing and discussing the audit plan
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 will maintain our professional skepticism, recognizing the possibility that a material misstatement due to fraud could exist notwithstanding our past experiences with the City and our beliefs about management’s honesty and integrity.

Internal control

Our audit will include gaining an understanding of the City's internal control over financial reporting. Our understanding will focus on processes associated with the identified risk areas, as described in this report. We use this understanding to determine the nature, extent and timing of our audit procedures.

Our understanding may also result in valuable internal control findings for your consideration. Note that the auditor's objectives with regards to internal control are different from those of management and those charged with governance. For example, we primarily target controls that relate to financial reporting and not those that relate to the City's operations or compliance which may also be relevant to its objectives. Therefore, management and those charged with governance cannot solely rely on our findings to discharge their responsibilities in this area.

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 – PSAS Accounting developments

Public Sector Accounting Standards	Effective date
2022-2023 Annual Improvements to PSAS The Public Sector Accounting Board (PSAB) has adopted an annual improvements process to make minor improvements to standards which include clarifying guidance or wording within the standards or correcting relatively minor unintended consequences, conflicts or oversights. The following standards were amended in the 2022-2023 process: • Section PS 3160 *Public Private Partnerships* The amendment updated the transitional provisions to explicitly state that early adoption is permitted. • Section PS 3420 *Inter-Entity Transactions* The amendment clarifies that PSG-8 *Purchased Intangibles* applies to inter-entity transactions	Effective April 1, 2023 (Immediately)
Conceptual Framework for Financial Reporting in the Public Sector PSAB's Conceptual Framework for Financial Reporting in the Public Sector replaces Sections PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The new Conceptual Framework includes: • Characteristics of public sector entities • Objectives of financial reporting • Primary users of financial reporting and their expectations • Role of financial statements • Foundations and objectives of financial statements • Qualitative characteristics of information in financial statements • Qualitative characteristics of information in financial statements and related considerations • Definitions of elements • Criteria of general recognition and derecognition; and, • Concepts of general measurement and presentation	Fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted.

Public Sector Accounting Standards	Effective date
As a result of the issuance of the Conceptual Framework, various Sections and Guidelines of the Handbook have been amended to include references to the new Conceptual Framework, add/clarify key definitions that are consistent with the Conceptual Framework, and/or remove references to qualitative characteristics that are no longer qualitative characteristics in the new Conceptual Framework. These Sections include: • Introduction to the Public Sector Accounting Handbook (formerly the Introduction to the Public Sector Accounting Standards) • PS 1150 *Generally accepted Accounting Principles* • PS 1201 *Financial Statement Presentation* • PS 1300 *Government Reporting Entity* • PS 2100 *Disclosure of Accounting Policies* • PS 2120 *Accounting Changes* • PS 2130 *Measurement Uncertainty* • PS 2200 *Related Party Transactions* • PS 3150 *Tangible Capital Assets* • PS 3200 *Liabilities* • PS 3210 *Assets* • PS 3400 *Revenue* • PS 3430 *Restructuring Transactions* • PS 3450 *Financial Instruments; and* • PS 4230 *Capital Assets Held by Not-for-Profit Organizations* The Conceptual Framework will be applied prospectively.	
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.

Public Sector Accounting Standards	Effective date
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 (which does not include those received through a government transfer, contribution or inter-entity transaction) • Examples of items that are not purchased intangibles • References to other guidance in the 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 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 be 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 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 governments - Fiscal years beginning on or after April 1, 2022. 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 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 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.	Fiscal years beginning on or after April 1, 2022. 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	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 1000 Financial statement concepts • PS 1100 Financial statement objectives • PS 2125 First-time adoption by government organizations • 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 (PS 4200 series) 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. In March 2022, having deliberated feedback from two Consultation Papers, the PSAB decided to incorporate the PS 4200 series, with potential customizations, into PSAS as its strategy for GNPOs. This solution was defined as reviewing and amending, as appropriate, the PS 4200 series guidance and incorporating it within the PSA Handbook available for all public sector entities to apply, if appropriate. That is, the existing standards in the PS 4200 series will be reviewed to determine if they should be retained and added to PSAS. This may involve amending standards to update them and ensuring consistency with PSAB's conceptual framework. The PSAB believes this strategy will likely:

- improve the comparability and understandability of financial statements, as all public sector entities would be applying a common reporting model;
- provide the PSAB with a tool and some flexibility to address matters warranting a different presentation or accounting treatment for GNPOs when appropriate; and
- make some of the guidance currently found only in the PS 4200 series available to all public sector entities with similar transactions, improving comparability and consistent application of accounting standards.

The implementation plan for this strategy was approved at its June 2022 meeting, and an overview of the implementation plan was presented at its December 2022 meeting. The current ordering of standard level projects will start with tangible capital assets as well as contributions (including endowments), then controlled and related entities, finishing with the reporting model. The capital asset project will focus on proposing amendments to Section PS 3150 *Tangible Capital Assets*, as a result of reviewing Section PS 4230 *Capital Assets Held by Not-for-Profit Organizations* and Section PS 4240 *Collections Held by Not-for-Profit Organizations*. PSAB plans to consult stakeholders throughout the implementation phase and issue an Exposure Draft in the Fall of 2023.

Appendix C – Auditing developments

<table>
<tr><th>Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB</th><th>Effective date</th></tr>
<tr><td> Revisions 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 International Auditing and Assurance Standards Board (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 and issued the final standard in 2022. The AASB issued the equivalent Canadian standard, which included the same revisions as the ISA with no Canada-specific amendments. The changes made to the standard were designed to:

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. </td>
<td>Periods beginning on or after December 15, 2023.</td></tr>
<tr><td> Issuance of CSQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, CSQM 2 Engagement Quality Reviews and revised CAS 220 Quality Management for an Audit of Financial Statements
Auditors must effectively manage audit quality, both at the firm level and the engagement level. The IAASB recognised a need to strengthen standards addressing quality control and the AASB implemented similar changes to those made at the international level. In January 2021, the AASB unanimously approved the suite of quality management standards.
CSQM 1 introduces a new approach to “managing quality”. Quality management is intended to be proactive in nature and to be a continuous process. Implementing the new standard requires firms to analyse and enhance many of their internal processes to achieve effective quality management. This standard replaces the extant standard, CSQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements
CSQM 2 deals specifically with the topic of engagement quality reviews (EQRs), which are performed by firms to obtain an objective evaluation of the significant judgments made by the engagement team and the conclusions reached. The standards setters recognized the importance of EQRs and noted that many stakeholders (including oversight bodies) were concerned that the requirements of CSQM 1 with respect to EQRs were not sufficiently robust. As a result, CSQM 2 was issued. CSQM 1 deals with the topic of when an EQR should be performed, while CSQM 2 covers the appointment and eligibility considerations related to the person performing the EQR and the performance and documentation requirements.
CAS 220 was revised to clarify and strengthen the key elements of quality management at the engagement level by:

emphasizing that the engagement partner is responsible for managing and achieving quality at the engagement level
</td>
<td> CSQM 1 is effective for audits or reviews of financial statements or other assurance engagements as of December 15, 2022 and related services engagements as of December 15, 2023.
CSQM 2 is effective for audits or reviews of financial statements with periods beginning on or after December 15, 2022, other assurance engagements beginning on or after December 15, 2022 and related services engagements beginning on or after December 15, 2023.
CAS 220 is effective for audits of financial statements for periods beginning on or after December 15, 2022. </td></tr>
</table>

Canadian Auditing Standards (CASs) and other Canadian Standards issued by the AASB	Effective date
• clarifying the engagement partner's responsibilities, and acknowledging the engagement partner can assign certain tasks/procedures to members of the engagement team who are appropriately skilled or suitably experienced in managing and achieving quality • modernizing the standard for the evolving environment	

Canadian Exposure Drafts issued by the AASB	Effective date
Potential revisions to CAS 500 *Audit Evidence* The current audit evidence standard was issued many years ago. Since then, developments in technology have affected how entities operate and process information and how audits are performed. In December 2020, the IAASB initiated a project to revise the current standard to respond to changes in the business environment. The Exposure Draft proposes several key changes: • To respond to changes in the information auditors use, including the nature and source of the information, a set of attributes has been developed to enhance the auditor's principle-based judgments related to audit evidence in a wide variety of circumstances. Enhancements and clarifications have also been made regarding the auditor's role when using information prepared by management's expert • To modernise the standard and support a principles-based approach that recognises the evolution in technology, new application material has been added, including explanations of how automated tools may affect auditor bias and examples that recognise the use of technology by the entity or the auditor • To foster professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence, language has been added to emphasise the importance of maintaining professional skepticism at various stages, such as when attempting to ensure that audit procedures are being designed and performed in an unbiased manner.	The comment period for the Exposure Draft ended on March 15, 2023. It is expected that the effective date for the revised standard will be for periods beginning in 2025, but the exact effective date will depend on when the standard is approved.
Potential revisions to CAS 570 *Going Concern* Auditors are required to obtain sufficient appropriate audit evidence on the appropriateness of management's use of the going concern basis of accounting and conclude on whether a material uncertainty exists in relation to going concern. Financial statement users have raised questions about how much auditors should be able to detect from their audit procedures in this area, and what is communicated to users about the entity's ability to continue as a going concern. This led the IAASB to initiate a project to revise the standard. In April 2023, the IAASB issued its Exposure Draft and the AASB has issued a corresponding Exposure Draft. The Exposure Draft proposes several key changes, which include: • Defining material uncertainty related to going concern • Enhancing the risk identification and assessment requirements so they are consistent with those set out in CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement* • Enhancing the auditor's evaluation of management's going concern assessment, including requirements to support the auditor's application of professional skepticism • Adding a requirement for the auditor to request management to extend its going concern assessment of the entity to cover at least 12 months from the date of approval of the financial statements if management has not already done so • Enhancing the auditor's consideration of information related to management's going concern assessment that becomes available to the auditor after the date of the auditor's report but before the date the financial statements are issued • Adding requirements to enhance communications about going concern in the auditor's report.	The comment period for the Exposure Draft ends on July 31, 2023. It is expected that the effective date for the revised standard will be for periods beginning in 2026, but the exact effective date will depend on when the standard is approved.