The Corporation of the City of Mississauga

Audit Findings Report
for the year ended December 31, 2019

KPMG LLP

Licensed Public Accountants

May 1, 2020

kpmg.ca/audit

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Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements ("financial statements") of the Corporation of the City of Mississauga ("City"), as at and for the year ended December 31, 2019. This Audit Findings Report builds on the Audit Plan we presented to you on December 2, 2019.

Changes from the Audit Plan

We highlight a significant change from the Audit Planning Report previously presented to you:

An adjustment was made to the 2018 comparative figures affecting deferred revenue - obligatory reserve funds. This matter impacted our audit approach. Refer to page 5.

Finalizing the Audit

As of date of this report, we have completed the audit of the financial statements and received evidence of approval of the financial statements from the City's Treasurer (individual delegated with authority to approve the financial statements).

Our audit report is dated the date of approval of the financial statements by the Treasurer, May 1, 2020.

Independence

We confirm our independence to the City. We confirm that we are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

Significant and other accounting policies and practices

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

The City adopted a new public sector accounting standard in 2019. See page 10 for considerations regarding the implementation of the new standard in the current year financial statements.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We do, however, provide our observations and recommendations on certain processes on page 13.

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

Adjustments and Differences

There were two corrected adjustments and two differences that remain uncorrected.

See page 11.

Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework.

Accounting estimates

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

The areas of estimates relate to the carrying value of tangible capital assets, provisions for accrued liabilities, obligations related to employee future benefits, self-insurance liability and provisions for liabilities arising from legal claims.

See pages 7 and 8.

Financial impact of COVID-19

We have discussed the impact of COVID-19 on the operations of the City with management. Due to the uncertainty of the future financial impact to the City, management has added a subsequent event to the notes to the financial statements.

See also Appendix 1 on page 20 for resources.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity

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

1	**Presumed Risk**	Fraud risk from revenue recognition

Significant financial reporting risk

This is a presumed fraud risk. The identified fraud risk is over revenue recognition related to revenue transactions that are not in the normal course of business and deferred revenue. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business as well as management's calculation of the deferred revenue – obligatory reserve funds.

Our response and significant findings

In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing revenue, including:

- Evaluated the design and implementation of selected relevant controls over manual journal entries and other adjustments for revenue transactions.
- Evaluated the design and implementation and tested the operating effectiveness of selected relevant controls, including those relating to the tracking and reporting of development charges cash receipts.

Other audit procedures included:

- Tested journal entries that are susceptible to manipulation through management override and unusual journal entries. See further details on page 9.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end) and analyzed unspent obligatory reserve funds through auditing management's methodology. There was a recast of 2018 revenues and obligatory reserve funds as a result of ensuring that the City was consistently applying the same accounting treatment to each of its obligatory reserve funds. See further details on page 5.
- Substantively tested development charges and other obligatory reserves cash receipts.
- We obtained and reviewed the continuity for deferred revenue prepared by management. KPMG also selected a sample of the increases (cash receipts) and decreases (revenue recognition) for deferred revenue during the current year.
- See also page 13 for our observations on deferred revenue – obligatory reserve funds.

We did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

2	**Presumed Risk**	Fraud risk from management override of controls

Significant financial reporting risk

Management override of controls is a presumed significant risk as prescribed by professional auditing standards.

Our response and significant findings

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

- Using our Data & Analytics software, we tested manual and automated journal entries. See further details on page 9.
- We evaluated the reasonableness of estimates. We found that management’s process for identifying accounting estimates is considered adequate.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.

We did not identify any issues related to fraud risk associated with management override of controls.

Audit risks and results

3	Area of focus	Deferred revenue – obligatory reserve funds

Other area of focus

Revenue recognition related to expenditures of obligatory reserve fund contributions.

Our response and significant findings

- In 2019, the City reviewed its application of accounting methodology employed to recognize revenue on development charges ("DCs") as well as other obligatory reserve funds. It was discovered that an adjustment to apply unspent funds back to deferred revenue for non-DC - obligatory reserve funds was not done. Unspent DCs continue to be appropriately applied back to deferred revenue – obligatory reserve funds as it has in the past. The two types of deferred revenue – obligatory reserves are similar due to their externally-restrictive nature in how they are to be expended.
- The adjustment arose from the City identifying an inconsistent accounting treatment being applied to the timing of the revenue recognition related to the various sources of their obligatory reserve funds. Throughout the year, the City recognizes revenue from obligatory reserve funds when certain capital project budgets are approved by City Council and an obligatory reserve fund is approved as the project's funding source, in whole or partially. At the end of the year, an adjustment to reverse revenue recognized for amounts of DCs approved for projects but that remain unspent at the end of the year is recorded by the City. However, the same step was not done for other non-DC obligatory reserve funds, such as gas tax funds and certain cash-in-lieu parklands funds. This resulted in an understatement of deferred revenue – obligatory reserve funds and an overstatement of accumulated surplus as at January 1, 2018, and an immaterial understatement of revenues for the year ended 2018.
- Accordingly, the 2018 comparative figures were recast in the financial statements through:
- Increase in development and other contributions applied revenue of $3,283K
- Increase in deferred revenue – obligatory reserve funds of $66,842K
- Decrease in opening accumulated surplus as at January 1, 2018 of $70,125K
- Note 2 to the City's financial statements describes the impact of the recast of the 2018 period.
- We reviewed management's analysis of unspent non-DC obligatory reserve funds for the years ending December 31, 2018 and 2017. We selected a sample of projects from each period and tested the amounts recognized as revenue to Council-approved budgets and agreed project expenditures to expenses recorded in the general ledger. We tested the completeness of the projects identified as having unspent balances.
- In the current year, our testing over obligatory reserve contributions, revenue recognized, and unspent obligatory reserves followed the procedures described on page 3.
- Errors identified in the data were corrected by management prior to making the final adjustments.
- We concur with the adjustment recorded. Refer also to our process improvement observations on page 13 for more details.

Audit risks and results

4	Area of focus	Refund of development charges

Other area of focus

The City issued an aggregate of $27.2M in refunds to various parties who appealed the rates charged under the City's DC by-law of 2014. The Local Planning Appeal Tribunal (LPAT) issued its decision in 2019 and a settlement was reached with the parties.

Our response and significant findings

- The City calculated the refund rates as agreed upon in the settlement using historical data of DCs collected since 2014. Aggregate interest of $243K was also calculated and paid with the refunds. The refund was appropriately accounted for as a reduction to the DC obligatory reserve funds.
- In our audit, we selected a sample of DCs collected and verified the original cash receipts and vouched the refund paid. We also verified both the original rates charged and the amended rates as identified in the LPAT decision.
- We assessed the completeness of refunds through an assessment of the DCs receipts compiled by the City compared to previously audited data on amounts received.
- There were no issues found as a result of the above procedures.

5	Other area of focus	Enersource Corporation

Other area of focus

As noted in our Audit Planning Report, we assessed Enersource Corporation ("Enersource") as a significant component to the City's financial statements.

Our response and significant findings

- The City recognizes its 90% investment in Enersource using the modified equity method.
- We reviewed the modified equity calculation and note that there are two major components to the calculation, which are: Enersource's current year net income / other comprehensive income of $10.8M (2018 - $30.3M) and Enersource's dividend declared and paid to the City of $15.7M (2018 - $12.9M). These transactions are disclosed in note 5 of the financial statements.
- No exceptions were noted during testing.

Audit risks and results - estimates

6	**Area of focus**	Employee Future Benefits

Other area of focus

There is estimation uncertainty due to assumptions and estimates used by the actuary in calculating the liability for Employee Future Benefits

Management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "estimates with significant risk."

We believe management's process for identifying estimates with significant risk is considered adequate.

Our response and significant findings

– In 2019, management engaged an external actuarial consultant to undertake a valuation of the City's WSIB, non-pension retirement benefits and accumulated sick leave liability as at December 31, 2019. An actuarial valuation was performed to determine the liability as reported in the City's 2019 consolidated financial statements. The employee future benefit liabilities as at December 31, 2019 are outlined in note 7 to the financial statements.
– As this was a full valuation year, we performed substantive testing to validate the existence, accuracy, and completeness of the HR and census data that was compiled by the City and provided to the actuaries for their valuations. There were no issues in testing the source data.
– We reviewed the actuarial valuation reports and assumptions applied in the valuation, and performed trend analysis on the liability. A discount rate of 4% (2018 – 4%) was used for the determination of the liability. KPMG reviewed the discount rate in comparison with rates issued by the Canadian Institute of Actuaries and noted that the rate used by the City is reasonable.
– The Canadian auditing standards require that we review the qualifications, competence and objectivity of the preparer of the estimate.
– Based on the analysis and testing performed, we did not identify any discrepancies.

Audit risks and results - estimates

7	**Area of focus**	Contingencies

Other area of focus

Estimation uncertainty related to the likelihood and measurement of contingent liability.

Our response and significant findings

- PS3300 Contingent Liabilities requires that the City recognize a liability when “it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.”
- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as collectability of certain accounts receivable, legal claims, etc.
- We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.
- We did not note any issues in the City’s assessment of contingent liabilities and amount of related liabilities that were recorded and reported for the year-ended December 31, 2019.

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

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

Tool	Our results and insights
KPMG Clara Client Collaboration	We have a new tool available for requesting and receiving all the audit requests. This tool is web-based and would allow the finance team to upload responses to our specific requests via link on the web portal. This technology is currently being used for a number of our other clients with great success and improvement in the amount of time spent dealing with audit requests. KPMG discussed this tool with the City. We have debriefed on the effectiveness of this tool and will continue to work with our technology team to enhance this tool for the City's audit going-forward.
Journal Entry Analysis	We utilized Computer Assisted Audit Techniques ("CAATs") to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. We developed a set of high-risk criteria and applied the criteria to the entire population of journal entries. Journal entries containing high risk conditions were tested to ensure they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.
Data & Analytics Routines	We evaluated the completeness of the journal entry population through a roll-forward of the entire GL. The GL roll consists of a summation of all automated and manual journal entries posted during the fiscal year and a comparison of the calculated amounts to the account balances as at and for the year ended December 31, 2019 as reported by management. The GL extraction was found to be complete and containing all entries recorded during the year. We were able to use this complete extraction for our testing of high-risk journal entries. No issues were identified.

Significant and other accounting policies and practices

Initial selections

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

Changes

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

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

PS 3430 – Restructuring Transactions

- This section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of asset and/or liabilities, together with related program and operating responsibilities. Individual assets and liabilities received in a restructuring transaction should be recognized by the recipient if they meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date. Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definition of assets and liabilities and applicable recognition criteria at the restructuring date.

- The City has internal policies to identify and monitor restructuring transactions. Our findings from our review of internal policies and procedures were consistent in this regard. At the completion of the audit, we obtained from management a signed representation letter indicating that there were no restructuring transactions that were not identified to us or disclosed in the financial statements.

– The City accounted for its acquisition of the Living Arts Centre and its related entities (LAC entities) under this new PS 3430 Restructuring Transactions standard. Assets were acquired and liabilities were assumed at their carrying amounts as at September 30, 2019. Revenue and expenses of the LAC entities from the date of acquisition to December 31, 2019 were recorded in the City's consolidated statement of operations.

– The restructuring transaction and its accounting is described in note 22 to the financial statements.

– In our audit, we obtained the accounting records of the LAC entities as at December 31, 2019 and for the period from September 30, 2019 to December 31, 2019. We tested significant accounts, including reviewing bank reconciliations and performing a search for unrecorded liabilities, testing a sample of revenue and expense transactions. There were no issues noted with the accounting for the restructuring transaction with the LAC entities.

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

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

Uncorrected differences

The following differenced remain uncorrected:

– In 2019, an out-of-period adjustment amounting to $2.5M was recorded to capitalize tangible capital assets – work in process and to record recoveries revenue for a transaction that occurred in 2018. As the amount is not material to the financial statements, it has not been corrected to the 2018 period, however, we have presented an uncorrected difference as a result of this out-of-period adjustment.

– The City recorded an adjustment in 2019 relating to an uncorrected difference carried over from 2018. Consolidated tangible capital assets was adjusted downwards by $1.8M in the City's 2019 financial statements, however, given that the underlying transaction arose in 2018, this is an out-of-period adjustment for which we have presented an uncorrected difference impacting on 2019 results. The adjustment is not material to the City in either 2019 or 2018.

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences —individually and in the aggregate—are, in their judgment, not material to the financial statements.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements. Please refer to the management representation letter distributed along with this audit findings report.

– The 2018 period was recast and adjusted to increase revenue by $3,283K, increase deferred revenue– obligatory reserve funds by $66,842K, and decrease opening accumulated surplus as at January 1, 2018 by $70,125K.

– The current 2019 period was adjusted by $1.9M to decrease revenue and increase deferred revenue – obligatory reserve funds to reflect corrections.

Both of these adjustments were part of the City's adjustments described on page 5.

Control deficiencies

In accordance with professional standards, we are required to communicate to the audit committee significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of ICFR in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICFR. The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the audit committee.

Significant deficiencies

There were no significant deficiencies identified.

Other observations

Item	Observation
Revenue recognition of obligatory reserve funds	As a result of the observations described on page 5, it was noted that management's year-end closing process previously treated certain of their obligatory reserve funds on a different basis. This matter specific to revenue recognition of deferred revenue – obligatory reserve funds has been corrected in the current year, however, in order to reduce the potential for material misstatement as a result of other early recognition of revenues and assets or delayed recognition of expenses and liabilities, or from inaccurate reporting practices, we recommend that management review its current finance manual of policies and procedures. The current policies and procedures should be reflective of the City's current operations, include any recently created business activities or accounts, and are applied consistently across similar all areas affecting the elements in the financial statements.

Current developments and audit trends

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

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

Thought Leadership	Overview	Links
2019 Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate, including: o Digital disruption of the finance function o Digital business brings increased cyber risk o Taking the lead on data privacy o Boards bracing for climate change o Future-proofing your ERM	Link to report
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Link to report

Thought Leadership	Overview	Links
Put your data to work to gain competitive advantage	There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever increasing pace.	Link to report
Predictive analytics, it works	CEOs recognize the value that predictive analytics delivers to their decision-making process.	Link to report
Creating the workforce of the future	You can't transform the organization without also transforming the workforce. It may be time to rethink the people strategy.	Link to report

Public Sector Accounting Standards

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

Standard	Summary and implications
Asset Retirement Obligations (applicable for the year ending December 31, 2022 with a retrospective application effective December 31, 2020)	– A new standard, PS3280 *Asset Retirement Obligations*, has been approved that is effective for fiscal years beginning on or after April 1, 2021 (the City's 2022 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: o consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; o carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; o begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Standard	Summary and implications
Revenue	– A new standard, PS3400 *Revenues*, has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end). – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021 (the City's 2022 year-end). – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in 2020. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligation	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Standard	Summary and implications
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. The objective is to develop a public sector accounting standard specific to pubic private partnerships. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard was issued in November 2019. – Public private partnership infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is recognized when the asset is recognized and may be a financial liability, a performance obligation or a combination of both – An infrastructure asset acquired in an exchange transaction is recorded at cost which is equal to its fair value on the measurement date. The liability is measured at the cost of the infrastructure asset initially – Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life – Subsequent measurement of the financial liability would reflect the payments made by the public sector entity to settle the liability as well as the finance charge passed on to the public sector entity through the public private partnership agreement. – Subsequent measurement of the performance obligation: revenues are recognized and the liability reduced in accordance with the substance of the public private partnership agreement
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying basis for conclusions documents and resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: o Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. o Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). o Restructuring the statement of financial position to present non-financial assets before liabilities. o Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). o A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.

Standard	Summary and implications
2019 – 2020 Annual Improvements	– PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance). – The annual improvement process: o clarifies standards or other guidance; or o corrects relatively minor unintended consequences, conflicts or oversights. – Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards (IPSAS). This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. Over 2017-2021 period, PSAB intends to do the following: o conduct research on differences between Canadian Public Sector Accounting Standards and International Accounting Standards; o learn about experiences of other jurisdictions that choose to follow IPSAS; publish a consultation paper to get the opinion of stakeholders; o and, develop options for PSAB's International strategy.
Purchased Intangibles	– As a result of stakeholder feedback received, PSAB will revisit validity of the prohibition against recognizing purchased intangibles in public sector financial statements and will consider a narrow scope amendment. – Input received in response to the 2018 conceptual framework and reporting model documents for comment supported PSAB relocating the recognition prohibitions from the conceptual framework to the standards level. This is a bigger issued for Indigenous governments. PSAB is looking into the question of why purchased intangibles acquired through an exchange transaction cannot be recognized in public sector financial statements as they are measureable at the price in the transaction.

Appendix 1 - Resources - COVID-19 Pandemic

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

Appendix 2: Other Required Communications

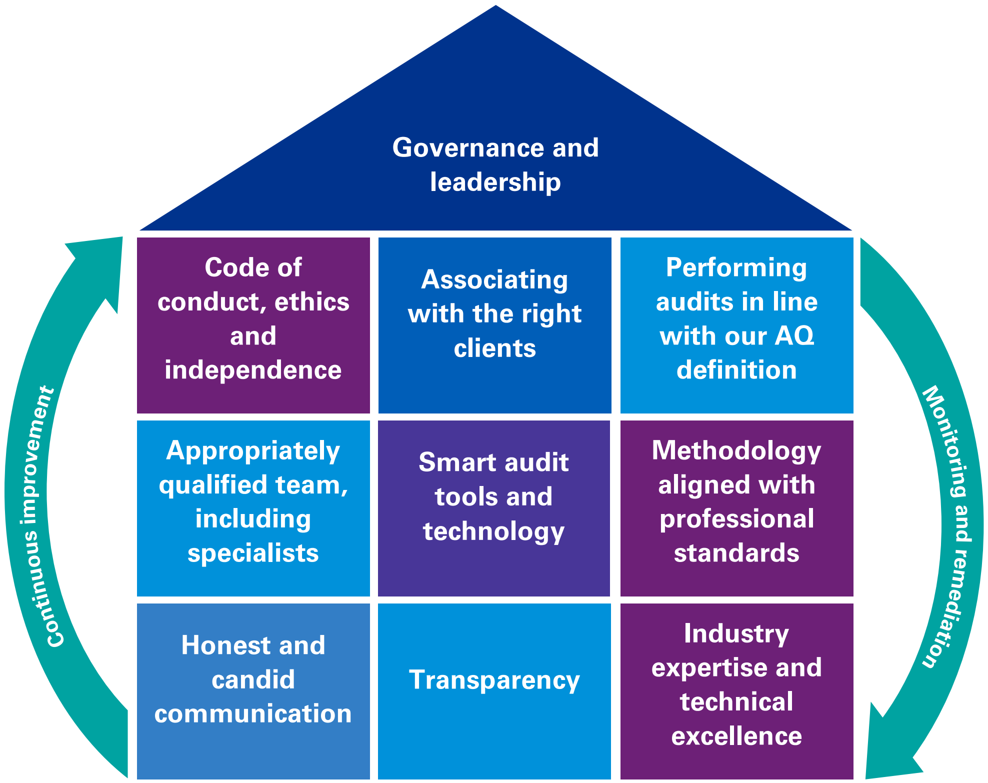
In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	In accordance with professional standards, Management have provided you with a copy of the representation letter for the audit of the financial statements.
Audit quality	
Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 3 provides more information on AQ.	

Appendix 3: Audit Quality and Risk Management

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

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



Audit Quality Framework

What do we mean by audit quality?

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

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

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

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

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

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Appendix 4:

Preparing for PSAB Standard Changes

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

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

Asset Retirement Obligations

PS3280 addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities. **PS3280 will apply to fiscal years beginning on or after April 1, 2021 (the City's 2022 fiscal year). Earlier adoption is permitted. Three transition options are available – retroactive, modified retroactive, prospective.**

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

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

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

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

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

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

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

This accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.

Are You Ready?

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

Revenues

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

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

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

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

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

- Development charges
- Permits
- Licences
- Advertising programs

Are You Ready?

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

Financial Instruments

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

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

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

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

Other financial instruments are measured at cost/ amortized cost.

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

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

Are You Ready?

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

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