

# The Corporation of The City of Mississauga

Audit Planning Report  
for the year ending December 31, 2020

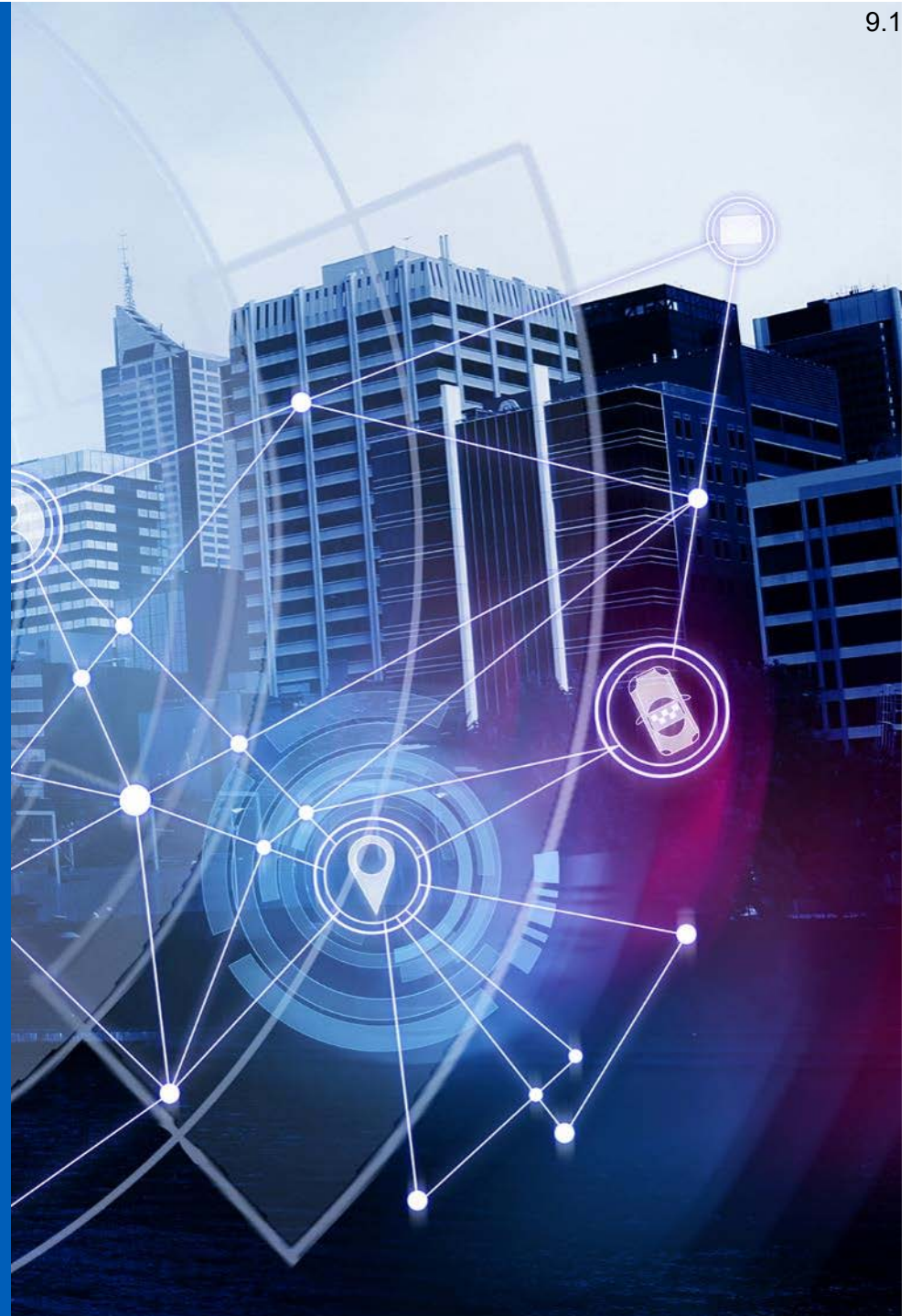
*KPMG LLP*

Licensed Public Accountants

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[kpmg.ca/audit](https://kpmg.ca/audit)



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# Executive summary

The purpose of this Audit Planning Report is to assist you, as a member of the Audit Committee, in your review of the planning of our audit of the consolidated financial statements ("financial statements") of The Corporation of the City of Mississauga (the "City") as at and for the year ending December 31, 2020.

## COVID-19

COVID-19 is undoubtedly going to have an impact to the City's operations and the City's financial reporting. See page 4.

## Group audit scope

Our group audit consists of:

- Full scope audits:
  - The Corporation of the City of Mississauga
  - Enersource Corporation ("Enersource")
- Non-significant components, however these components are required to prepare statutory financial statements under the Municipal Act:
  - City of Mississauga Public Library Board – ("Library")
  - Tourism Mississauga
  - Clarkson Village Business Improvement Association
  - Malton Business Improvement Area
  - Port Credit Business Improvement Area
  - Streetsville Business Improvement District Association
  - Cooksville Business Improvement Area (collectively the "BIAs")

## Audit and business risks

Our audit is risk-focused. We will discuss these risks with you during the upcoming meeting. The audit of the City's consolidated financial statements is considered a group audit which includes several components. In planning our audit, we have taken into account key areas of focus for financial reporting.

See pages page 6 to 11.

## Audit materiality

Materiality has been determined based on consolidated revenue. We have determined group materiality to be \$22,500,000 (2019 - \$25,150,000).

Materiality will be set at lower thresholds where necessary to meet local subsidiary financial statement audit requirements. See page 12.

## Proposed fees

The engagement letter includes the fees for all professional services provided to the City and related entities. A copy of the engagement letter can be obtained from management.

# Executive summary

## Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

## Current developments and audit trends

Please refer to pages 16 to 20 for relevant accounting and auditing changes relevant to the City and relevant audit trends.

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This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, City Council, and Management of the City. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning 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.

# COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly going to have an impact to the City's business and the City's financial reporting.

| Potential financial reporting implications  | Potential implications on internal control over financial reporting  |
|---|--|
| <p>Refer to our <a href="#">COVID-19 Financial Reporting</a> site:</p> <ul style="list-style-type: none"> <li>• Events or conditions that cast significant doubt regarding going concern</li> <li>• Impairment of non-financial assets (e.g., tangible capital assets)               <ul style="list-style-type: none"> <li>◦ Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions)</li> </ul> </li> <li>• Impairment of financial assets including investments</li> <li>• Employee benefits and employer obligations</li> <li>• Provisions, contingencies and onerous contracts</li> <li>• Impact on funding received from federal and provincial governments</li> <li>• Impact on programs and operations managed by the City</li> <li>• Impact on capital projects managed by the City</li> <li>• Subsequent events</li> </ul> | <ul style="list-style-type: none"> <li>• Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in Internal Control over Financial Reporting (ICFR) or to bias estimates.</li> <li>• New or enhanced controls to respond to new financial reporting risks or elimination of on-site preventative controls.</li> <li>• Consideration of changes in the individuals performing the control (e.g. re-directing the performance to head-office or realignment efforts).</li> <li>• Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees.</li> <li>• Revisions may be needed for planned internal audit programs.</li> <li>• Reconsideration of ICFR impacts related to broader IT access given remote work arrangements.</li> </ul> |
| Potential financial reporting implications related to disclosures   | Other potential considerations   |
| <p>Refer to our <a href="#">COVID-19 Financial Reporting</a> site:</p> <ul style="list-style-type: none"> <li>• Events and conditions that cast significant doubt regarding going concern</li> <li>• New accounting policies</li> <li>• Significant management judgements in applying accounting policies</li> <li>• Major sources of estimation uncertainty that have significant risk</li> <li>• Liquidity risks</li> </ul>   | <ul style="list-style-type: none"> <li>• Reporting material changes in ICFR</li> <li>• Cyber security risks (e.g., wire transfers schemes)</li> <li>• Possible delay in filing annual financial statements</li> </ul>  |

# COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements

| Potential audit implications  | Potential audit implications   |
|---|--|
| <p>Planning and risk assessment:</p> <ul style="list-style-type: none"> <li>Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements.</li> <li>Understanding the potential financial reporting impacts, the changes in the City's environment, and changes in the City's system of internal control, and their impact on our: <ul style="list-style-type: none"> <li>identified and assessed risks of material misstatement.</li> <li>audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures.</li> </ul> </li> </ul> <p>Executing:</p> <ul style="list-style-type: none"> <li>Remote auditing: <ul style="list-style-type: none"> <li>Increased use of other collaboration tools (Teams, Skype, etc.) and the need for written management acknowledgement for their use, as necessary</li> <li>Potential increased use of electronic evidence (and understanding the City's processes to provide such evidence to us)</li> </ul> </li> <li>Timing of procedures may need to change: <ul style="list-style-type: none"> <li>The ability for the audit to commence (interim and/or year-end) is highly fluid and dependent on management's ability to physically or digitally access underlying documents in a safe and healthy manner, including access to IT systems.</li> <li>Tests of controls may need to be deferred (to allow the City to put new or revised controls in operation and to be able to re-perform such controls).</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Understanding the City's potential financial reporting impacts, the changes in the City's environment, and changes in the City's system of internal control, and their impact on our: <ul style="list-style-type: none"> <li>design of the analytical procedures</li> <li>need to perform additional procedures or early audit work</li> <li>timing considerations related to the interim review and reporting back to management and the Audit Committee of any significant findings.</li> </ul> </li> </ul> |

# Audit risks

| Professional requirements  | Why is it significant?   |
|--|--|
| <b>Fraud risk from revenue recognition related to revenue transactions that are not in the normal course of business and related to recognition of deferred revenue.</b> | This is a presumed fraud risk. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business as well management's calculation of the deferred revenue – obligatory reserve funds. |

| Our audit approach   |  |
|--|--|
| Our audit methodology incorporates the required procedures in professional standards to address this risk.   |  |
| Our audit approach will consist of evaluating the design and implementation of selected relevant controls. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override and we design search filters that allow us to identify any unusual journal entries. |  |
| As part of our audit approach to address the inherent risk of error in revenue recognition, KPMG substantively tests revenues (both recognized and amounts held as deferred at year end) and recalculates management's calculation of deferred revenue – obligatory reserve funds through auditing management's methodology.   |  |

| Professional requirements                               | Why is it significant?   |
|---|--|
| <b>Fraud risk from management override of controls.</b> | This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit. |

| Our audit approach   |  |
|--|--|
| As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.   |  |
| We will take a risk-based approach tailored to the City when designing substantive procedures and selecting specific transactions for testing. We will continue to make use of technology to extract our risk-based sample from the entire population of journal entries. We will consider the potential impact of COVID-19 when identifying areas which may be subject to additional risk whether due to fraud or error in this regard. |  |

# Audit risks (continued)

| Other areas of focus  | Why are we focusing here?  |
|---|--|
| <b>Cash and Investments</b>   | Material account balances and disclosures. Valuation of investments and concerns over decline in fair value due to COVID-19.   |
| <b>Tangible Capital Assets</b>  | Risk of material misstatement related to existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets additions and contributed assets. |
| Our audit approach  |  |
| <b>Cash and Investments</b><br><i>COVID-19 Implications:</i> <ul style="list-style-type: none"> <li>– To assess if there is a loss in value of the portfolio investment and whether such a decline is other than temporary. Perform audit procedures to assess whether a write-down is necessary.</li> </ul> <i>Substantive audit procedures:</i> <ul style="list-style-type: none"> <li>– Review year-end bank and investment reconciliations and substantive testing and significant reconciling items.</li> <li>– Substantive test of details over additions and disposals of investments.</li> <li>– Obtain confirmations from third party financial institutions.</li> <li>– Review of financial statement note disclosure in accordance with Public Sector Accounting Standards (PSAS).</li> </ul>  |  |
| <b>Tangible Capital Assets</b> <ul style="list-style-type: none"> <li>– Substantive test of details over additions (including contributed tangible capital assets) and disposals.</li> <li>– Review amortization policy and perform recalculations</li> <li>– Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.</li> <li>– Review of financial statement note disclosure in accordance with PSAS.</li> <li>– We will agree fair value estimates of contributed tangible capital assets to supporting third party documentation or estimated by the City; we will perform procedures to address the new CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to valuation estimates.</li> <li>– We will also perform required procedures to assess the potential risks with respect to impairment of assets as a result of the ongoing COVID-19 pandemic. Based on the nature of City's operations, it is not expected that this will be a significant risk during the audit.</li> </ul> |  |



# Audit risks (continued)

| Other areas of focus                               | Why are we focusing here?   |
|--|---|
| <b>Taxes Receivable and Taxation Revenue</b>       | Risk of material misstatement related to designated revenue and accuracy of timing of revenue recognition.            |
| <b>Deferred Revenue – obligatory reserve funds</b> | Risk of material misstatement due to management assessment and judgment involved.                                     |
| <b>Employee Future Benefits (EFBs)</b>             | Risk of material misstatement related to accuracy and valuation of the estimate involved in employee future benefits. |

## Our audit approach

### Taxes Receivable and Taxation Revenue:

- Substantive approach recalculating tax revenue using approved tax rates and assessment.

### Deferred Revenue – obligatory reserve funds:

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Review the City-prepared calculation of deferred revenue balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.
- Recalculation of interest allocation.
- Inquire with management if there were any breaks given to developers due to COVID-19 and perform audit procedures on the financial reporting impact, if relevant.

### Employee Future Benefits:

- Reliance on actuaries (management specialist) engaged by the City; update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.
- Assess method, data and, assumptions used by actuary and management in calculation of the EFB liability for reasonableness.
- We will perform audit procedures to address the new CAS 540, Auditing Accounting Estimates and related disclosure requirements related to the estimates involved. Communicate with actuaries and test HR data provided to the actuaries, if applicable.
- Review financial statement disclosures in accordance with PSAS.

# Audit risks (continued)

| Other areas of focus                                       | Why are we focusing here?   |
|--|---|
| <b>Expenses – Salaries and Benefits</b>                    | Risk of material misstatement related to accuracy and occurrence of expenses.                         |
| <b>Accounts Payable, Accrued Liabilities, and Expenses</b> | Risk of material misstatement related to completeness of liabilities.                                 |
| <b>Contingencies</b>                                       | Risk of material misstatement related to completeness of contingencies and corresponding disclosures. |

## Our audit approach

### Expenses – Salaries and Benefits:

- Test and evaluate design and operating effectiveness of selected controls over payroll.
- Test of employment expenses for a sample of employees by verifying payroll records to HR contracts and collective agreements.
- Substantive verification and recalculation of payroll-related accruals.
- Ensure any collective bargaining agreements are evaluated for retroactive liabilities.

### Accounts Payable, Accrued Liabilities, and Expenses:

- Search for unrecorded liabilities.
- Examine significant accrued liabilities for existence, accuracy and completeness.
- Test and evaluate design and operating effectiveness of selected controls over payables and procurement cycle.
- Perform substantive test of details on selected non-payroll expenditures.

### Contingencies:

- Perform a detailed review of Council meeting minutes.
- Direct communication with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded.
- Significant findings review with management during planning and completion stages of the audit.

# Audit risks (continued)

| Other areas of focus         | Why are we focusing here?                  |
|------------------------------|--|
| Contaminated sites liability | To ensure the completeness of liabilities. |
| Trust funds                  | Statutory audit requirement.               |
| Debenture debt               | Material account balance and disclosures.  |

## Our audit approach

### Contaminated sites liability:

- Update our understanding on the controls and practices in place at the City surrounding recognition, measurement and completeness of contaminated sites and review and testing of management's key assumptions and estimates.
- Make inquiries of key stakeholders to validate the completeness assertion of contaminated sites.
- We will perform audit procedures to address the new CAS 540, Auditing Accounting Estimates and related disclosure requirements related to the estimates involved.

### Trust funds:

- Direct confirmation of cash and investments with financial institutions.
- Vouch selected revenue and expense transactions to source documents.
- Assess if there is a loss in value of a portfolio investment and whether such a decline is other than temporary. Assess whether a write-down is necessary.

### Debenture debt:

- Obtain and review any new or amended agreements for debt issued by the City, including review of Council and Regional Municipality of Peel by-laws on the issuance of debt.
- Confirmation of the debenture debt as at year-end.
- Review disclosures in accordance with PSAS.

# Audit risks (continued)

| Other areas of focus  | Why are we focusing here?  |
|---|--|
| <b>Consolidation (City and all components)</b>  | To ensure the completeness and accuracy of the consolidated information. |
| Our audit approach  |  |
| <ul style="list-style-type: none"> <li>– Review operations of and perform audit procedures for the consolidated entities, including Enersource, City of Mississauga Library Board, BIAs, Tourism Mississauga.</li> <li>– Review the eliminating entries as prepared by management for accuracy and completeness.</li> <li>– Review financial statement note disclosures related to Enersource, including the City's share of net income, dividends, etc.</li> </ul> |  |

# Materiality

| Materiality determination                          | Comments  | Group amount  |
|--|---|---------------|
| <b>Materiality</b>                                 | Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.<br><br>The corresponding amount for the prior year's audit was \$25,150,000 | \$22,500,000  |
| <b>Benchmark</b>                                   | Based on an estimate of consolidated revenue for the year.  | \$900,000,000 |
| <b>% of Benchmark</b>                              | The corresponding percentage for the prior year's audit was 2.5%  | 2.5%          |
| <b>Audit Misstatement Posting Threshold (AMPT)</b> | Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was \$1,260,000.  | \$1,125,000   |

## We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

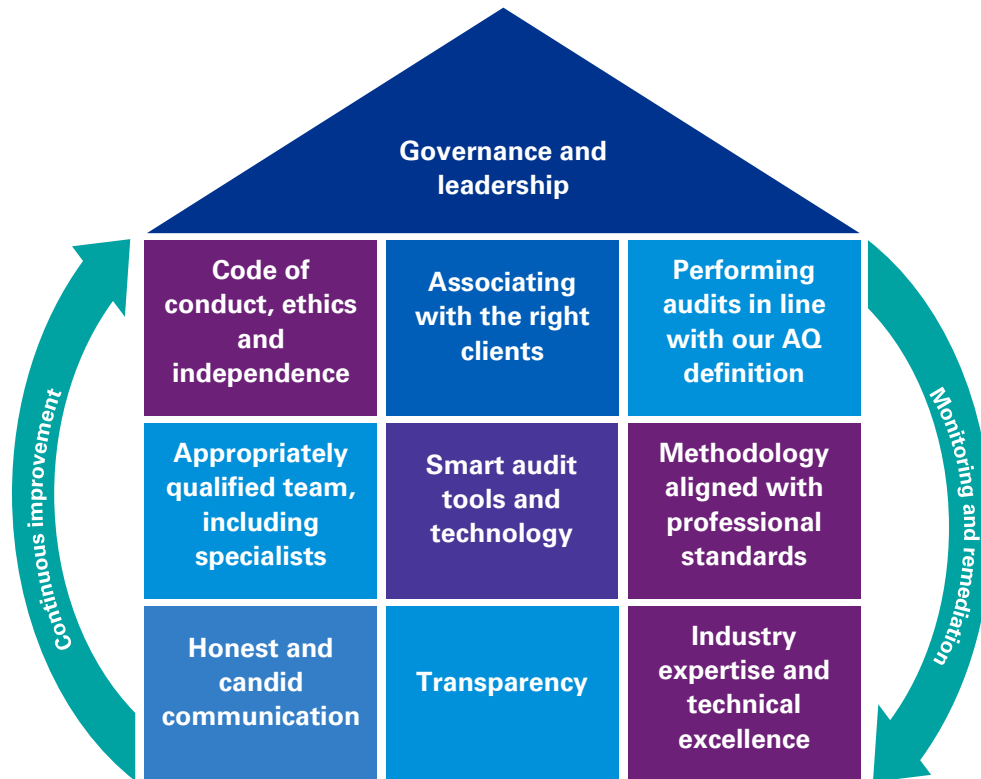
Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

# Audit Quality Matters

# Audit quality and transparency

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.

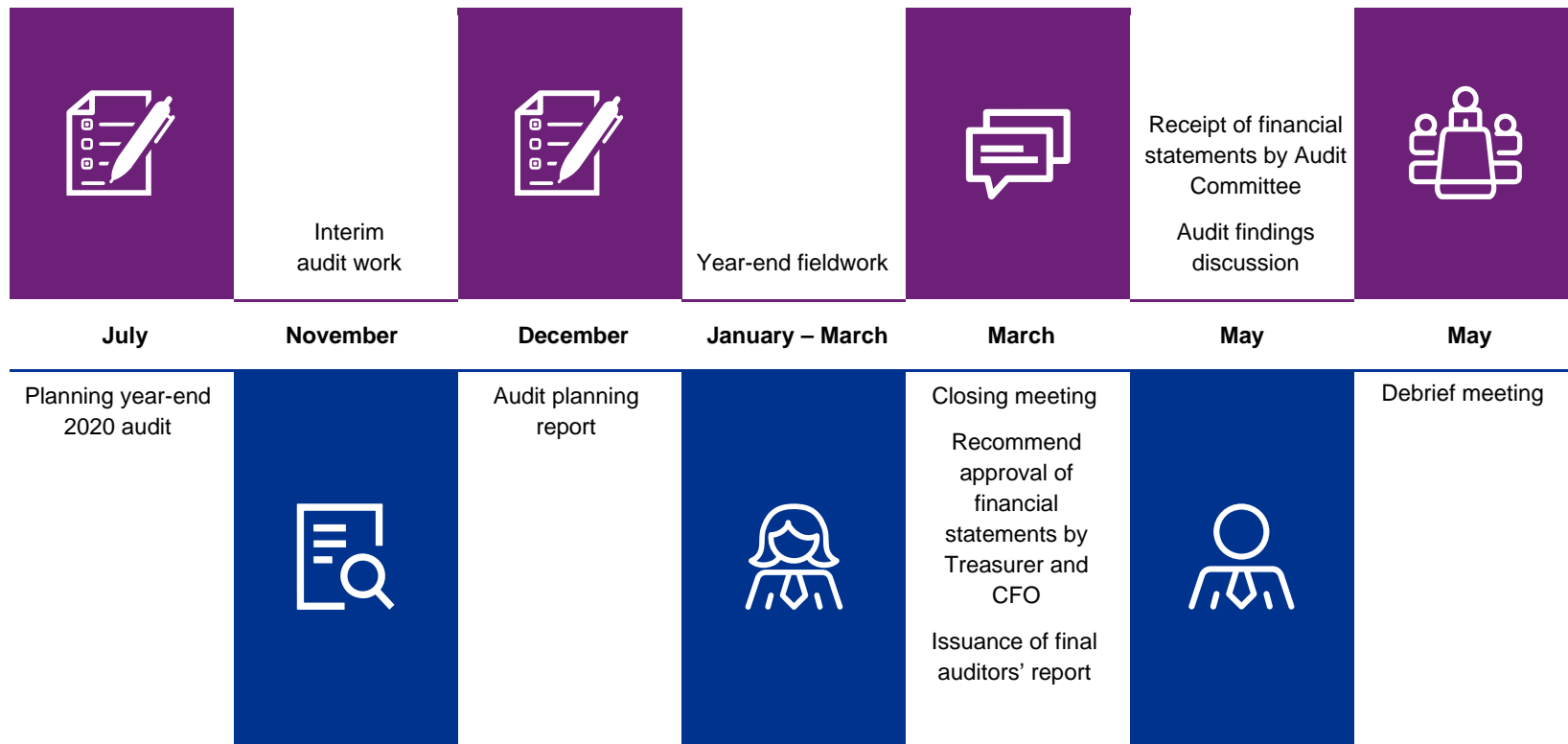
We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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](#).

# Key deliverables and milestones



## Fieldwork dates are:

- **Interim:** week of November 16, 2020
- **BIAs:** week of January 25, 2021
- **City, Library, Tourism Mississauga, Trust Funds:** 3 weeks of February 16 to March 5, 2021
- **Final consolidation:** week of March 22, 2021



# Current Developments – Accounting

| Title   | Details  | Link  |
|---|--|---|
| <b>Public Sector Update – connection series</b> | 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.<br><a href="#">Public Sector Minute Link</a> |

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  |
|---|---|
| <b>Asset Retirement Obligations</b><br><br>(applicable for the year ending December 31, 2023 with option for retrospective application effective December 31, 2022) | <ul style="list-style-type: none"> <li>– A new standard, PS3280 <i>Asset Retirement Obligations</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end).</li> <li>– 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.</li> <li>– 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.</li> <li>– As a result of the new standard, the public sector entity would have to:               <ul style="list-style-type: none"> <li>○ consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;</li> <li>○ 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;</li> <li>○ 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.</li> </ul> </li> </ul> |

| Standard  | Summary and implications   |
|---|--|
| <b>Revenue</b>  | <ul style="list-style-type: none"> <li>— A new standard, PS3400 <i>Revenues</i>, has been approved that is effective for fiscal years beginning on or after April 1, 2023 (the City's 2024 year-end).</li> <li>— The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.</li> <li>— 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.</li> <li>— 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.</li> </ul>   |
| <b>Financial Instruments and Foreign Currency Translation</b> | <ul style="list-style-type: none"> <li>— New accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> have been approved by PSAB and are effective for years commencing on or after April 1, 2022 (the City's 2023 year-end).</li> <li>— 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.</li> <li>— Hedge accounting is not permitted.</li> <li>— 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.</li> <li>— Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 <i>Financial Instruments</i>. 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.</li> </ul> |
| <b>International Strategy</b>                                 | <ul style="list-style-type: none"> <li>— At its May 5, 2020 meeting, PSAB voted to adapt IPSAS principles when developing future standards. This decision has been years in the making, including extensive consultation with Canadian stakeholders, as part of the Board's International Strategy project.</li> <li>— In PSAB's 2017-2021 Strategic Plan, the Board signaled its intent to review its approach towards International Public Accounting Standards (IPSAS). IPSAS has matured over the last decade and are a high quality and comprehensive set of accounting standards. With other jurisdictions comparable to Canada adopting or adapting IPSAS, PSAB has decided it was time to review Canada's current approach towards IPSAS.</li> <li>— While PSAB has made the decision, more planning and work will be done to support stakeholders in this change. The Board itself will also continue to work on implementing this change into its due process, which will require further discussion and work in the coming year. A basis for conclusions was issued in September 2020 that outlines how PSAB came to this important decision.</li> <li>— The implementation date of this decision is April 1, 2021 (the City's 2022 year-end). All standards projects initiated on or after this date will use the principles of IPSAS in the development of the PSAS standard, if a similar IPSAS already exists. In cases where similar IPSAS does not exist, PSAS standards would continue to be developed as they are today.</li> </ul>             |

| Standard   | Summary and implications   |
|--|--|
| <b>Employee Future Benefit Obligation</b>        | <ul style="list-style-type: none"> <li>PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. 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.</li> <li>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.</li> <li>The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.</li> </ul>  |
| <b>Public Private Partnerships (“P3”)</b>        | <ul style="list-style-type: none"> <li>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 public private partnerships.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life.</li> <li>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.</li> <li>Subsequent measurement of the performance obligation: revenues are recognized and the liability reduced in accordance with the substance of the public private partnership agreement.</li> </ul> |
| <b>Concepts Underlying Financial Performance</b> | <ul style="list-style-type: none"> <li>PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.</li> <li>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.</li> <li>A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018.</li> <li>The SOC proposes a revised, ten-chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. 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.</li> <li>The SOP includes principles intended to replace PS 1201 <i>Financial Statement Presentation</i>. The SOP proposes: <ul style="list-style-type: none"> <li>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.</li> </ul> </li> </ul>   |

| Standard                               | Summary and implications   |
|--|--|
|  | <ul style="list-style-type: none"> <li>○ Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).</li> <li>○ Restructuring the statement of financial position to present non-financial assets before liabilities.</li> <li>○ 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).</li> <li>○ A new provision whereby an entity can use an amended budget in certain circumstances.</li> </ul> <p>— Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.</p> |
| <b>2019 – 2020 Annual Improvements</b> | <p>— 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).</p> <p>— The annual improvement process:</p> <ul style="list-style-type: none"> <li>○ clarifies standards or other guidance; or</li> <li>○ corrects relatively minor unintended consequences, conflicts or oversights.</li> </ul> <p>— Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.</p>  |
| <b>Purchased Intangibles</b>           | <p>— 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.</p> <p>— 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 issue 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 measurable at the price in the transaction.</p>   |

# New audit standards

New auditing standards that are effective for the current year are as follows:

| Standard  | Key observations  | Reference                                  |
|---|---|--|
| <b>CAS 540, Auditing Accounting Estimates and Related Disclosures</b><br><br><b>Effective for audits of Entities with year-ends on or after December 15, 2020</b> | <b>Expected impact on the audit:</b> <ul style="list-style-type: none"> <li>— more emphasis on the need for exercising professional skepticism</li> <li>— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)</li> <li>— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)</li> <li>— more focus on how we respond to levels of estimation uncertainty</li> <li>— more emphasis on auditing disclosures related to accounting estimates</li> <li>— more detailed written representations required from management</li> </ul> | <a href="#">CPA Canada Client Briefing</a> |

# Appendices

## Content

Appendix 1: Required communications

Appendix 2: Key Audit Matters

Appendix 3: Use of technology in the audit

Appendix 4: KPMG's audit approach and methodology

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Appendix 6: Audit and Assurance Insights





# Appendix 1: Required communications

| Report  | Engagement terms  |
|---|---|
| Audit planning report – as attached   | Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter dated November 9, 2020.  |
| Reports to the Audit Committee  | Representations of management   |
| At the completion of the audit, we will provide our findings report to the Audit Committee.   | We will obtain from management certain representations at the completion of the audit.  |
| Required inquiries  | Internal control deficiencies   |
| <p>Professional standards require that during the planning of our audit, we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.</p> <ul style="list-style-type: none"> <li>– Fraud:             <ul style="list-style-type: none"> <li>– What are your views about fraud risks at the entity?</li> <li>– How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks?</li> <li>– Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets?</li> <li>– If so, have the instances been appropriately addressed and how have they been addressed?</li> </ul> </li> <li>– Laws and Regulations: Is the entity in compliance with laws and regulations?</li> <li>– Significant Unusual Transactions: Has the entity entered into any significant unusual transactions?</li> </ul> | <p>Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.</p> <div data-bbox="1058 860 2003 937"> <h3>Audit Quality</h3> <p>The following links are external audit quality reports for referral by the Audit Committee:</p> <ul style="list-style-type: none"> <li>• <a href="#">CPAB Audit Quality Insights Report: 2019 Annual Inspections Results</a></li> <li>• <a href="#">CPAB Audit Quality Insights Report: 2019 Fall Inspection Results</a></li> </ul> </div> <div data-bbox="1058 1096 2003 1172"> <h3>Matters pertaining to independence</h3> <p>At the completion of our audit, we will confirm our independence to the Audit Committee.</p> </div> |

# Appendix 2: Use of technology in the audit

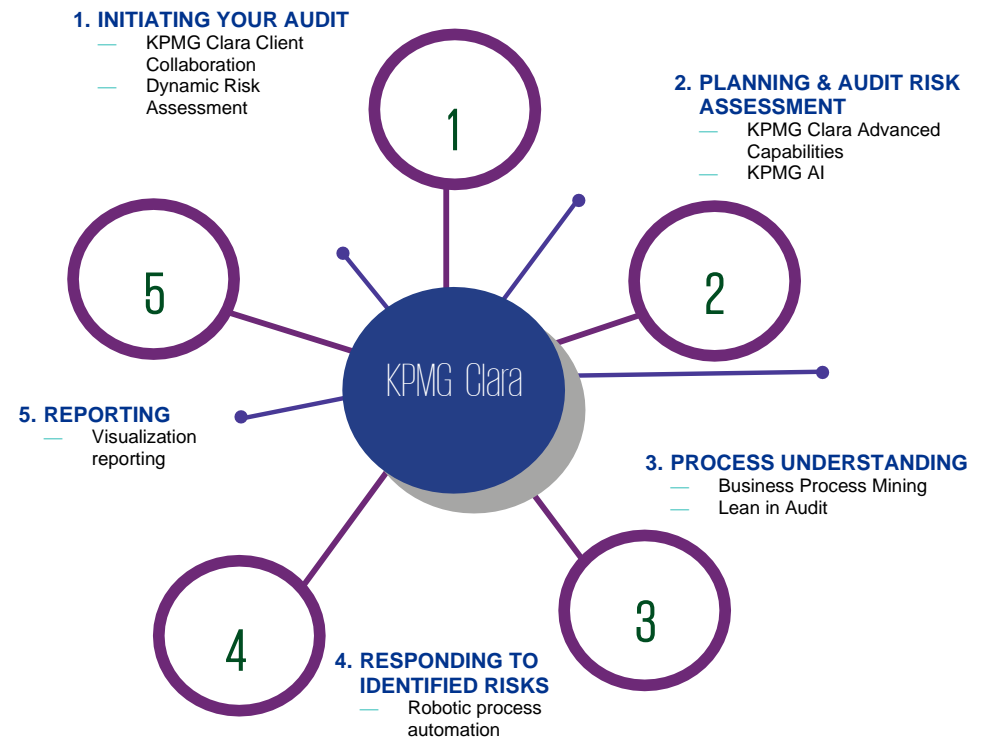
Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions through the use of robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

We will be discussing the use and implementation of these tools with the Entity over the course of our audit. These tools will be adopted and applied to the Entity's audit using a phased approach over the coming years. We will keep you apprised of our progress on a continuous basis.

## Our five-phased audit approach





# Appendix 3: KPMG's audit approach and methodology

## Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

## Issue identification

Continuous updates on audit progress, risks and findings before issues become events.

## Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.



## Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards.

## Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

## Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

# Appendix 4: Lean in Audit™

## An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

We will be discussing the use of this tool with management over the coming months to understand management's assessment and appetite for the use of this tool for current and future periods.

## How it works

Lean in Audit employs three key Lean techniques:

### 1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

### 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

### 3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

# Appendix 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

| Featured insight   | Summary   | Reference                             |
|--|---|---------------------------------------|
| <b>Audit &amp; Assurance Insights</b>                      | Curated thought leadership, research and insights from subject matter experts across KPMG in Canada   | <a href="#"><u>Learn more</u></a>     |
| <b>The business implications of coronavirus (COVID 19)</b> | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.  | <a href="#"><u>Learn more</u></a>     |
|  | Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.  | <a href="#"><u>Learn more</u></a>     |
| <b>Accelerate 2019/20</b>                                  | Perspective on the key issues driving the Audit Committee agenda  | <a href="#"><u>Learn more</u></a>     |
| <b>Momentum</b>  | A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.  | <a href="#"><u>Sign-up now</u></a>    |
| <b>Current Developments</b>                                | Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US   | <a href="#"><u>Learn more</u></a>     |
| <b>Board Leadership Centre</b>                             | Leading insights to help board members maximize boardroom opportunities.  | <a href="#"><u>Learn more</u></a>     |
| <b>Return to the Workplace</b>                             | As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce. | <a href="#"><u>Link to report</u></a> |



[kpmg.ca/audit](https://kpmg.ca/audit)



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