
KPMG

# District of North Cowichan

Audit Findings Report for the year ended December 31, 2021

KPMG LLP

Prepared on April 28, 2022 for the meeting on May 4, 2022

kpmg.ca/audit

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## Our refreshed Values

**What we believe**

### Integrity

We do what is right.

### Excellence

We never stop learning and improving.

### Courage

We think and act boldly.

### Together

We respect each other and draw strength from our differences.

### For Better

We do what matters.

# Audit highlights

## Purpose of this report

The purpose of this report is to assist you, as Council members ("Council"), in your review of the results of our audit of the consolidated financial statements of the District of North Cowichan (the "District") as at and for the year ended December 31, 2021.

### Changes from the audit plan

There were no significant changes in our audit from the Audit Planning Report previously presented to you on November 17, 2021.

### Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with Council;
- Receipt of bank confirmations;
- Obtaining the signed management representation letter;
- Obtaining evidence of the Council's acceptance of the financial statements; and
- Completing subsequent event review procedures up to the date of the Council's acceptance of the financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report will be dated upon the completion of any remaining procedures.

### Audit differences

We have identified two audit differences that remain uncorrected.  The impact is to increase the annual surplus by $646,000. There is no impact on our audit opinion. See page 8.

### Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

### Control deficiencies and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. See pages 9 and 10 for details.

### Independence

We confirm that we are independent with respect to the District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2021 up to the date of this report.

### Current developments

Please refer to the appendices for the current development updates.

This report to Council is intended solely for the information and use of management and Council members and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to Council has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Audit risks

| Professional requirements | Why is this significant? | Our response and findings |
|---|---|---|
| Fraud risk from management override of controls | This is a presumed fraud risk under Canadian Auditing Standards.<br><br>We have not identified any specific additional risks of management override relating to this audit. | We have performed the following procedures:<br>• testing of journal entries and other adjustments; and<br>• performed retrospective review of estimates.<br>• We did not identify any significant unusual transactions.<br><br>There were no issues noted in our testing. |

# Areas of focus

| Other areas of focus | Why are we focusing here? | Our response and findings |
|---|---|---|
| Cash and investments | There is a risk that amounts are not appropriately recorded or the required disclosures are not included in the notes to the financial statements. | • We confirmed balances and significant terms with custodians.<br>• We evaluate if amounts are appropriately recorded at cost or at fair value as required by the financial reporting framework.<br><br>Under the District's financial reporting framework, investments are required to be required at cost.  The District records investments at market value and accordingly, we have identified an audit misstatement of $815,000 for the difference that remains uncorrected.  See page 8. |
| Tangible capital assets and developer contributed assets | There is a risk that assets and capital projects are not appropriately recorded or amortized in accordance with the financial reporting framework. | • We tested asset additions and disposals to supporting documentation, including assets contributed by developers.<br>• We assessed the current status of projects in progress to determine if there was any write down required for projects no longer being pursued.<br>• We tested transfers from construction in progress to asset classes in use and confirmed the transfer occurred in the correct period and to the appropriate asset class.<br>• We calculated expected amortization expense based on known amortization rates and compared the expected amortization expense to the amount recorded by the District.<br><br>No issues or adjustments were noted. |
| Revenues and receivables | There is a risk that revenues are not recorded in the correct period or in accordance with the financial reporting framework. | • We performed substantive testing over accounts receivable and revenues, which included: agreeing revenue amounts to supporting documentation and cash receipts; and analytical procedures including comparisons to prior years and budgets to develop expectations of the amounts in the current year.<br><br>No issues or adjustments were noted. |

# Areas of focus (continued)

| Other areas of focus | Why are we focusing here? | Our response and findings |
|---|---|---|
| Expenses, procurement, and payables | There is a risk that non-payroll related expenses are not authorized and are inappropriately classified or reported in the wrong period. | • We performed detailed testing of subsequent to year end cash payments and agreeing to underlying support.<br>• We performed substantive analytical procedures including comparisons to prior years and budgets to develop expectations of the amounts in the current year.<br><br>We identified one audit difference related to the under-accrual of the RCMP retroactive pay of $169,000 that remains uncorrected. See page 8. |
| Salaries and benefits | There is a risk that salaries and employee future benefits are recorded at the wrong amount, in the wrong period, or not in accordance with the financial reporting framework. | • We calculated expected payroll expense and payroll accruals based on known staff numbers and salary increases. In each case our calculated expectation was within an acceptable range from the actual payroll expense, or payroll accrual recorded in the financial statements.<br>• We tested the completeness and accuracy of the underlying payroll data used in the development of our expectation including agreeing amounts to employment contracts.<br>• We tested the reasonability of future employee benefits such as sick time by reviewing reporting from the District's actuary and estimate of expected future payments.<br><br>No issues or adjustments were noted. |

# Significant accounting policies and practices

## Significant accounting policies

- There were no initial selections of or changes to the significant accounting polices and practices.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transactions.

## Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the District's asset and liability carrying values.

## Financial statement presentation and disclosure

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

# Uncorrected differences and corrected adjustments

## Differences and adjustments include disclosure differences and adjustments.

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

### Uncorrected differences

We identified two differences that remain uncorrected for fiscal 2021:

1) We identified an understatement of investment assets totalling $815,000. Investments are carried at market value on the financial statements of the District rather than cost. The market value has declined below cost at December 31, 2021.

2) We identified an understatement of the RCMP retroactive payment totalling $169,000. The District has accrued approximately $1.17 million in retroactive pay to RCMP, but based on information available, we estimate the accrual to be approximately $1.34 million.

The aggregate impact if these entries were recorded would be to increase the annual surplus by $646,000.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements - individually and in the aggregate - are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditors' report.

### Corrected adjustments

We did not identify any audit differences that have been corrected.

# Control and other observations

As your auditors, we are required to obtain an understanding of internal control over financial reporting ("ICFR") relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing and extent of audit procedures performed, as well as other factors.

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit that we have determined to be material weaknesses or significant deficiencies in internal control over financial reporting.

No significant deficiencies have been identified.

Other control deficiencies may be identified during the audit that do not rise to the level of material weakness or significant deficiency. We have previously communicated to management other control deficiencies identified during the audit.

### Other Matters

| Description | Year | Potential effect | Recommendation / Update |
|---|---|---|---|
| **Recognition of Developer Contributed Assets**<br><br>KPMG noted during our testing of developer contributed assets (DCA) that there is no formal documentation to corroborate the transfer of ownership from the developer to the District. Currently assets are recorded one year after the project is complete, after the developer's maintenance period has elapsed. | 2020 | Without a formal documentation process for recognizing DCA's, there is a risk that assets will not be recognized or will be recognized before the responsibility for the asset has transferred to the District. | KPMG recommends that after the 1-year warranty period has expired, the District issue a Certificate of Final Acceptance to the developer in which the District accepts the responsibility of the infrastructure. The certificate should be signed by the Development Engineer and formally document the transferring of the developer contributed assets to the District.<br><br>No change in 2021. |

## Other matters (continued)

| Description | Year | Potential effect | Recommendation / Update |
|---|---|---|---|
| **Evidence of Review of Exception Reporting**<br><br>KPMG noted in our testing of the payroll process that the Payroll Coordinator is not evidencing their review of the payroll exception report. | 2020 | Without evidence of review, it cannot be corroborated that this process is being followed. | KPMG recommends that review of all documents and reports be evidenced through signoff, whether digital or physical.<br><br>No change in 2021. |
| **Approval of Expense Reports**<br><br>KPMG noted in our testing of council expense reports that expense reports were approved by the Executive Assistant to the CAO, while per the District of North Cowichan expense policy, expenses are to be approved by "the Chief Administrative Officer or the Department Head." For another expense, there was no authorization as it was the Department Head who was submitting the expense. | 2020 | The Executive Assistant may be more easily pressured to authorise inappropriate expenses. Additionally, having Department Heads authorize their own expenses, increases the risk of inappropriate expenses as there is no secondary authorization. | KPMG recommends that the District follow the terms of the internal expense policy regarding expense authorization. For Department Heads, these individuals' expenses should be authorized by the CAO. The CAOs expenses should be approved by the Mayor.<br><br>No change in 2021. |

# Appendices



# Appendix 1: Required communications

## Draft auditors' report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

## Management representation letter

In accordance with professional standards, a copy of the management representation letter is included in Appendix 2.

## Independence

In accordance with professional standards, we have confirmed our independence.

# Appendix 2: Management representation letter

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of the District of North Cowichan ("the District") as at and for the period ended December 31, 2021.

**General:**

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Responsibilities:**

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 11, 2020, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of the Council that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

   e) providing you with additional information that you may request from us for the purpose of the engagement.

   f) providing you with unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.

   g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

   h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

**Internal control over financial reporting:**

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

**Fraud & non-compliance with laws and regulations:**

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   b) all information in relation to fraud or suspected fraud that we are aware of that involves:

      — management;

      — employees who have significant roles in internal control over financial reporting; or

      — others

      where such fraud or suspected fraud could have a material effect on the financial statements.

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Subsequent events:**

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**Related parties:**

5) We have disclosed to you the identity of the District’s related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**Estimates:**

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

**Going concern:**

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the District's ability to continue as a going concern.

**Misstatements:**

11) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

**Employee Future Benefits:**

12) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

13) All arrangements (contractual or otherwise) by which programs have been established to provide employee benefits have been disclosed to you and included in the determination of pension costs and obligations.

14) Each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events.

15) The source data and plan provisions provided used for preparation of the actuarial valuation are accurate and complete.

16) The discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.

17) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you.

**Segment Disclosures:**

18) The District's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework. The operating segment information disclosed in the financial statements is consistent with the form and content of the information used by the District's decision makers for the purposes of assessing performance and making operating decisions about the District's individual operations. All significant differences in measures used to determine segment income have been appropriately identified and described in the disclosures of segment information in accordance with the relevant financial reporting framework.

**Other:**

19) Expenditures will be appropriately authorized and actual expenditures will not exceed budgeted expenditures detailed in the budget bylaw.

20) All reserve transactions have been appropriately approved, in accordance with applicable legislation and are appropriately credited to or charged against fund balances. Reserve amounts represent only those amounts that are available for use at the District's discretion and do not include restrictions on use by third parties

21) All transfers out of statutory reserves have been conducted in accordance with the approved bylaws.

22) We confirm that the final version of Annual Report 2021 will be provided to you when available, and prior to issuance by the District, to enable you to complete your required procedures in accordance with professional standards.

**Non-SEC registrants or non-reporting issuers:**

23) We confirm that the District is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

24) We also confirm that the financial statements of the District will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

____________________________________

Talitha Soldera, Director of Financial Services

____________________________________

Walter Wiebe, Senior Manager of Financial Services

## Attachment I – Definitions

### Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

c) dissimilar items, transactions or other events are inappropriately aggregated;

d) similar items, transactions or other events are inappropriately disaggregated; and

e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

### Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

**Attachment II – Summary of Audit Misstatement Schedule**

**Year ended December 31, 2021**

## Summary of Uncorrected Audit Misstatements

| | Statement of operations effect | Statement of financial position effect | | |
|---|---|---|---|---|
| **Description** | **Annual surplus (Decrease) Increase** | **Assets (Decrease) Increase** | **Liabilities (Decrease) Increase** | **Opening accumulated surplus (Decrease) Increase** |
| Understatement of investments | $ 814,898 | $ 814,898 | $ - | $ - |
| Understatement of RCMP retroactive pay accrual | (168,700) | - | 168,700 | - |
| **TOTAL** | **$ 646,198** | **$ 814,898** | **$ 168,700** | **$ -** |

# Appendix 3: Implications of PS 3280 Asset Retirement Obligations

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the fiscal years beginning on or after April 1, 2022. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

**Financial reporting implications**

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

**Asset management implications**

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

**Funding implications**

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

**Budget implications**

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government to determine the impact of PS 3280 on current requirements.

**Capital planning implications**

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

# Appendix 4: Current developments

## New accounting standards

| Standard | Summary and implications |
|---|---|
| **Asset Retirement Obligations** | – The new standard is effective for fiscal years beginning on or after April 1, 2022.<br>– 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 will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.<br>– The ARO standard will 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 will be added to the historical cost of the asset and amortized over its useful life.<br>– As a result of the new standard, the public sector entity will have to:<br>• Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>• 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;<br>• 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. |
| **Revenue** | – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.<br>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.<br>– The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.<br>– 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. |

# Appendix 4: Current developments (continued)

| Standard | Summary and implications |
|---|---|
| **Employee Future Benefit Obligations** | – PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan.<br>– PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.<br>– Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.<br>– PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section were due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. |
| **Public Private Partnerships ("P3")** | – PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023, and may be applied retroactively or prospectively.<br>– The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.<br>– The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.<br>– The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. |

# Appendix 4: Current developments (continued)

| Standard | Summary and implications |
|---|---|
| **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.<br>– PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received.<br>– PSAB is proposing 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.<br>– In addition, PSAB is proposing:<br>• Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.<br>• Separating liabilities into financial liabilities and non-financial liabilities.<br>• Restructuring the statement of financial position to present non-financial assets before liabilities.<br>• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).<br>• 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), including a new component called “accumulated other”.<br>• A new provision whereby an entity can use an amended budget in certain circumstances.<br>• Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. |
| **Purchased Intangibles** | – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.<br>– PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized.<br>– The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective. |

# Appendix 4: Current developments (continued)

| Standard | Summary and implications |
|---|---|
| **2022 – 2027 Strategic Plan** | – PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021.<br>– The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities<br>– The Strategic Plan emphasizes four key priorities:<br>– Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project.<br>– Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting.<br>– Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB.<br>– Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector. |
| **Financial Instruments and Foreign Currency Translation** | – The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.<br>– 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 public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.<br>– Hedge accounting is not permitted.<br>– A new statement, the Statement of Remeasurement 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.<br>– In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts were released in summer 2020 with a 90-day comment period. |

# Appendix 4: Current developments (continued)

## New auditing standards

The following changes to auditing standards applicable to our 2022 audit are listed below.

| Standard | Key observations |
|---|---|
| Revised CAS 315, Identifying and Assessing the Risks of Material Misstatement | Revised CAS 315, Identifying and Assessing the Risks of Material Misstatement has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021.<br><br>The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include:<br>- Enhanced requirements relating to exercising professional skepticism<br>- Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls<br>- Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls<br>- Introduction of scalability<br>- Incorporation of considerations for using automated tools and techniques<br>- New and revised concepts and definitions related to identification and assessment of risk<br>- Strengthened documentation requirements<br><br>CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit. |

# Appendix 4: Current developments (continued)

## Thought leadership – Local governments

| Thought leadership | Overview | Links |
| --- | --- | --- |
| **Cities portal** | KPMG in Canada provides insights and resources for municipalities on a variety of topics including achieving sustainable infrastructure, the new reality for government in Canada, drinking water supply and park access. | Link to Canadian portal |
| **The Future of Local Government** | The Future of Local Government report provides a Canadian perspective for how local governments can meet the rapidly changing needs and expectations of their stakeholders – the citizens, partners and leaders across diverse cities and communities they serve. | Link to Canadian portal |
| **The Future of Cities** | The Future of Cities report unpacks our KPMG Global research and insights on the future of local government, providing an international viewpoint. The report traces the unprecedented journey ahead. Cities worldwide are now poised at a significant inflection point, as their leaders realize that long-held 'one-size-fits-all' approaches to planning and policies will likely no longer work to shape cities for a future that is truly healthy, sustainable, efficient and prosperous for all. | Link to Global portal |
| **The Future of Government** | The Future of Government report considers all levels of government and provides additional perspective from the content in the Future of Local Government report. It discusses the opportunity for governments to consider a different vision of Canadian social systems and how they can adapt their operations to reflect the needs of a modern Canada. | Link to Canadian portal |
| **CX Coffee Chats: Modernizing Government** | As a result of the pandemic, government organizations have been faced with unprecedented demand for digital transformation in the delivery of services to Canadians. In the latest installment of the CX Coffee Chat series, industry specialists discuss the evolving needs of Canadians and the opportunities for government organizations to deliver online services citizens can count on. | Link to Canadian portal |
| **20 Predictions for the Next 20 Years** | This series looks at how new technologies could evolve and how these advances will change every facet of our lives, including the industries and sectors that drive them. We asked KPMG in Canada subject matter specialists, across industries and sectors, to tell us know they think the world will change in the next two decades. Specifically for local governments, the political and regulatory predictions may be especially relevant. | Link to Canadian portal |
| **Principles for Digital Transformation in Cities** | This report was authored by KPMG and published as part of the World Government Summit. The report highlights the realization of 'smart digitalization' and how it differs across cities. | Link to report |

# Appendix 4: Current developments (continued)

## Thought leadership – Environmental, social, and governance (ESG)

| Thought leadership | Overview | Links |
|---|---|---|
| **Unleashing the Positive in Net Zero** | CoP26 in Glasgow made some progress to tackling climate change but there is much more to do. At KPMG, we're committed to accelerating the changes required to fight climate change. Our Global portal provides links to further thought leadership to help drive real change. | Link to Global portal |
| **KPMG Climate Change Financial Reporting Resource Centre** | KPMG's climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business. | Link to Global portal |
| **You Can't Go Green Without Blue – The Blue Economy is Critical to All Companies' ESG Ambitions** | In this report, KPMG considers how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy. | Link to Canadian portal |
| **ESG, Strategy and the Long View** | This paper presents a five-part framework to help organizations understand and shape the total impact of their strategy and operations on their performance externally – on the environment, consumers, employees, the communities in which it operates, and other stakeholders – and internally. | Link to Global portal |
| **Inclusion and diversity practices** | In 2021 societal changes brought more attention to inclusion and diversity. In this age of transparency, businesses must act proactively to implement strategic inclusion and diversity practices. It has become increasingly important for organizations to adopt I&D initiatives in order to foster an enjoyable work environment for their employees. Learn how to consider your own organizations' unique context, meet with the stakeholders you want to include, understand where they are at, and guide them along their own individual transformation journey. | Link to Canadian portal |

# Appendix 4: Current developments (continued)

## Thought leadership – Digital and technology

| Thought leadership | Overview | Link |
|---|---|---|
| **Going digital, faster in Canada** | Pre-COVID-19, private and public organizations were moving towards a digital business model, travelling at varying speeds. But the pandemic forced a dramatic acceleration, both in the speed of change and the required investment to digitally transform. According to Canadian insights from KPMG's recent global survey, organizations are investing heavily in technology to address immediate concerns, ranging from falling revenue and interrupted supply chains to building longer-term competitiveness and operational resilience. | Link to Canadian portal |

## Thought leadership – Board, Audit Committee and C-Suite

| Thought leadership | Overview | Links |
|---|---|---|
| **Accelerate** | Our Accelerate series offer insight into the key issues that will drive the Audit Committee agenda in 2022 in a number of key areas: cyber-related risk, digital transformation in the finance function, the 'Great Resignation' impacting finance, climate-related physical risks, enterprise risk management, and building a climate-conscious organization. | Link to Canadian Accelerate 2022 Insights series |
| | This year we surveyed over 1,300 CEOs globally and the results are pointing to an optimistic outlook amongst Canadian CEOs. Some of the key themes coming out of the survey include expectations for aggressive growth through expansion, investment in both people and technology as well as a focus on delivering on environmental, social and governance (ESG) and sustainability commitments. | Link to Canadian portal |
| | KPMG in Canada Board Leadership Centre engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting and more.<br>The new Audit Committee Guide – Canadian Edition from our Board Leadership Centre provides timely, relevant and trusted guidance to help both new and seasoned audit committee members stay informed. | Link to Canadian portal<br>Link to 2021 guide |

# Appendix 4: Current developments (continued)

## Thought leadership – Audit quality and insights

| Thought leadership | Overview | Links |
|---|---|---|
| **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 Canadian portal<br><br>Link to 2021 Global report |
| **Audit and Assurance Insights** | KPMG provides curated research and insights on audit and assurance matters for audit committees and boards. | Link to Canadian portal |

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