Appendix B

The Corporation of the City of Markham

Audit Findings Report
for the year ended December 31, 2019

KPMG LLP

Chartered Professional Accountants,

Licensed Public Accountants

April 2020

kpmg.ca/audit

KPMG

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Executive summary

Purpose of this report[1]

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

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to management.

Finalizing the Audit

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

- Completing our discussions with the audit committee / general committee;
- Obtaining evidence of the Council's approval of the financial statements;
- Final internal quality control review;
- Receipt of the signed management representation letter (to be signed upon approval of the financial statements).

We will update the General Committee, and not solely the Chair, 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 <u>any</u> remaining procedures.

Independence

We are independent with respect to the City of Markham, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Significant accounting policies and practices

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

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

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

Uncorrected differences

For the City financial statements, we did not identify differences that remain uncorrected. We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

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.

Accounting estimates

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

The critical areas of estimates relate to: amortization of tangible capital assets, valuation related to land acquisitions, receivables, and accruals for employee future benefits.

See pages 7 and 8.

Financial impact of Covid-19

We have discussed the financial impact of Covid-19 on the operations of the City with management, and the City's response to the pandemic. Due to the uncertainty of the future financial impact to the City, management has added a subsequent event to the notes to the financial statements.

Audit risks and results

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

1	**Presumed Risks**	Presumed significant risks as prescribed by audit professional standards

Significant financial reporting risk

Fraud risk from management override of controls

Fraud risk from revenue recognition related to revenue transactions that are not in the normal course of business and deferred revenue

Our response and significant findings

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included the testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.
- We did not identify any issues or concerns regarding management override of controls.

- Our audit methodology incorporated the required procedures in professional standards to address this risk.
- Our audit approach consisted of evaluating the design and implementation of selected relevant controls. We tested journal entries that meet specific criteria. This criteria was designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end) and recalculated management's computation of deferred revenue.
- We did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity

2	**Area of focus**	Tangible Capital Assets

Significant financial reporting risk

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 asset additions, deferred capital contributions, and contributed assets.

Our response and significant findings

- During our substantive testing of tangible capital asset additions, we noted that the City recognized $186.3M (2018 -$215.3M) in total additions, which is comprised of $148.2M (2018 - $98.7M) of assets capitalized from work in progress (“WIP”), $36.7M (2018 - $55.0M) relating to assets capitalized from developer contributions and $1.43M (2018 - $61.6M) relating to land purchases/acquisitions.
- We reviewed on a sample basis the additions to tangible capital assets and noted that management has correctly capitalized the additions from work in progress to capital assets and developer contributions land acquisitions.
- In our testing, we reviewed the contributions from developers and others recognized of $39.8M (2018 - $120.3M) on the statement of operations and accumulated surplus and noted that management has appropriately recognized the related revenue.
- No exceptions were noted during testing.

Audit risks and results

Relevant factors affecting our risk assessment

Complexity

3	**Area of focus**	Deferred Revenue Earned

Significant financial reporting risk

Recognition of revenue relating to amounts previously deferred as a result of legislation or contractual agreements.

Our response and significant findings

- During our substantive testing, we noted that the City recognized $65.5M (2018 - $20.5M) of deferred revenue earned.
- We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to.
- No exceptions were noted during testing.

Audit risks and results

Relevant factors affecting our risk assessment

Related party transaction

4	**Area of focus**	Markham Enterprises Corporation ("MEC") Investment

Significant financial reporting risk

Accounting for the City's investment in Markham Enterprises Corporation ("MEC")

Our response and significant findings

- The City recognizes its investment in MEC using the modified equity method.
- We reviewed the criteria per PS 3070 – Investment in Government Business Enterprises and noted the City's investment in MEC continues to meet the criteria of the section and therefore it is appropriate to continue to record the investment in MEC using the modified equity method of accounting.
- We reviewed the MEC modified equity method calculation. We noted that there are two major components to the calculation. They are: MEC's current year net income / other comprehensive income and MEC's dividend declared and paid to the City. These transactions are disclosed in Note 6 of the financial statements.
- Included in the annual surplus for the City for the year is $11.5M, which represents 100% of the net income of MEC for the year.
- No exceptions were noted during testing.

Audit risks and results - estimates with significant risk

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

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

We have summarized our assessment of the subjective areas.

Expense / Liability	Amount ($'000s)
Amortization expense	$ 78,188
Employee future benefits obligation	$ 32,103

KPMG comment

Amortization expense:

- We have reviewed the estimated useful lives of the various additions from work in progress to tangible capital assets and conclude that they are reasonable.
- Fiscal 2019 amortization expense was recalculated and it was determined that management's calculation of the amortization expense was appropriate.

Employee future benefits obligation:

- We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports.
- We recalculated the accruals based on the information noted above, and did not identify any discrepancies.

Audit risks and results - estimates with significant risk

Liability	Amount ($'000s)
Contingent liabilities	See discussion below

KPMG comment

Contingent liabilities:

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

Technology in the audit

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

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

Tool	Our results and insights
Journal Entry Analysis	We utilized our proprietary D&A tool, IDEA, to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. We are satisfied with the results of our testing of specific relevant journal entries.
Data & Analytics Routines	We utilized computer assisted audit techniques to perform testing on amortization expense recorded for the fiscal year based on each individual asset in the asset sub-ledger. This consists of recalculating the expected amortization expense for each asset based on its useful life and number of days in use during the year, and comparing to the total amortization expense recorded in the General Ledger (“GL”). We did not identify any issues in regards to the amortization expense. Moreover, we are satisfied with the results of our testing.
Data Extraction & Analytics Tools	We utilized data and analytics in the audit to evaluate the completeness of the journal entry population through a roll-forward of selected accounts. This consists of a summation of all automated and manual journal entries posted in the selected GL accounts during the fiscal year and comparison of the calculated final balances to the account balances as at and for the year ended December 31, 2019 as reported by management. We did not identify any issues in regards to the completeness of journal entries.

Significant accounting policies and practices

Initial selections

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

Changes

Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 1(p) to the consolidated financial statements.

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

PS 3430 – Restructuring Transactions

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

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

As at December 31, 2019 and for the year then ended, the City does not have any restructuring transactions, as defined by the PS3430 to report.

Uncorrected differences and Corrected Adjustments

Differences and adjustments include disclosure differences and adjustments.

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Current developments and audit trends

Public Sector Accounting Standards

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

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

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

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

Standard	Summary and implications
2019 – 2020 Annual Improvements	– PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance). – The annual improvement process: o clarifies standards or other guidance; or o corrects relatively minor unintended consequences, conflicts or oversights. – Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. The objective is to develop a public sector accounting standard specific to pubic private partnerships. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018. – The SOP proposes 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. – The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards (IPSAS). This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. Over 2017-2021 period, PSAB intends to do the following: o conduct research on differences between Canadian Public Sector Accounting Standards and International Accounting Standards; o learn about experiences of other jurisdictions that choose to follow IPSAS; publish a consultation paper to get the opinion of stakeholders; – and, develop options for PSAB's International strategy.
Purchased Intangibles	– As a result of stakeholder feedback received, PSAB will revisit validity of the prohibition against recognizing purchased intangibles in public sector financial statements and will consider a narrow scope amendment. – Input received in response to the 2018 conceptual framework and reporting model documents for comment supported PSAB relocating the recognition prohibitions from the conceptual framework to the standards level. This is a bigger issued for Indigenous governments. PSAB is looking into the question of purchased intangibles acquired through an exchange transaction cannot be recognized in public sector financial statements as they are measureable at the price in the transaction.

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. – PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying basis for conclusions documents and resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: o Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. o Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). o Restructuring the statement of financial position to present non-financial assets before liabilities. o Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). o A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Current developments and audit trends

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

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Link to report

Appendices

Content

Appendix 1: Required Communications

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

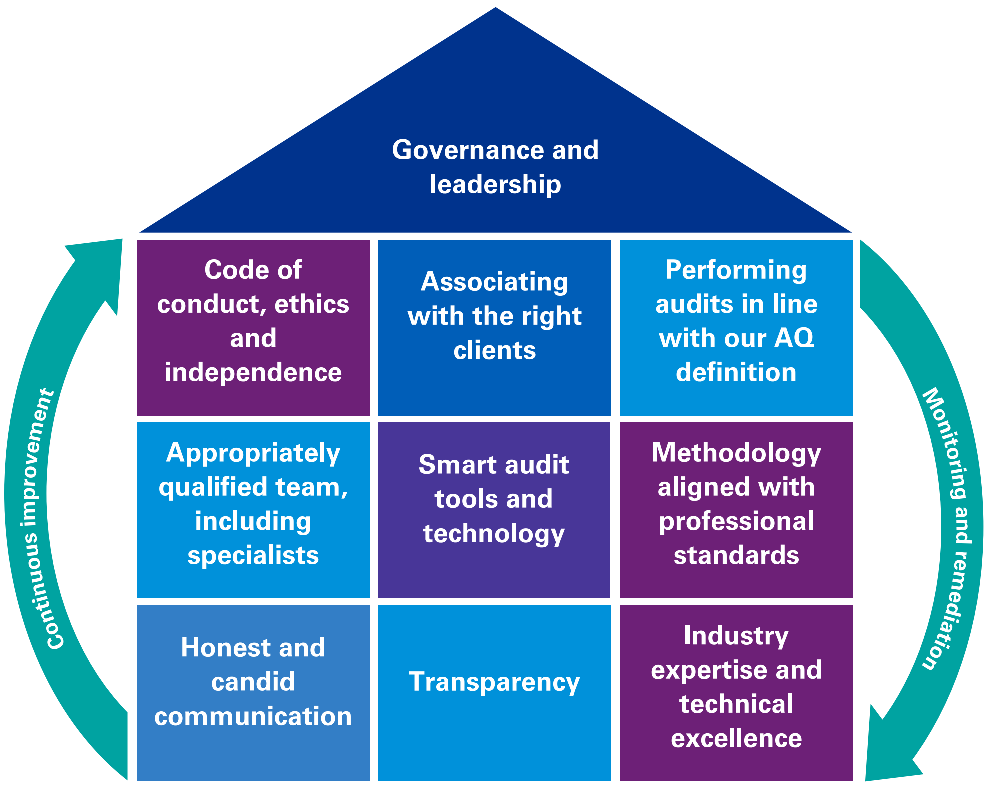
Auditor's report	Management representation letter
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	In accordance with professional standards, a copy of the management representation letter is provided to Council. The management representation letter is attached.

Audit quality
Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.

Appendix 2: Audit Quality and Risk Management

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

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



Audit Quality Framework

What do we mean by audit quality?

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

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

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

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

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

Appendix 3: Key Audit Matters – Identification

Key audit matters (KAMs) are those matters that were communicated to those charged with governance which required significant audit attention in performing the audit and that, in the auditor's professional judgment, were of the most significance in the audit of the financial statements in the current period.

Currently, the communication of KAMs in the auditors' report is only applicable when:

1. The auditors' report will refer to International Standards on Auditing and the audit is for a complete set of general purpose financial statements of a listed entity
2. Required by law or regulation; or
3. The auditor is engaged to do so

However, the AASB approved amendments to bullet #1 which now require auditors' to communicate KAMs in the auditors' report for audits of complete sets of general purpose financial statements of:

- Toronto Stock Exchange listed entities (TSX listed entities) for periods ending on or after December 15, 2020.
- Other listed entities (non-TSX listed entities) for periods ending on or after December 15, 2022.

The above excludes TSX listed entities / Non-TSX listed entities that comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*.

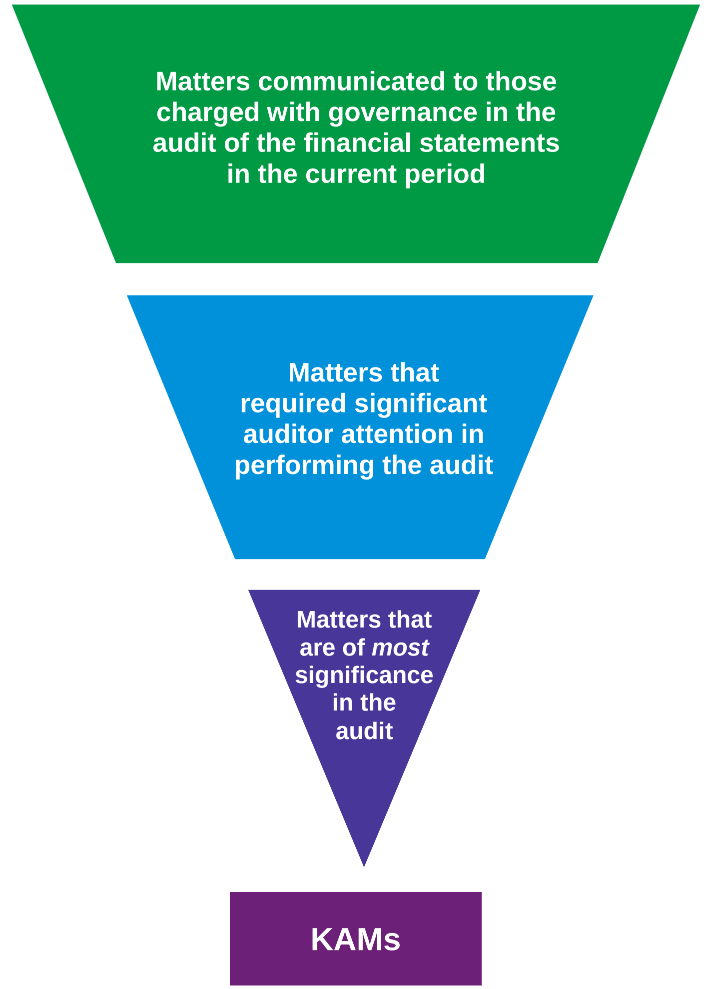
The above includes auditors' reports on separate/non-consolidated financial statements.

The total population of potential KAMs begins with all matters communicated to the audit committee during the audit of the current period.

The auditor is required to identify from that total population of potential KAMs, which matters required significant auditor attention in performing the audit. In doing so, the auditor is required to take into account the following:

– Areas of higher assessed risks of material misstatement identified
– Areas of significant risks identified
– Significant auditor judgments relating to areas in the financial statements that are subject to a high degree of estimation uncertainty
– The effect of the audit of significant events or transactions that occurred during the period

From that population of potential KAMs, the auditor identifies those matters that are of "most" significance in the audit. The use of the term "most" is not intended to limit the number of KAMs to one. However, lengthy lists of KAMs may be contrary to the notion that such matters are of most significance to the audit.



Appendix 4: Preparing for PSAB Standard Changes

KPMG

Preparing for PSAB Standard Changes

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

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

Asset Retirement Obligations

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

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

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

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

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

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

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

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

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

Are You Ready?

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

Revenues

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

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

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

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

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

- Development charges
- Permits
- Licences
- Advertising programs

Are You Ready?

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

Financial Instruments

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

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

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

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

Other financial instruments are measured at cost/ amortized cost.

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

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

Are You Ready?

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

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