ATTACHMENT 3

# The Corporation of the City of Vaughan

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared May 6, 2021

Presented May 31, 2021

kpmg.ca/audit

KPMG

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# KPMG contacts

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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.

# How do we deliver audit quality?

Transparency report

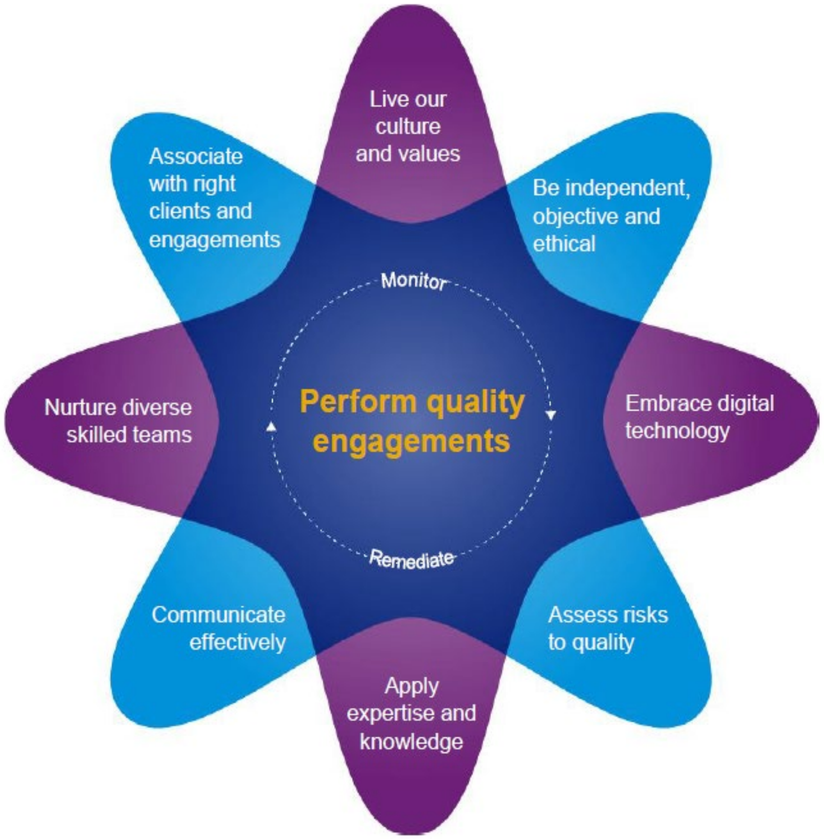
**Quality** essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

'**Perform quality engagements**' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

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.**




**Doing the right thing. Always.**

# Executive summary

## Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements (the "financial statements") of the Corporation of the City of Vaughan (the "City") as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to you on January 25, 2021.

### What's new in 2020

There have been significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – see page 6
- New CAS auditing standards – see page 8

### 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:

- Completion of audit quality control procedures
- Completing subsequent events procedures, up to the date of approval of the financial statements, including receipt of the final legal enquiry letter
- Receipt of the signed management representation letter (dated upon City Council approval of the financial statements)
- Completing our discussions with the Audit Committee
- Obtaining evidence of City Council's approval of the financial statements.

We will update the Audit 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, a draft of which is attached to the draft financial statements, will be dated upon the completion of <u>any</u> remaining procedures.

### Change from Audit Planning Report

We updated our audit materiality calculation from what was reported to you in our Audit Planning Report. This update was based on actual total revenue for the year ended December 31, 2020, which came in higher than the estimated balances during planning stage. Final materiality used for the audit is $14 million (2019 - $17 million). Audit Misstatement Posting Threshold for the audit is $700,000 (2019 - $850,000).

### Adjustments and differences

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.

See page 17 for additional information.

### 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.

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[1] This Audit Findings Report is intended solely for the information and use of Management, the Audit Committee, and City Council 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 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.

# Executive summary (continued)

## Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We do, however, provide our observations and recommendations on leading practices on page 16.

## Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework of Public Sector Accounting Standards (PSAS).

## Independence

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

# What's new in 2020

**COVID-19 pandemic**

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

| Area of Impact | Key Observations |
|---|---|
| **City's financial reporting impacts** | — We considered impacts to financial reporting due to COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements.<br>— In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate in accordance with the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty.<br>— The areas of the financial statements most affected included:<br>o Government Transfers (i.e., the Safe Restart Agreement) – See page 12 under Audit Risk and Results – other areas of focus.<br>o Impairment of Tangible Capital Assets – No triggers for impairment were identified; assets continue to provide economic benefit to the City.<br>o Disclosures – Management's disclosures were reviewed in the context of the pandemic and determined to be adequately described. The City has included disclosures on the impact of the COVID-19 pandemic in the notes to the financial statements. |
| **City's internal control over financial reporting** | — Along with the City's remote working environment, the financial reporting impacts above necessitated certain changes to the City's internal control over financial reporting.<br>— As a result of the changes to internal control over financial reporting due to the COVID-19 pandemic, we:<br>o evaluated the design of the new relevant controls implemented in the control environment, the entity's risk assessment process, information and communication, and monitoring components of internal control over financial reporting.<br>o we found that changes to internal controls due to the COVID-19 pandemic were not significant. This included certain changes from manual to digital approval for review and approval of different processes and transactions. We were able to review approvals and authorizations completed in a digital manner using digital authentication tools. |

**COVID-19 pandemic**

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

| Area of Impact | Key Observations |
|---|---|
| **Materiality** | — We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements.<br>— Materiality has been increased from the amount calculated at the planning stage as a result of actual results being higher than expectation. Planning materiality was set at a lower amount to be conservative and to address uncertainty related to expected total revenue due to the pandemic. We updated our audit response to the risks of material misstatement as a result of this change.<br>— Final materiality of $14 million was used compared to the planning materiality of $12 million communicated in our audit planning report. |
| **Risk Assessment** | — We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).<br>— We did not identify additional risks of material misstatement as a result of impacts of the COVID-19 pandemic to financial reporting. |
| **Working remotely** | — We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.<br>— We used secure and innovative technologies to conduct walkthroughs and perform tests of controls.<br>— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence. |
| **Direction and Supervision of the audit** | — The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the City's financial reporting and changes in the City's control environment.<br>— The manager and partner implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points. |

## New auditing standards

The following new auditing standards that are effective for the current year had an impact on our audit.

| Standard | Key observations |
| --- | --- |
| **CAS 540, Auditing Accounting Estimates and Related Disclosures** | — The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”.<br>— The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.<br>— We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method.<br>— We considered the potential for management bias.<br>— We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed.<br>— Based on our audit procedures performed, we concluded that management’s estimates and judgements were reasonable. |

# 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.

| Fraud risk from revenue recognition | New or changed? | Estimate? |
|---|---|---|
| This is a presumed fraud risk. The identified fraud risk is over revenue recognition related to revenue transactions that are not in the normal course of business and deferred revenue. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business as well as management's calculation of the deferred revenue – obligatory reserve funds. | Same as prior year | No significant estimates noted. |

## Our response

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

- evaluated the design and implementation of selected relevant controls over journal entries and other adjustments for revenue transactions.
- evaluated the design and implementation of selected relevant controls, including those relating to the tracking and reporting of obligatory reserves revenue recognition.

## Significant findings

- We tested journal entries that are susceptible to manipulation through management override and unusual journal entries. See further details on page 24.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end) and analyzed spent obligatory reserve funds for which corresponding revenues are recognized.
- We obtained and reviewed the continuity for deferred revenue prepared by management. We selected a sample of the increases (cash receipts) and decreases (revenue recognition) for deferred revenue during the current year.
- In testing recognition of revenue, we assessed if original development charges received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation. Based on our procedures, we conclude that the development charges and other restricted grants recorded as revenue in fiscal 2020 were used to fund eligible capital projects.

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

# Audit risks and results

| Fraud risk from management override of controls | New or changed? | Estimate? |
| --- | --- | --- |
| Management override of controls is a presumed significant risk as prescribed by professional auditing standards. | Same as prior year | No significant estimates noted. |

## Our response

- The risk resides with management's ability to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have utilized Data & Analytics ("D&A") in order to enhance the quality and effectiveness of the audit, specifically with respect to testing journal entries. Using extractions of all journal entries recorded during the year, we selected samples and verified if they were supported by proper documentation and followed the journal entry initiation and approval controls and processes in place.
- We also evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is adequate.
- We evaluated the business rationale of significant unusual transactions.
- Additionally, we incorporated an element of unpredictability whereby we perform an unpredictable procedure, or make changes to a standard procedure, to address the potential risk of fraud and management override.

## Significant findings

- We did not note any significant control deficiencies in our evaluation of the design and implementation and testing of operating effectiveness of selected relevant controls over financial reporting.
- We tested journal entries and other adjustments by using D&A routines. See page 24 for further details in this area.
- We did not identify any issues or concerns after performing our review of estimates. See pages 11 for further details in this area.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.
- We did not identify any issues after completing our element of unpredictability.

# Audit risks and results - other areas of focus

| Employee Future Benefits | New or changed? | Estimate? |
|---|---|---|
| During the year, the City engaged an external actuarial consultant (the "Actuary") to undertake a valuation of the City's post-retirement non-pension benefits and WSIB liabilities as at January 1, 2020. A valuation update was performed to determine the liability as reported in the City's 2020 financial statements. The employee benefit liabilities as at December 31, 2020 are outlined in note 5 to the financial statements.<br><br>A discount rate of 3.0% (2019 – 3.5%) was used for the determination of the liability. | Same as prior year, new valuation was completed during the current year. | Yes, there is estimation uncertainty due to assumptions used by the actuary to calculate the liability for the Employee Benefits. |

## Our response

- We performed attribute testing over the participant data supplied by management to the Actuary to ensure the completeness and accuracy of this data.
- We obtained the actuarial valuation report and assessed the data, method and assumptions applied in the valuation and performed trend analysis on the liability.
- We evaluated the discount rate in comparison with rates issued by the Canadian Institute of Actuaries ("CIA") and KPMG LLP.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the public sector accounting standards.

## Significant findings

- We did not note any issues in attribute testing of participant data that was used by the Actuary to develop this estimate.
- Based on our review of the memo prepared by the Actuary, we noted that the method applied for the estimate is acceptable per CIA and PSAB 3250 *Retirement Benefits.*
- We assessed the key assumptions used by the Actuary in light of the City's financial results. We noted that the significant assumptions are reflective of current economic and demographic trends compared to the previous valuation report. We also performed a sideways glance to compare the assumptions used by the Actuary for the City with other Ontario municipalities and did not note any significant differences.
- We noted that the discount rate used by the Actuary is a key assumption. We evaluated the discount rate used by the actuary against the discount rate curve issued by different reliable sources including CIA, FIERA and KPMG LLP. Based on this evaluation, we concluded that the discount rate used is reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of the public sector accounting standards.
- Based on the audit work performed, we did not note any issues related to the calculation of the City's post-retirement non-pension benefits and WSIB liabilities as at December 31, 2020.

# Audit risks and results - other areas of focus

| Revenues | New or changed? | Estimate? |
|---|---|---|
| The City recognizes revenue from the different streams including taxation, user charges, water and sewer, funding transfers and government grants, investment income, penalties and interest on taxes, other fees and services, contributions from developers, and contributed assets. Management follows the revenue recognition policies reported in note 1 to the financial statements to recognize revenue in accordance with PSAS. | Safe Restart grant is a new revenue stream for the City as a result of COVID-19. | No significant estimates noted. |

## Our response

- We substantively tested revenues (both recognized and amounts held as deferred at year end) using various sampling techniques.
- We obtained and vouched to the funding agreements from the provincial government for the amounts received as part of the Safe Restart Program, amongst other grants.
- We reviewed recognition considerations for the other revenue streams.

## Significant findings

- We noted that the City received funding as part of the Safe Restart Program from the provincial government to support operations in light of COVID-19. The total Safe Restart grant pertaining to 2020 and recognized as revenue is $6.1M, which was appropriately recognized fully during the year.
- Based on the audit work performed, we did not note any issues related to revenue recognized and related disclosures for the City.

# Audit risks and results - other areas of focus

| YMCA Project | New or changed? | Estimate? |
|---|---|---|
| In 2017, the City entered into an arrangement with YMCA of Greater Toronto Area (“YMCA”) and Penguin Calloway Vaughan Partnership for the construction of a YMCA and City Facility (together, “facility”) that is within a mixed use building being developed in the Vaughan Metropolitan Centre. The City is funding a significant portion of the construction costs and is guarantor to the YMCA’s share of financing. | Same as prior year. | No significant estimates noted. |

## Our response

- We obtained and reviewed relevant agreements related to this facility between the City and other parties.
- We reviewed the detail of costs related to this facility that were incurred during 2020.
- We obtained direct confirmation from YMCA of the long-term debt and repayment schedule owing to them, including confirmation that YMCA has not defaulted on their loan with Ontario Infrastructure and Lands Corporation (OILC) as at December 31, 2020, and confirmed with management subsequently up to the date of this report.

## Significant findings

- The facility will be shared between the City and YMCA for occupancy whereby the City will use 30% of the facility and YMCA will use the remaining 70%.
- The City is funding its 30% share of the facility and 2/3 of YMCA’s 70% share of the facility.
- YMCA entered into a financing agreement with OILC to obtain a construction loan of up to $66M, which the City has guaranteed. In the event of default by YMCA, the City is required to assume all liabilities and take first right to ownership of all assets related to the facility.
- As at December 31, 2020, the City has incurred a cumulative $64.1M (2019 - $53.0M) on the project, comprising:

| (millions) | 2020 | 2019 |
|---|---|---|
| Land | $11.0 | $11.0 |
| Land transfer tax | 1.5 | 1.5 |
| The City’s portion of the facility | 19.8 | 15.6 |
| The YMCA’s portion of the facility | 31.8 | 24.9 |
| | $64.1 | $53.0 |

- The City has reported the $64.1M (2019 - $53.0M) as assets under construction as part of its tangible capital assets. A total of $16.8M (2019 - $11.4M) has been paid by the City with a remainder of $47.3M (2019 - $41.6M) recorded as long-term debt.
- These transactions are described in note 7 to the financial statements, including the repayment schedule of debt payments owing to YMCA.
- We did not note any issues with management’s accounting, and we find the measurement and disclosures related to this project to be appropriate.

# Audit risks and results - other areas of focus

| Vaughan Holdings Inc. | New or changed? | Estimate? |
|---|---|---|
| Vaughan Holdings Inc. ("VHI"), a significant component of the City's consolidated financial statements, is accounted for on a modified equity basis. VHI, together with its holdings in Alectra Inc. ("Alectra") and other entities, is referred to as Hydro Vaughan Corporations. | Same as prior year. | No significant estimates noted. |

## Our response

– We verified the transactions between each of the City, VHI, and Alectra and performed a reconciliation of the amounts reported in the financial statements of the respective entities as at December 31, 2020.

## Significant findings

– The City recognizes its investment in Hydro Vaughan Corporations using the modified equity method. Using the criteria under Public Sector Accounting Standards, PS 3070 – Investment in Government Business Enterprises, we determined that the City's investment in Hydro Vaughan Corporations continues to meet the criteria of the standard, and therefore it is appropriate to continue to record the investment using the modified equity method of accounting.

– In 2020, the City's share of Hydro Vaughan Corporations' net income and dividends paid out totalled $16.1M and $13.1M, respectively (2019 - $10.8M and $14.3M, respectively).

– VHI received a $1.7M (2019 - $1.9M) return of capital from Alectra, which was recorded as a reduction to VHI's investment in Alectra. VHI issued an equivalent return of capital of $1.7M to the City.

– These transactions are described in note 4 to the financial statements.

– Based on our audit, we conclude that management has appropriately recorded and presented its investment in Hydro Vaughan Corporations using the modified equity accounting.

# Audit risks and results - other areas of focus

| Contingent liabilities | New or changed? | Estimate? |
|---|---|---|
| PSAS 3300 *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."<br><br>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, etc. | Same as prior year | Estimation uncertainty exists related to the likelihood and measurement of contingent liability.<br><br>However, this estimation uncertainty does not result in a risk of material misstatement. |

**Our response**

- We obtained and evaluated the City's assessments and claims listing that are used to develop and record these estimated liabilities.
- We obtained a legal confirmation from, and held discussions with, internal legal counsel and evaluated the assessments made by internal legal counsel on the pending legal matters in terms of determination of likelihood and measurability.

**Significant findings**

- We reviewed the City's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.
- We did not note any issues in the City's assessment of contingent liabilities and amount of related liabilities that were recorded and reported for the year ended December 31, 2020.

# Other matters

Professional standards require us to communicate to the Committee other matters. We highlight the following that we would like to bring to your attention:

| Matter | Comments |
| --- | --- |
| **Vacation accrual** | Disclosed in the financial statements is vacation entitlements liability (see note 5(c)), which is $9.4M in 2020 (2019 - $7.6M). The City's various collective agreements, Management bylaw and other HR policies permit certain maximum days to be carried over if unused. As reported in our audit results of 2019, we continue to note that there is an upward trend in this accrual over the past several years and we understand that this increase is due to factors such as compensation increases and increased number of unused days carried over.<br><br>Consistent with the prior year, we note that there are several risks associated with maintaining high levels of vacation accruals, for example, the cost of those vacation entitlements become increasingly more expensive as compensation levels increase, it can be potentially disruptive to the City's operations in the case where employees are granted extended leaves, and the financial impact to the City's financial position becomes less favourable as more reliance is placed on reserves or future funding in order to fund this liability.<br><br>In line with leading practices, we recommend that management carefully assess vacation entitlements, enforce any plans in place to draw down on entitlements in order to better manage this liability and avoid servicing it at a higher cost than necessary. We note that in 2021, this liability may continue to rise as employees continue to defer vacation plans in light of COVID-19 and associated travel restrictions. We understand that senior management will further enhance enforcement efforts of carry-forward policies with a specific objective of drawing down the liability.<br><br>Additionally, as another leading practice and as a fraud prevention measure, we note that management should ensure that staff take annual vacations and that another employee perform their work in their absence. This cost-efficient control is one of the most effective methods of identifying any potential irregularities in performance. It also provides cross training for succession planning purposes. |

# Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

Professional standards require that we request of management and the Audit Committee that all identified differences be corrected.

## 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.

# Appendices

## Content



# Appendix 1: Other Required Communications

| Report | Engagement terms |
|---|---|
| The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements. | The objectives of the audit, our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter dated November 9, 2020 as provided by management. |
| **Report to the Audit Committee** | **Representations of management** |
| This report. | We will obtain from management certain representations at the completion of the audit. |
| **Audit Quality in Canada** | **Control deficiencies** |
| The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year:<br>• CPAB Audit Quality Insights Report: 2020 Interim Inspection Results<br>• CPAB Audit Quality Insights Report: 2019 Annual Inspections Results<br>Visit our **Audit Quality Resources page** for more information including access to our **Transparency report.** | None noted. |

# Appendix 2: Current Developments

## Public Sector Accounting Standards

| Standard | Summary and implications |
|---|---|
| Impact of COVID-19 | – In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19. The dates noted below reflect the new revised dates. |
| Asset Retirement Obligations | – The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's' fiscal year starting on January 1, 2023.<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>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;<br>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;<br>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. |
| 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. This would be applicable to the City's' fiscal year starting on January 1, 2024.<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. |

| Standard | Summary and implications |
|---|---|
| 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. This would be applicable to the City's' fiscal year starting on January 1, 2023.<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. |
| 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. |

| Standard | Summary and implications |
| --- | --- |
| Public Private Partnerships ("P3") | – PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB in the process of reviewing feedback provided by stakeholders on the exposure draft.<br>– The exposure draft 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.<br>– The exposure draft proposes that 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.<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.<br>– The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023 or the City's year ending December 31, 2024. |
| 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 has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021.<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. |

| Standard | Summary and implications |
|---|---|
| International Strategy | – PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021.<br>– An exposure draft to modify the GAAP hierarchy was issued and public comments were accepted up to February 15, 2021. |
| 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 (City's year ending December 31, 2024) with early adoption permitted. Application may be retroactive or prospective. |

# Appendix 3: Technology in the audit

We have utilized technology to enhance the quality and effectiveness of the audit as noted below.

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

| Tool / Audit Area | Our results and insights |
|---|---|
| **Journal Entry Analysis** | We utilized our proprietary D&A tool, IDEA, to evaluate the completeness of the journal entry population through a roll-forward of all accounts, analyze journal entries and determine sub-populations for more focused and risk-based testing, and apply certain criteria to sub-populations to identify potential high-risk journal entries for further testing.<br><br>We did not identify any issues with completeness through our roll-forward procedures.<br><br>We are satisfied with the results of our testing of specific relevant journal entries, which were identified for testing using the computer assisted auditing techniques. |
| **Tangible Capital Assets** | **WIP transfers to asset additions:** We utilized IDEA to ensure that asset additions to tangible capital assets recorded in the Citywide database transferred from work in progress are removed from work in progress completely.<br><br>We compared the asset additions listing to transfers out of work in progress and we investigated any significant asset additions that are not completely removed from work in progress. We did not identify any issues with the completeness of transfers out of work in progress as any remaining items were supported.<br><br>**Disposals:** We utilized IDEA to verify that assets that were disposed of during the year were completely removed from the register of assets in the Citywide database.<br><br>Our comparison of the disposals listing to the asset register continued to include assets that were disposed of, however, consistent with our findings in the past, they were identified with unique asset IDs and were all reported at nil cost values, which results in effective elimination of costs from the assets reported in the Citywide database.<br><br>**Depreciation expense:** We utilized IDEA to analyze depreciation expense on an asset level. We replicated the formula used to determine individual assets' annual amortization expense and recalculated an expected amount after verifying the appropriate inputs were used.<br><br>We did not find any issues in our recalculation of amortization expense compared to the amounts recorded by the City. |

| | |
|---|---|
| **Holdback Completeness** | We utilized D&A to evaluate whether construction holdbacks liabilities have been completely and consistently recorded for significant projects in work in progress at year-end.<br>We obtained the asset register for work in progress by project ID and the listing of contractor expenditures by business unit. We compared the holdbacks details from these two listings to identify significant projects that did not include a holdback.<br>We did not find any issues with the completeness of holdbacks liabilities. |
| **Cash Deposits Deferred Revenue** | We utilized D&A to evaluate the year-over-year change (on a project level) for 100% of the population of projects for which cash deposits have been collected in the current and prior year.<br>We used the cash deposits reconciliation listing for current year and prior year. We extracted cash receipts details from the prior year listing and compared them to cash on hand in the current year listing to determine if the deferred revenue roll-forward was complete and accurately calculated.<br>There were no issues with the completeness of prior year deposits in the records of the current year. |

# Appendix 4: Audit and Assurance Insights

Our latest thinking on the issues that matter most to audit committees, Boards and Management.

| Featured insight | Summary | Reference |
|---|---|---|
| **Audit & Assurance Insights** | Curated thought leadership, research and insights from subject matter experts across KPMG in Canada. | **Learn more** |
| **The business implications of coronavirus (COVID-19)** | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat. | **Learn more** |
| | Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes. | **Learn more** |
| | KPMG Global IFRS Institute - COVID-19 financial reporting resource center. | **Learn more** |
| **Accelerate 2020** | Perspective on the key issues driving the audit committee agenda. | **Learn more** |
| **Momentum** | A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit. | **Sign-up now** |
| **PSAB resources** | KPMG resources for the new developments and trends in the public sector. | **Learn more** |
| **Current Developments** | Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US. | **Learn more** |
| **Board Leadership Centre** | Leading insights to help board members maximize boardroom opportunities. | **Learn more** |

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