The Regional Municipality Of York

Audit Planning Report
for the year ending December 31, 2021

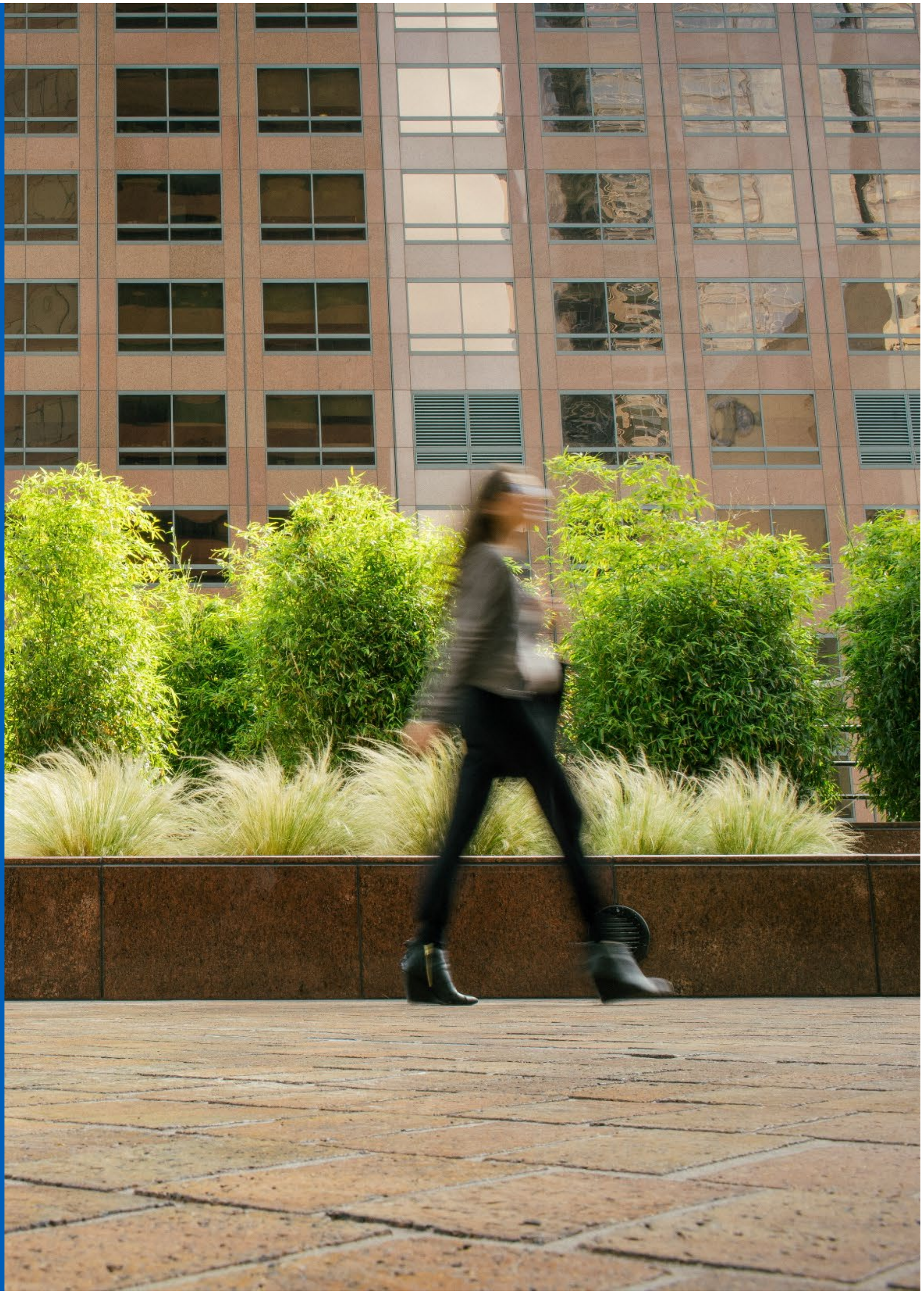
KPMG LLP

Licensed Public Accountants

Prepared November 15, 2021

For presentation on January 20, 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.

Executive summary

The purpose of this Audit Planning Report is to assist you, as a member of the Audit Committee, in your review of the planning of our audit of the consolidated financial statements ("financial statements") of The Regional Municipality of York (the "Region") as at and for the year ending December 31, 2021.

Audit quality

Audit Quality is of supreme importance to us. See page 2 for how we deliver audit quality and how you can measure our audit quality.

Group audit scope

Our group audit consists of:

- Significant components:
  - The Regional Municipality of York (non-consolidated)
- Non-significant components, however, these components are required to prepare statutory financial statements under the Municipal Act:
  - Housing York Inc.
  - YTN Telecom Network Inc.
  - York Region Rapid Transit Corporation
  - The Regional Municipality of York – Resident's Trust Fund
  - The Regional Municipality of York – Sinking Fund

Proposed fees

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

Materiality

Materiality has been determined based on budgeted operating expenditures. We have determined group materiality to be $72,000,000 (2020 - $63,000,000).

Materiality will be set at a lower threshold where necessary to meet local subsidiary financial statement audit requirements.

See page 3.

Audit risks

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

See pages 4 to 9.

Current developments and audit trends

Please refer to pages 16 to 19 for accounting changes and audit trends relevant to the Region.

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

Audit Quality: How do we deliver audit quality?

Transparency report

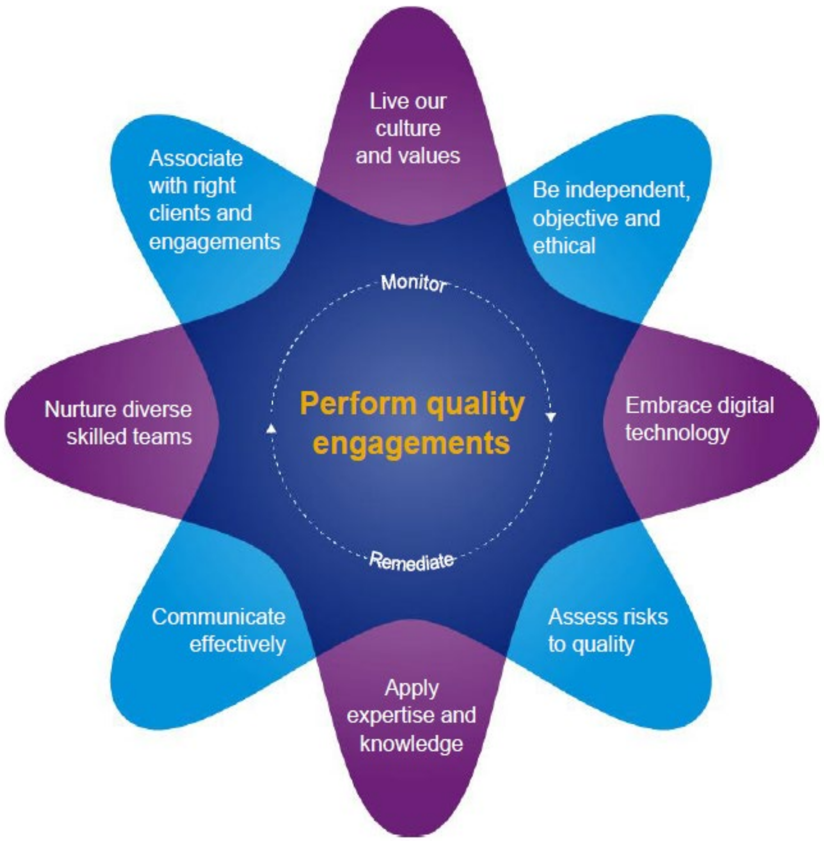
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'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.

Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality or, in the case of a group audit, component materiality).

Materiality determination	Comments	Group Amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $63,000,000. *Note that materiality will be recalculated at year-end using actual consolidated expenditures, and any changes will be communicated to the Audit Committee through year-end reporting.*	$72,000,000
Benchmark	Based on budgeted full accrual PSAS expenditures, which is consistent with the prior year.	$2,425,000,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year's audit was $3,000,000.	$3,500,000
Significant Component Statutory Audit Materiality:		**Amount**
Region of York, non-consolidated	Materiality for the audit of non-consolidated Region of York as a significant component.	$68,000,000

We will report to the Audit Committee:

- Uncorrected audit misstatements
- Corrected audit misstatements
- Disclosure ommissions

Audit risks

Significant risk - professional requirements	Why is it significant?
Presumption of the risk of fraud involving improper revenue recognition.	This is a presumed fraud risk. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business, as well as management's calculation of the deferred revenue – obligatory reserve funds.

Our audit approach

Our audit methodology incorporates the required procedures in professional standards to address this risk.

Our audit approach consists of evaluating the design and implementation of selected relevant controls. We test journal entries that meet specific criteria. These criteria are designed during the planning phase of the audit and are based on areas and accounts that are susceptible to manipulation through management override and we design search filters that allow us to identify any unusual journal entries.

As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively test revenues (both recognized and amounts held as deferred at year end) and recalculate management's calculation of deferred revenue – obligatory reserve funds through auditing management's methodology.

Significant risk - professional requirements	Why is it significant?
Presumption of the risk of fraud resulting from management override of controls.	Management is in a unique position 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. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

We will take a risk-based approach tailored to the Region when designing substantive procedures and selecting specific transactions for testing. We will continue to make use of technology to extract our risk-based sample from the entire population of journal entries. We will continue to identify areas which may be subject to additional risk whether due to fraud or error in this regard.

Audit areas of focus

In all areas, we will update our understanding of the activities over initiation, authorization, processing, recording and reporting.

Area of focus	Why are we focusing here?
Cash and Investments	Material account balances and disclosures; valuation of investments and concerns over decline in fair value.

Our audit approach

- To assess if there is a loss in value of the portfolio investments, whether due to COVID-19 or other factors, and if such a decline is other than temporary. Perform audit procedures to assess whether a write-down is necessary.
- Review year-end bank and investment reconciliations and substantive testing of significant reconciling items.
- Substantive tests of details over additions and disposals of investments.
- Obtain confirmations from third party financial institutions.
- Review of financial statement note disclosures in accordance with Public Sector Accounting Standards (PSAS).

Area of focus	Why are we focusing here?
Tangible Capital Assets	Risk of material misstatement related to existence, accuracy and presentation of tangible capital assets.

Our audit approach

- Substantive tests of details over additions (including contributed tangible capital assets) and disposals.
- Review amortization policy and perform recalculations.
- Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.
- Review of financial statement note disclosures in accordance with PSAS.
- We will also perform required procedures to assess the potential risks with respect to impairment of assets. Based on the nature of the Region's operations, it is not expected that this will be a significant risk during the audit.

Audit areas of focus (continued)

Area of focus	Why are we focusing here?
Revenue and Accounts Receivable	Risk of material misstatement related to designated revenue and accuracy of timing of revenue recognition.

Our audit approach

- Recalculate tax revenue using appropriate tax rates and assessment.
- Obtain confirmations from lower tier municipalities.
- Audit revenue transactions to supporting documentation on a sample basis to assess whether revenue recognition is appropriate.
- Review the continuity and tracking of previously deferred receipts, vouch additional cash receipts, and evaluate revenue recognition for amounts expended in the current year in relation to the funding under the Safe Restart Agreement.
- Audit a sample of significant accounts receivable balances by vouching to supporting documentation and assess analytical trends.
- Assess the valuation of receivables.

Area of focus	Why are we focusing here?
Deferred Revenue – general and obligatory reserve funds	Risk of material misstatement due to management assessment and judgment involved.

Our audit approach

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Review the Region-prepared calculation for the development charge balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.
- Perform recalculation of interest allocation to assess reasonableness of management calculation.
- Audit a sample of deferred capital grants, security deposits and other deferred revenue by vouching to supporting documents.
- Inquire with management if there were any breaks given to developers, whether due to COVID-19 or other factors, and perform audit procedures on the financial reporting impact, if relevant.

Audit areas of focus (continued)

Area of focus	Why are we focusing here?
Gross Long-Term Liabilities and Debt Recoverable from Local Municipalities	Material account balance and disclosures.

Our audit approach

- Obtain and review any new or amended agreements for long-term debt issued by the Region, including review of by-laws issued by Region Council.
- Confirmation with lower tier municipalities.
- Substantively test long-term liability additions and principal repayments to supporting documentation
- Review disclosures in accordance with PSAS.

Area of focus	Why are we focusing here?
Employee Benefits and Other Liabilities	Risk of material misstatement related to accuracy and valuation of the estimate involved in employee benefits and other liabilities. There is reliance on actuaries (management specialist) engaged by the Region;

Our audit approach

- Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.
- Assess method, data, and assumptions used by the actuary and management in the calculation of the employee benefits and other liabilities for reasonableness.
- Perform audit procedures in accordance with the relevant auditing standards and related disclosure requirements related to the estimates involved.
- Perform inquiries with management to determine if this is the year of full valuation whereby new participant/member data is provided to the actuaries. If applicable, we will communicate with actuaries and test employment data provided to the actuaries.
- Review financial statement disclosures in accordance with PSAS.

Audit areas of focus (continued)

Area of focus	Why are we focusing here?
Expenses – Salaries and Benefits	Risk of material misstatement related to accuracy and occurrence of expenses.

Our audit approach

- Test and evaluate design and operating effectiveness of selected controls over payroll.
- Test of employment expenses for a sample of employees by verifying payroll records to employment contracts and collective agreements.
- Substantive verification and recalculation of payroll-related accruals.
- Obtain new or amended collective bargaining agreements. Assess if management has evaluated these agreements for implications of retroactive application. Such retroactive application can result in additional financial obligations for the Region that are required to be reported in the financial statements.

Area of focus	Why are we focusing here?
Accounts Payable, Accrued Liabilities, and Expenses	Risk of material misstatement related to completeness of liabilities.

Our audit approach

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

Audit areas of focus (continued)

Area of focus	Why are we focusing here?
Contingencies	Risk of material misstatement related to completeness of contingencies and corresponding disclosures.

Our audit approach

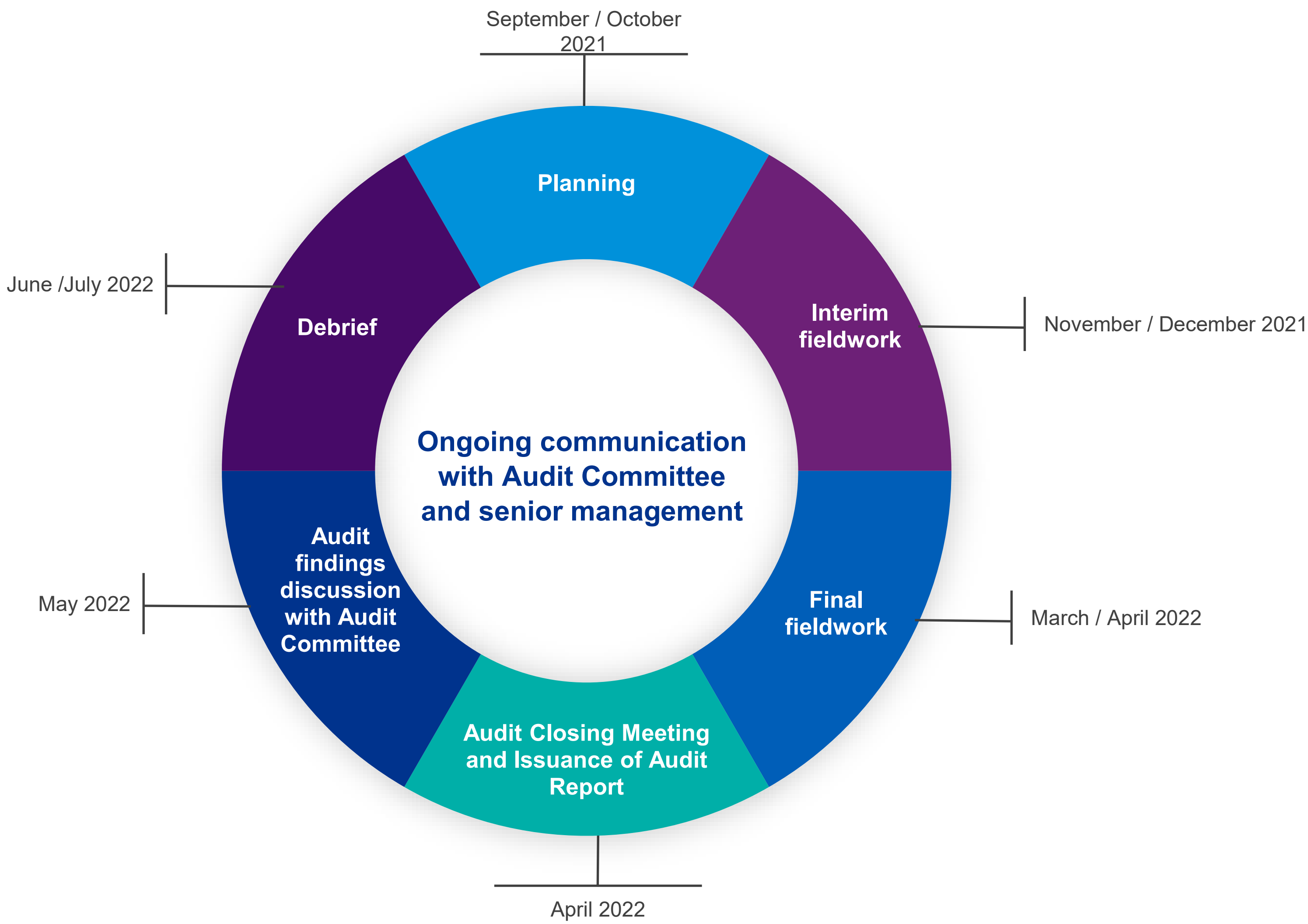
- Review of Council meeting minutes for potential contingencies.
- Direct communication with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded.
- Significant findings review with management during planning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

Area of focus	Why are we focusing here?
Consolidation (Region and all components)	To ensure the completeness and accuracy of the consolidated information.

Our audit approach

- Review management's consolidation of the reporting entity by cross-checking to audited statutory financial statements for the respective entities.
- Test the eliminating entries as prepared by management for accuracy and completeness.

Key milestones and deliverables



Appendices

Content

Appendix 1: Other required communications

Report

Audit planning report – as attached.

Engagement terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter dated November 17, 2021.

Reports to the Audit Committee

At the completion of the audit, we will provide our findings report to the Audit Committee.

Representations of management

We will obtain from management certain representations at the completion of the audit.

Required inquiries

Professional standards require that during the planning of our audit, we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.

- Fraud:
  - What are your views about fraud risks at the entity?
  - How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks?
  - Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets?
  - If so, have the instances been appropriately addressed and how have they been addressed?
- Laws and Regulations: Is the entity in compliance with laws and regulations?
- Significant Unusual Transactions: Has the entity entered into any significant unusual transactions?

Control deficiencies

On a timely basis, identified significant deficiencies will be communicated to the Audit Committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

Audit Quality

The following links are external audit quality reports for reference:

- Audit Quality Insights Report: 2020 Annual Audit Quality Assessments
- CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic
- CPAB Audit Quality Insights Report: 2021 Interim Inspections Results

Matters pertaining to independence

At the completion of our audit, we will confirm our independence to the Audit Committee.

Appendix 2: Use of technology in the audit

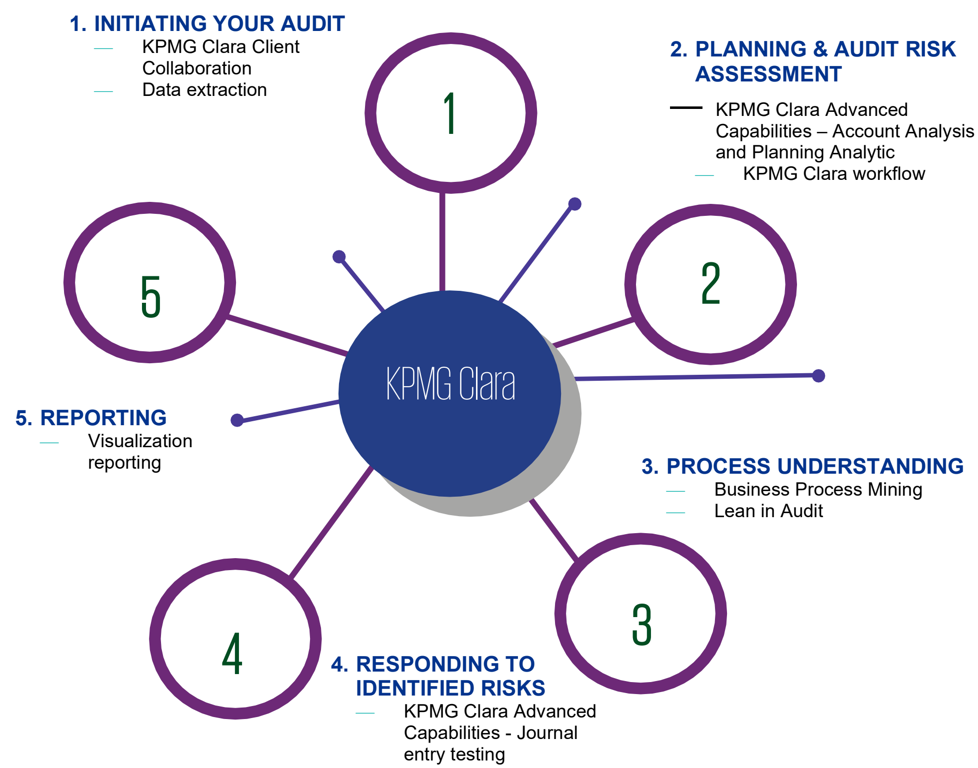
Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing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

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

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

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

Our five-phased audit approach



Appendix 3: Audit and Assurance Insights

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

Consideration	Key observations	Links
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	**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**
COVID-19 Financial Reporting Resource Centre	Resource centre on the financial reporting impacts of coronavirus	**Learn more**
Return to the Workplace	As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.	**Learn more**
Hybrid Workplace Guide	In this eBook, you'll discover: The business case for building a hybrid workplace: What are the benefits of a hybrid work model? From employee attraction and retention to achieving enterprise-wide cost efficiencies. The flexibility imperative: How do you create a successful hybrid workplace model that balances employees and organizations' needs and wants? From remote work to safely supporting more face to face interactions. The building blocks of a hybrid workplace: We address human, organizational, regulatory, digital and physical considerations, and aspects such as how do you manage digital and cybersecurity when working from home in a hybrid workplace model? How can management lead by motivation and results for better employee engagement? Returning to the physical workplace: How do you ensure a safe workplace when employees return to the office space in a hybrid workplace model? How can you emphasize safety to instill confidence in your employees? Legal considerations of a hybrid work model: What could the tax implications be for companies if they implement a hybrid workplace model? Considerations to help you navigate the risks of hybrid work, including changing policies, approaches for new vs. existing employees, and security and privacy.	**Learn more**

Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**
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.	**Learn more**
The ESG journey: Lessons from the boardroom and C-suite	To build on our work in ESG, strategy and the long view, the Board Leadership Center interviewed directors and officers of major corporations, including Morgan Stanley, Tyson Foods, Ford Motor, Microsoft, Mars, and Whirlpool, among others.	**Learn more**
ESG, strategy, and the long view	To help boards understand and shape the total impact of the company's strategy and operations externally—on the environment, the company's consumers and employees, the communities in which it operates, and other stakeholders—and internally, on the company's performance, this paper presents a five-part framework.	**Learn more**
Inclusion and diversity practices	Getting started on the inclusion and diversity journey. Unique inclusion and diversity considerations for boards.	**Learn more**

Appendix 4: Current Developments

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	– The new standard is effective for fiscal years beginning on or after April 1, 2022. – 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. – 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. – As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • 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; • 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.
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. – 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. – Hedge accounting is not permitted.

Standard	Summary and implications
	– 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. – 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.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. – 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 transaction, 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.
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. – 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. – 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. – 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.
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. – 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. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.

The following are active projects that the Public Sector Accounting Board are currently in the works. We have provided an overview of these projects and potential considerations on financial reporting.

Accounting project	Summary and implications
PSAB's Draft 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. – 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. – The Strategic Plan emphasizes four key priorities: • 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. • Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. • Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. • 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.
Government Not-for-Profit Strategy	– PSAB is in the process of reviewing its strategy for government not-for-profit ("GNFP") organizations. PSAB intends to understand GNFPs' fiscal and regulatory environment, and stakeholders' financial reporting needs. – PSAB released a second consultation paper in January 2021 which summarizes the feedback received to the first consultation paper. It also describes options for the GNFP strategy and the decision-making criteria used to evaluate the options. PSAB recommends incorporating the PS4200 series with potential customizations into PSAS. This means reviewing the existing PS4200 series to determine if they should be retained and added to PSAS. Incorporating the updated or amended PS4200 series standards in PSAS would make the guidance available to any public sector entity. Accounting and/or reporting customizations may be permitted if PSAB determines there are substantive and distinct accountabilities that warrant modification from PSAS. – PSAB is in the process of considering stakeholder comments.
Employee Future Benefit Obligation	– 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. – PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – 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. – PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are 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.

Accounting project	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 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. – 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. – In addition, PSAB is proposing: • 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. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • 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”. • 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.

Appendix 5: Preparing for Asset Retirement Obligations

Are you ready to implement PSAB Standard PS3280 Asset Retirement Obligations?

In August 2018, PSAB issued the new standard PS3280 on asset retirement obligations. This section addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.

Whether you are a government entity (federal, provincial, municipal or Indigenous), university, college, school district, or health institution, this accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.

Key matters public sector entities need to consider

- The scope of retirement obligations included in the standard.
- The criteria for recognition of a retirement obligation.
- When it's appropriate (and how) to measure a retirement obligation.
- Developing a comprehensive plan to assess all in-scope assets.
- Addressing Board/Council and Stakeholder information needs through implementation.
- Developing a consistent level of documentation to support the auditability of PS3280 implementation.

An overview

- PS3280 will apply to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.
- 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 post-retirement activities.
- In addition to asset retirement obligations associated with tangible capital assets that are in productive use and those that are no longer in productive use, PS3280 includes in scope legal obligations, and solid waste landfill closure and post-closure liabilities.

- With the introduction of PS3280, PSAB has withdrawn existing Section PS3270, solid waste landfill closure and post-closure liability.
  - Under PS3280, obligations for the closure and post-closure care of solid waste landfill sites are recognized earlier than presently under PS3270, as the accounting treatment changes from incremental recognition of liability based on usage to recognition on acquisition, construction, development or normal use. This will result in an earlier increase in net debt. The recognized cost of assets would increase because asset retirement costs associated with tangible capital assets in productive use would be added to its carrying amount rather than expensed (as currently done under PS3270).
- While PS3280 includes in scope expected contamination related to a tangible capital asset controlled by the public sector entity, PS3260 contaminated sites addresses unexpected contamination related to the tangible capital asset.
- Some examples of asset retirement obligations which fall under scope of proposed PS3280 include:
  - buildings with asbestos;
  - end of lease provisions (from a lessee perspective);
  - fuel storage tank removal;
  - removal of radiologically contaminated medical equipment;
  - wastewater or sewage treatment facilities;
  - Firewater holding tanks;
  - Septic beds;
  - closure and post-closure obligations associated with landfills.
- Under PS3280, an asset retirement obligation should be recognized when, as at the financial reporting date, ALL of the following criteria are met:
  - there is a legal obligation to incur retirement costs in relation to a tangible capital asset.
  - the past transaction or event giving rise to the liability has occurred;
  - it is expected that future economic benefits will be given up;
  - a reasonable estimate of the amount can be made.
- Public sector entities will be required to capitalize asset retirement obligations associated with fully amortized tangible capital assets, except in the following instances:
  - asset retirement obligations associated with unrecognized tangible capital assets should be expensed;
  - asset retirement obligations associated with tangible capital assets no longer in productive use should be expensed.
- The estimate of a liability should include costs directly attributable to asset retirement activities.

Getting a start on PS3280

- Public sector entities should start considering which asset retirement obligations may fall under scope of the proposed PS3280.
  - Review active and inactive tangible capital assets to identify those with retirement obligations. Consider solid waste landfills and contaminated sites which may meet the PS3280 recognition criteria.
  - Reconcile this inventory with the complete tangible capital assets listing and the site inventory for contaminated sites.
  - Engage functions outside of finance (particularly public works and engineering).
- Consider implications of transitional options.
- Identify opportunities to collaborate with peer entities on assets identified as in scope for PS3280, and benchmarks for measurement of retirement obligations.

Asset Retirement Obligation Questionnaire

Readiness to Implement Asset Retirement Obligations

The following questions are intended to provide an indication of your entity's readiness to implement the upcoming new standard PS 3280 Asset Retirement Obligations issued by the Public Sector Accounting Board. These questions are not a complete indicator of factors influencing the successful adoption of this section, nor are they intended to provide any type of assurance. The questions are to be answered from the perspective of Finance or Financial Reporting team, with the intent of informing initial implementation activities.

Asset Retirement Obligations

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 your entity's financial statements for tangible capital assets or contaminated sites?
6. Does your entity have data on unrecorded assets or sites (i.e. 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? If yes, does your entity have an existing estimate of the full costs to retire and monitor the landfill site?
8. Is your entity aware of any of its buildings which have asbestos? If so, does your entity have information to inform a cost estimate to remove / treat the asbestos?
9. Is your entity aware of underground fuel storage tanks or boilers which must be removed at end of life? If so, does your entity have information to inform a cost estimate to remove the tanks?
10. 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?
11. 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?
12. 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?

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