

Fraser Valley Regional District

Audit Findings Report
for the year ended
December 31, 2019

KPMG LLP

For discussion with Council on
May 26, 2020

kpmg.ca/audit



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Executive summary



Purpose of this report*

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 financial statements of the consolidated financial statements of the Fraser Valley Regional District ("Regional District") as at and for the year ended December 31, 2019.



Audit Materiality

Materiality was determined based on the total expenses of the Regional District. For the year ended December 31, 2019 we determined materiality to be \$680,000.



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:

- Obtaining signed management representation letter;
- Completing our discussions with Council; and
- Obtaining evidence of Council's approval of the financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than 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.



Executive summary



Areas of focus

We have not identified any significant financial reporting risks. However, as part of our audit, we identified other areas of audit focus including:

- Deferred revenues;
- Investments;
- Government Business Partnership;
- Chaumox Landfill asset retirement obligation;
- Presumed fraud risk of management override of controls; and
- Impact of COVID-19.

We are satisfied that our audit work has appropriately dealt with these areas of audit focus.
See pages 5-10.



Independence

We confirm that we are independent with respect to the Regional and Hospital Districts 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 from January 1, 2019 to the date of this report.

Executive summary



Adjustments and differences

Please refer to page 11 regarding adjustments.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.



Significant accounting policies and practices

There are no new accounting standards effective for the 2019 fiscal year end. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

Materiality

Materiality determination	Comments	Amount
Benchmark	Total expenses per the prior year audited financial statements. The corresponding amount for the prior year's audit was \$20,447,000.	\$23,311,531
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 \$610,000.	\$680,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.98%.	2.92%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$30,500.	\$34,000

Materiality represents 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.

We report to Council:



Corrected audit misstatements



Uncorrected audit misstatements





Areas of audit focus and results

We highlight our significant findings in respect of significant financial reporting risks as identified in the executive summary.

Significant financial reporting risks

Why is it significant?

Deferred Revenues

Public Sector Accounting Standards requires that government grants without eligibility criteria, stipulations, or obligations must be recognized as revenue when the transfer is authorized. The Regional District has a material amount of government grants and unearned revenue deposits in 2019. Development levies and deferred revenues are equal to \$12.6 million as at December 31, 2019.

Our response and significant findings

- We confirmed the amount of funding through inspection of the funding agreements.
- We inspected the agreement to confirm appropriateness of the deferral of revenues.
- No issues were noted from our testing results.



Areas of audit focus and results (continued)

Significant financial reporting risks

Why is it significant?

Investments

The Regional District has over \$37 million in investments as at December 31, 2019.

Our response and significant findings

- We confirmed the value of investments at December 31, 2019 with the Regional District's investment advisors at Raymond James and National Bank Financial Wealth Management.
- We performed substantive analytical procedures over investment income.
- No issues were noted from our testing results.



Areas of audit focus and results (continued)

Significant financial reporting risks

Government Business Partnership

Why is it significant?

Public Sector Accounting Standards requires investments in Government Business Partnerships to be accounted for using the modified equity method using the Regional District's share of the partnership.

The Regional District is one of three partners in the Cascade Lower Canyon Community Forest Partnership ("Partnership").

Our response and significant findings

- We obtained the March 31, 2019 audited financial statements of the Partnership and recalculated the value of the District's 1/3 interest and share of net profit.
- No issues were noted from our testing results.



Areas of audit focus and results (continued)

Significant financial reporting risks

Chaumox Landfill Liability

Why is it significant?

Public Sector Accounting Standards requires that financial statements should recognized a liability for closure and post-closure costs for all landfill sites operated by the District.

The Regional District operates the Chaumox Landfill in Boston Bar.

Our response and significant findings

- We obtained and inspected the 2019 engineering report to confirm the estimated current and future closure and post-closure costs.
- We recalculated the liability to confirm the amounts presented on the Consolidated Statement of Financial Position and disclosed in the notes to the consolidated financial statements.
- No issues were noted from our testing results.



Areas of audit focus and results (continued)

Professional requirements

Presumed risk of management override of controls

Why are we focusing here?

Although the level of risk of management override of controls will vary from entity to entity, professional standards presume the risk of management override of controls is present in all entities and requires the performance of specific procedures to address this presumed risk.

Our response and significant findings

- We performed procedures required by professional standards to address the presumed risk of management override of controls including testing of journal entries, performing a retrospective review of estimates, and evaluating the business rationale of significant unusual transactions.
- No issues were noted from our testing results.



Areas of audit focus and results (continued)

Area of audit focus

Subsequent event – COVID-19

Why are we focusing here?

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social dislocating impact. As such enhanced subsequent events procedures are warranted.

Our response and significant findings

- Due to the severity of the pandemic and the rapidly changing events, there are a number of factors that give rise to uncertainty. Being a local government, it is critical that the District continue to monitor this situation closely in the coming weeks and months.
- We considered the type of assets the District has and assessed if any valuation concerns existed at year-end.
- It was noted that there is sufficient cash and investments held to fund operations for in excess of one year should all revenue cease.
- We considered the potential for each revenue item to decrease given the changing environment.
- KPMG notes that an estimate of the financial effect is not practicable at this time and the nature of the subsequent event has been disclosed in the financial statements.

Adjustments and differences



Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

KPMG identified one adjustment that has been corrected. The adjustment is to accrue for the total estimated legal fees in regards to the legal claim. Refer to Management’s representation in the Appendices for more information.

Uncorrected differences

KPMG identified one adjustment that remains uncorrected. The income received from the partnership in the Lower Canyon Community Forest was recorded as miscellaneous income in 2018, whereas the revenue recognition should of occurred in 2019. Refer to Management’s representation in the Appendices for more information.

Appendices



Appendix 1: Required Communications



Appendix 2: Financial Statement Trend Analysis



Appendix 3: Management Representation Letter



Appendix 4: Other Information



Appendix 5: Audit Quality and Risk Management



Appendix 6: Current Developments



Appendix 7: PSAB Standard Changes



Appendix 8: COVID-19 Preparation



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:



Auditors' Report

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



Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to Council. The management representation letter is attached.



Independence

In accordance with professional standards, we have confirmed our independence on page 2.

Appendix 2: Financial Statement Trend Analysis

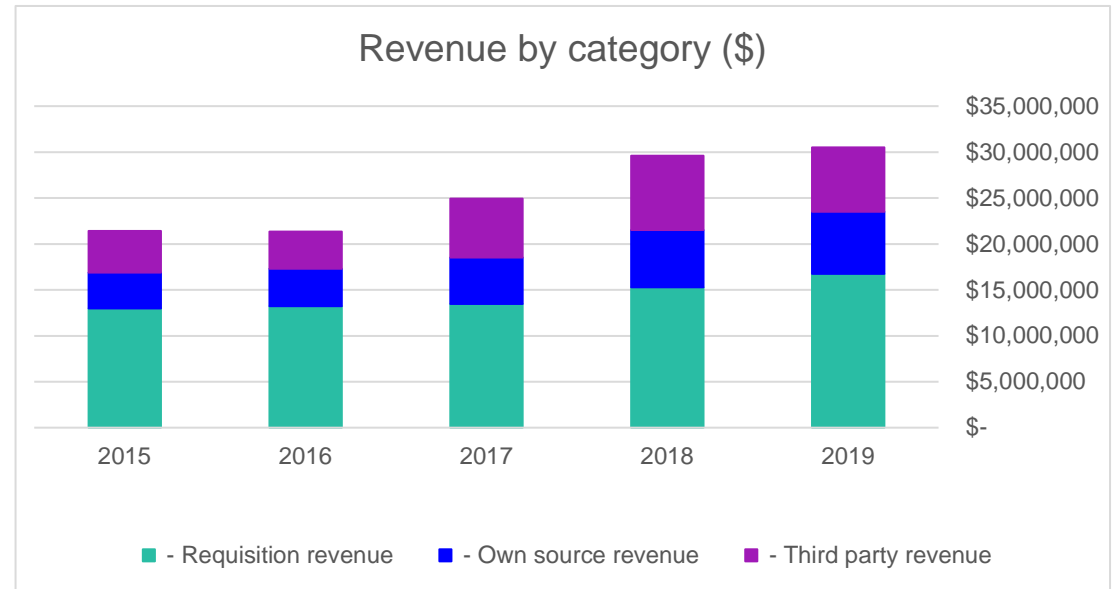
Fraser Valley Regional District

Overall revenues have increased 3% compared to 2018 and have increased an average of 7% per year.

The greatest growth in revenues was seen in own-source revenue, such as sale of services and utility service fees – these revenues have increased 8% from 2018, with an average increase of 11.7%. Own-source revenue makes up 22% of total revenues (2018 – 21%).

Third party revenues make up 23% of total revenues (2018 – 27%) and have decreased 13% from 2018, with an overall average increase of 9%. Third party revenues increased by an average of 12%. This includes investment income, government grants, developer contributions, and other third party contributions.

Taxation revenues make up 55% of total revenues (2018 – 52%), and has increased an average of 5% per year.



Appendix 2: Financial Statement Trend Analysis (continued)

Fraser Valley Regional District

Total expenses have increased 6% over the prior year (2018 – 14%) with an average increase of 8% per year.

The greatest average growth in expenses was seen in protective services, which makes up 27% of total expenses (2018 – 22%) and have increased an average of 8.4% per year.

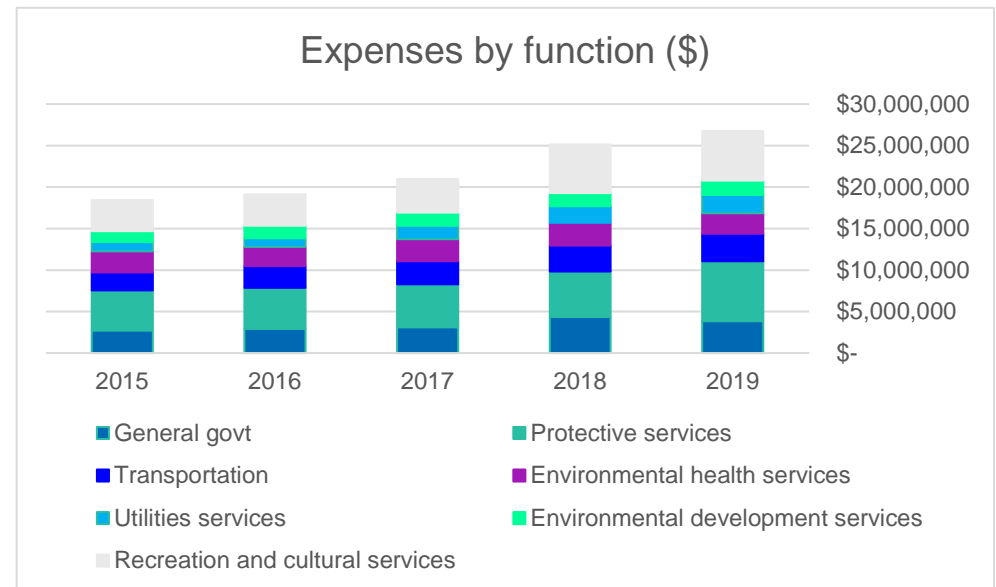
General government services make up 14% (2018 – 17%) of total expenses and have increased an average of 7% per year.

Transportation services make up 12.3% (2018 – 12.6%) of total expenses and have increased an average of 9% per year.

Utilities services, environmental developmental make up 8% of total expenses (2018 – 8%) and has increased an average of 15% per year.

Recreation and cultural services make up 22.4% of total expenses (2018 – 23.4%) and have increased an average of 10% per year.

Environmental development and environmental health services have experienced less growth, with average growth rates of 5.3% and -.8% per year, respectively.



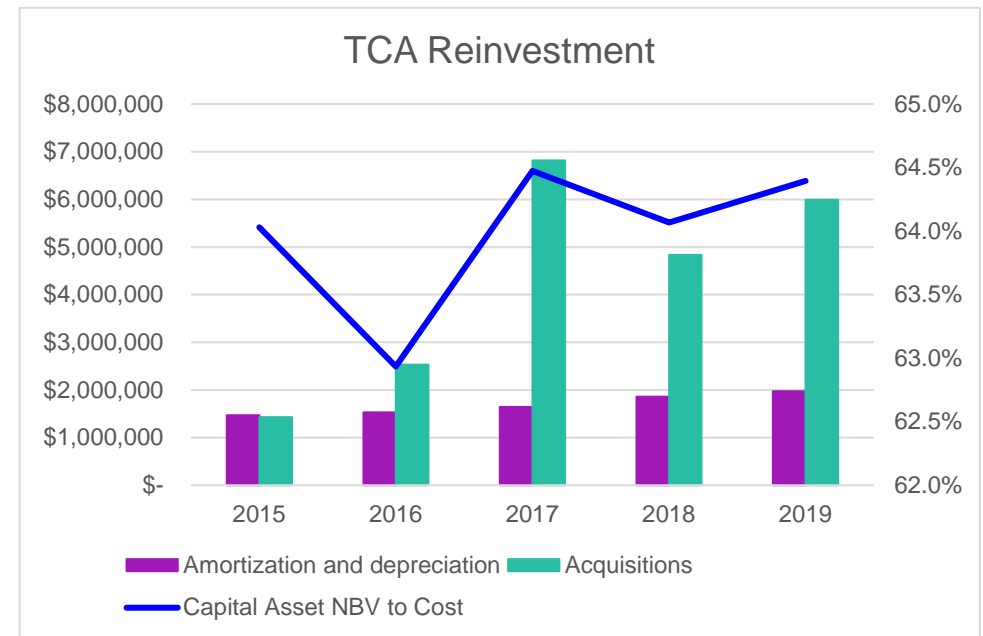
Appendix 2: Financial Statement Trend Analysis (continued)

Fraser Valley Regional District

Capital asset net book value to cost is a metric that can be used to analyse the District's infrastructure. The decline in metric indicates aging infrastructure. The District has achieved an average of 64% over the least three years, which is attributable to the District's significant investment in capital assets.

Total annual acquisition of capital assets has increased in recent years due to new projects and upgrades. The significant increase in the current year relate to the Cultus Lake Sewer Project and the Hatzic Water Project, which increased assets under construction by \$2.3M and \$1.2M respectively.

Amortization and depreciation has an average growth rate of 6% per year, which is consistent with the increase in acquisitions.

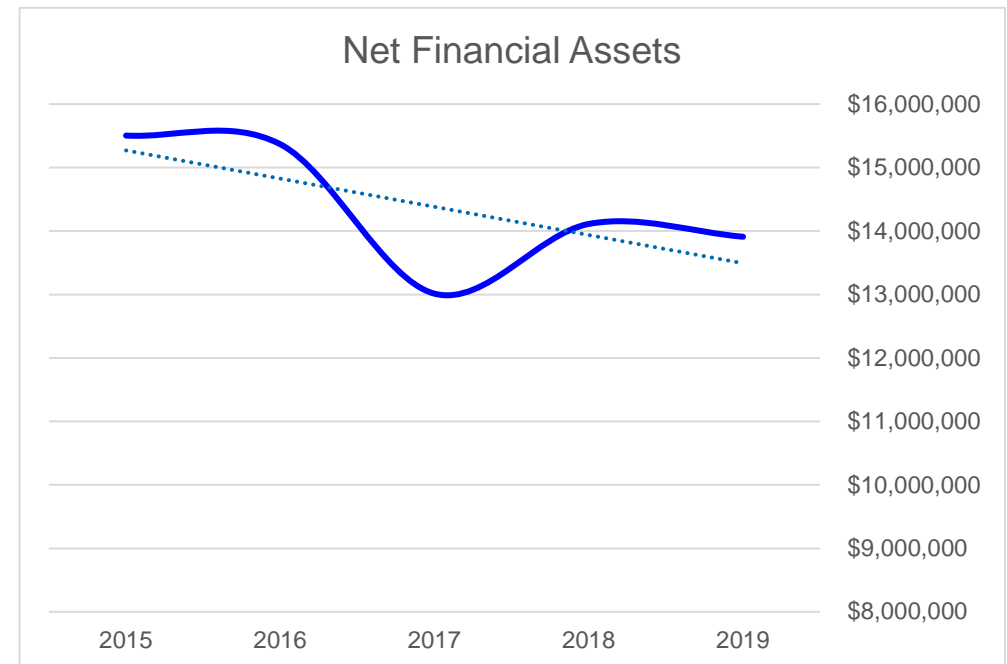


Appendix 2: Financial Statement Trend Analysis (continued)

Fraser Valley Regional District

Net financial assets is a measurement of the available financial resources that the Regional District has to finance future operations.

On average, net financial assets has decreased at a rate of 2% per year. In the current year, net financial assets has decreased 1.4% from 2018. This is a result of the Regional District's significant investment in capital assets funded from their own resources or deferred government funding.



Appendix 3: Management Representation Letter

FRASER VALLEY REGIONAL DISTRICT
45950 CHEAM AVENUE
CHILLIWACK, BC V2P 1N6

KPMG LLP
200-9123 Mary Street
Chilliwack, BC V2P 4H7
Canada

May 26, 2020

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Fraser Valley Regional District ("the Entity") as at and for the period ended December 31, 2019.

GENERAL:

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

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

RESPONSIBILITIES:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated May 26, 2020, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:
 - the names of all related parties and information regarding all relationships and transactions with related parties;
 - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.
 - f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

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

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

GOING CONCERN:

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

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).
- 11) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

By: Ms. Kristy Hodson, Acting Director of Financial Services/Chief Financial Officer

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

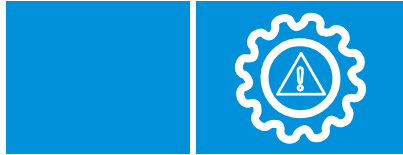
FRAUD & ERROR

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

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

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

Appendix 4: Other information



Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 5: 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 six key elements of our quality control system.

Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality Report](#).

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and
- Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 6: Current Developments

The following is a summary of the current developments in the Public Sector Accounting Standards that are relevant to the City of Abbotsford:

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021. – 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: <ul style="list-style-type: none"> • 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.
Revenue	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022. – 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.

Appendix 6: Current developments (continued)

Standard	Summary and implications
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – 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. PSAB is currently deliberating on the comments received from the three Invitations to Comment. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018 and has closed. PSAB is in the process of developing two exposure drafts for comment. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 <i>Financial Statement Presentation</i>. The SOP proposes: <ul style="list-style-type: none"> • 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. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before 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).

Appendix 6: Current developments (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance (continued)	<ul style="list-style-type: none"> – A new provision whereby an entity can use an amended budget in certain circumstances. <ul style="list-style-type: none"> • Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.
Public Private Partnerships ("P3")	<ul style="list-style-type: none"> – PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. An exposure draft has been approved by PSAB and will be issued in November 2019, with comments due by February 29, 2020. – 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. – 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. – 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	<ul style="list-style-type: none"> – PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – Consultation papers were released for comment in May 2018 and March 2019, and have closed. The consultation papers 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. – PSAB is expected to make a final decision about its international strategy at its March 2020 meeting.
Purchased Intangibles	<ul style="list-style-type: none"> – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. The proposal does not include guidance on how to account for intangibles. Instead, the definition of an asset, the general recognition criteria and the GAAP hierarchy is expected to provide guidance on how to account for intangibles. The accounting for intangibles may be addressed through future PSAB projects.

Appendix 7: PSAB Standard Changes



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. 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
- wastewater or sewage treatment facilities
- firewater holding tanks
- closure and post-closure obligations associated with landfills
- septic beds
- 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
- 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

Whether you are an education or health institution or a government entity (federal, provincial, municipal or Indigenous) 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 Translation.
- 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 measured 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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Appendix 8: COVID-19 Preparation

COVID-19

What the CIO and CISO can do to help

March 2020



Concern over the scale and impact of the COVID-19 pandemic is growing, leading organizations to consider their response and the actions they need to take to maintain their business. The CIO and CISO have vital roles in making sure an organization can function as pandemic containment measures are implemented. KPMG in Canada has put together a list of key considerations and questions to help navigate these challenging times. We also address five security domains that should be considered in the COVID-19 era.

Can your business function effectively through remote working?

You need to ensure your business can work remotely and flexibly, and that employees are confident in being able to do so. This may require you to revisit decisions on access rights, entitlements and risk posture. Questions to consider:

- Have you scaled your VPN concentrators, portals and gateways to handle a large number of colleagues who will need to work remotely?
- Have you considered who will need to have access and the additional scale that this will bring in? Have you tested the infrastructure to find out whether it can handle the expected loading?
- Are there single points of failure in the infrastructure, and can you provide additional resilience?
- Do you need to relax access controls or provide additional remote login accounts or credentials?
- Is there sufficient help desk capacity to handle any queries from users who are unable to login, or unfamiliar with remote working?
- Where employees require access to laptops for remote working, is there a pool of laptops available or can more be procured and installed to meet demand, and how should allocation be prioritized?
- In cases where the pool of equipment is limited, have you considered essential services and splitting access to them via alternative access solutions (e.g., O365 and One Drive vs. in-house applications)?

- Have you considered the ability to whitelist only specific applications during this period and block all non-essential services?
- Do you have limitations on video and audio teleconferencing bridges, and can you do anything to scale that infrastructure?
- Do you need to consider alternate cloud-based conferencing and teleworking solutions?
- Do all members of staff have the necessary access numbers/links to allow them to access the bridges; is training material readily available; should you establish a helpline?
- Can you remote your help desk operations if the help desk staff have to work from home?
- Have you prepared simple guides to be distributed to staff on key help desk related queries:
 - How do I login?
 - How do I change my password?
 - How do I access key services?
 - How can I get help from the help desk?
 - Who are my key contacts if I have a crisis?

Working from home securely amidst COVID-19

Remote workers have access to data, information, and network resources. This will attract imminent attention from bad actors.

- Expect an increase in phishing attempts, especially targeted attempts towards VIP credentials. Be wary of requests that break corporate policy.
- Be wary of anything “urging you” to access information via a third-party or attachment files, especially if it is related to COVID-19.

Cybersecurity considerations

- 1** Use only trusted Wi-Fi networks, and be mindful of the risk.
- 2** Use precautions when in public; there is increased risk of device and data theft (all connections should be encrypted).
- 3** Only use sanctioned company devices and services for handling company data (use a VPN):
 - Use approved work-from-home technologies.
 - Use a company private network resource (VPN).
 - Do not use third-party services because you can't access your standard systems.
 - Use approved systems and services to communicate and transfer information. For example, do not use Dropbox to transfer a document to a client because you can't access your standard security system or service.
- 4** If you require company devices to work from home, ensure the following:
 - A formal approval from technology staff to borrow devices.
 - An assurance that required security software is properly installed.
 - Use of VPN and encryption where possible to protect data at rest and in transit, for files, systems, and general communications.
- 5** Personal devices are generally against most organizations usage policies, but if special approval has been provided to perform work tasks, ensure the following:
 - Systems are completely updated.
 - Systems and software have current and up-to-date antivirus software.
 - Do not store any unnecessary data (even Office documents).
 - Delete company data from the devices as soon as it is unnecessary.
- 6** Watch for phishing attacks – treat Coronavirus-themed emails with great caution:
 - Be wary of communications provoking a sense of urgency, particularly those with attachments or links that have “added information”.
 - Be wary of the abuse of legitimate brands being used to deliver information related to COVID-19.
 - Be wary of communications purporting to come from the Centers for Disease Control and Prevention (CDC) or World Health Organization (WHO).

Are you able to scale digital channels to deal with demand?

Restrictions on travel and the spread of the virus may lead to new patterns of demand, and higher traffic on digital channels.

- More customers and clients may expect to transact with you through digital channels, can you scale those systems and services to deal with changing demand?
- How would you monitor loading and performance, and who can make the decisions to scale capacity, or create dynamic choices on prioritization if capacity is an issue?
- Are you clear which services you may need to shed, or how customer journeys may need to alter if systems are overloaded?
- Are you dependent on key call centers, and if those call centers are closed or inaccessible, can customers and clients interact with you through other channels?
- Is there the option to allow call center staff to work remotely, or to transfer their loads to another call center location?
- Have you considered the interactions between call centers and service/help desks and the impact of any outsourcing arrangements?
- Have you discussed the arrangements with key suppliers of those services, and how will they prioritize your needs against those of other clients?

Are you dependent on key IT personnel?

Sadly, employees may be infected or may find themselves unable to travel or to have to meet family caring commitments; you should plan for a significant level of absenteeism.

- What would happen if key IT personnel (including contractors) are unable to travel, or are ill with the virus... are you dependent on a small number of key individuals?
- How could you reduce that dependency, for example, ensuring that there are “break glass” procedures in place to allow other administrators access to critical systems?
- What about the Security team? Who are the key individuals, and if the CISO is not available, then who will make the calls on the security posture and the acceptable risks to the firm?

What would happen if disruption to a data center occurs?

- Data centers may be impacted by the virus too. A positive test may result in an evacuation and deep clean of the building; transport infrastructure disruption may prevent access, and data center staff may be unable to work.
- In the event that one of your data centers is evacuated, do you have disaster recovery plans in place to deal with the disruption, and have you tested those plans?
- How quickly can you failover to an alternate site, and who manages that process?
- Are you dependent on key individuals (including contractor support) for the operation of the data center, and how can you manage that dependency?

Are you able to scale your cloud capabilities?

There may be additional demands on cloud-based services, requiring you to scale the available computing power, which may incur additional costs. Other services may show reduced demand.

- Are you able to monitor the demand for cloud computing services, and manage the allocation of resources effectively?
- Have you made arrangements to meet any additional costs which may be incurred from scaling or provisioning other cloud services?

Are you dependent on specific suppliers?

Your suppliers and partners will also be under pressure, and their operations disrupted too.

- Who are your critical suppliers, and how would you manage if they are unable to operate, including disruption to your key managed service providers?
- Are there steps you could take now to reduce that dependency, including using your team resources?
- Are you discussing the implications with your key suppliers, and do you have the right points of contact with those suppliers?
- Have you identified which IT suppliers may come under financial pressure, and what would be your alternate sourcing strategy if they did fail?

What would happen if there's a cyber incident?

Organized crime groups are using the fear of COVID-19 to carry out highly targeted spear-phishing campaigns and set up fake websites, leading to an increased risk of a cybersecurity incident.

- Have you made it clear to employees where to get access to definitive information on the COVID-19 pandemic and your firm's response to COVID-19?
- Have you warned staff of the increased risk of phishing attacks using COVID-19 as a cover story?
- If you're dependent on alternative systems or solutions, including those procured as cloud services, how would you handle a security incident involving those systems?
- Do you need to change your approach to security operations during the pandemic, including arrangements for monitoring of security events?

What would happen if there's an IT incident?

While COVID-19 dominates the news, you should still be aware of the possibility of an IT failure given the changing demands on your infrastructure, or an opportunistic cyberattack.

- Would you be able to co-ordinate the incident remotely, and do you have the necessary conferencing facilities and access to incident management sites/processes and guides?
- Do you have a virtual war room setup, in case physical access is limited or restricted?
- Are you dependent on key individuals for the incident response, and if so, what can you do to reduce that dependency?
- How does the emergency/incident response crisis management structure change if key incident managers/recovery leads are unavailable?
- Are you confident that your backups are current, and that in the worst case you can restore vital corporate data and systems?
- How would you deal with a widespread ransomware incident, when large parts of your workforce are home working?

Are you making the best use of your resources?

You will need to be able to function with limited employee numbers and be clear on the priority tasks your team needs to be able to complete.

- Have you prioritized your team's activities, are there tasks which you can defer and release staff for contingency planning and priority preparation tasks?
- Do you have the ability to access emergency funds if you need to source equipment, or additional contractor/specialist support rapidly?
- If you are placed under pressure to reduce discretionary spend to preserve cash, are you clear on which spend must be protected and where to make those savings?

Are you setting an example?

Amongst all of these organizational considerations, you are still a member of senior management, and your team will look to you for leadership and support.

- Have you made sure your team is implementing sensible hygiene practices, including offering flexible and remote working to meet changing needs?
- Do you have up to date points of contact details for all of your team? Is your team aware of who to contact in an emergency?
- Do you model the behaviors you expect of your team, and what would happen if you were incapacitated? Who would step in for you?

Functional domains of cyber operations in the COVID-19 era

5 security domains to consider

	Incident Command and Control must be maintained under remote work conditions:	Security monitoring must adapt & persevere:	Response capabilities extend to remote working conditions:	Cyber risks introduced due to remote working conditions and persistent threat actors will continue to evolve:	The Cyber Operations function now extends to an expanded threat surface:
ESSENTIAL	<ul style="list-style-type: none"> ✓ Ensure redundant communications plan (e.g. employees should be made aware of how to contact security) ✓ Ensure ransomware playbook awareness and revision (e.g. should consider working from home scenarios) ✓ Integrate cyber into crisis management. (e.g. privacy, public affairs) 	<ul style="list-style-type: none"> ✓ Ensure all security controls are updated and logging is enabled properly ✓ Ensure remote forensics capability (e.g. remote image collection) ✓ Review use cases for effectiveness as network behavior has changed ✓ Ensure actioning of any lost network visibility due to working from home (e.g. use IDS/IPS) 	<ul style="list-style-type: none"> ✓ Ensure vendor contact information and SLAs are reviewed and understood by security personnel ✓ Review emergency change management processes in order to expedite approvals ✓ Ensure user termination processes are functioning end to end (e.g. all access drops upon user termination) ✓ Ensure all administrative actions are logged 	<ul style="list-style-type: none"> ✓ Conduct blue team review of email and VPN access control postures ✓ Ensure full review of identity and access management and authentication posture ✓ Monitor perimeter for unintended network exposures ✓ Communicate guidelines for employees to secure their home networks ✓ Ensure all security technologies are being updated as required 	<ul style="list-style-type: none"> ✓ Security teams must prepare to operate remotely, but potentially within company infrastructure if cut off from network ✓ Ensure security responders have a secure location and redundant infrastructure where they can respond effectively to more serious cyber events. ✓ Strictly forbid use of unmanaged personal devices for work duties (e.g. home PC) ✓ Review Cyber-Insurance coverage given remote work posture and changing attack surfaces
ENHANCED	<ul style="list-style-type: none"> ✓ Focused defensive planning of most likely and most dangerous threats given the COVID-19 event ✓ Better Integrate with industry through ISACs 	<ul style="list-style-type: none"> ✓ Enhance User and Entity Behaviour Analytics (UEBA) monitoring to enhance insider threat and anomaly monitoring ✓ Review technology portfolios with incumbent vendors to more easily add features instead of new procurement cycles ✓ Increase insider threat monitoring due to higher global employment uncertainty 	<ul style="list-style-type: none"> ✓ Employ Security Orchestration and Response Automation (SOAR) methodologies ✓ Employ Network Access Controls (NAC) through existing technologies or manual processes such as MAC whitelisting 	<ul style="list-style-type: none"> ✓ Ensure sensitive/VIP positions have additional over-watch especially in home networks ✓ Carry out purple teaming activities to validate that network is secure against known attack patterns 	<ul style="list-style-type: none"> ✓ Secure E-supply chain (e.g. container libraries, imported code, vendor widgets) ✓ Establish redundant vendor pipeline for critical IT capabilities (e.g. firewall)
	Command Capabilities to Enable Decision Making and oversee security operations.	Sense Ability to detect cyber events of interest. E.g. Security Controls and SIEM	Act Ability to contain and remediate an incident once it is discovered	Shield Reactive and proactive hardening of the organization. E.g. vulnerability management	Sustain Ability to sustain your cyber posture over the short and long run

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