The Corporation of the County of Middlesex

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

July 6, 2021

kpmg.ca/audit

KPMG

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Our refreshed Values

What we believe

Integrity
We do what is right.

Excellence
We never stop learning and improving.

Courage
We think and act boldly.

Together
We respect each other and draw strength from our differences.

For Better
We do what matters.

How do we deliver audit quality?

Transparency report

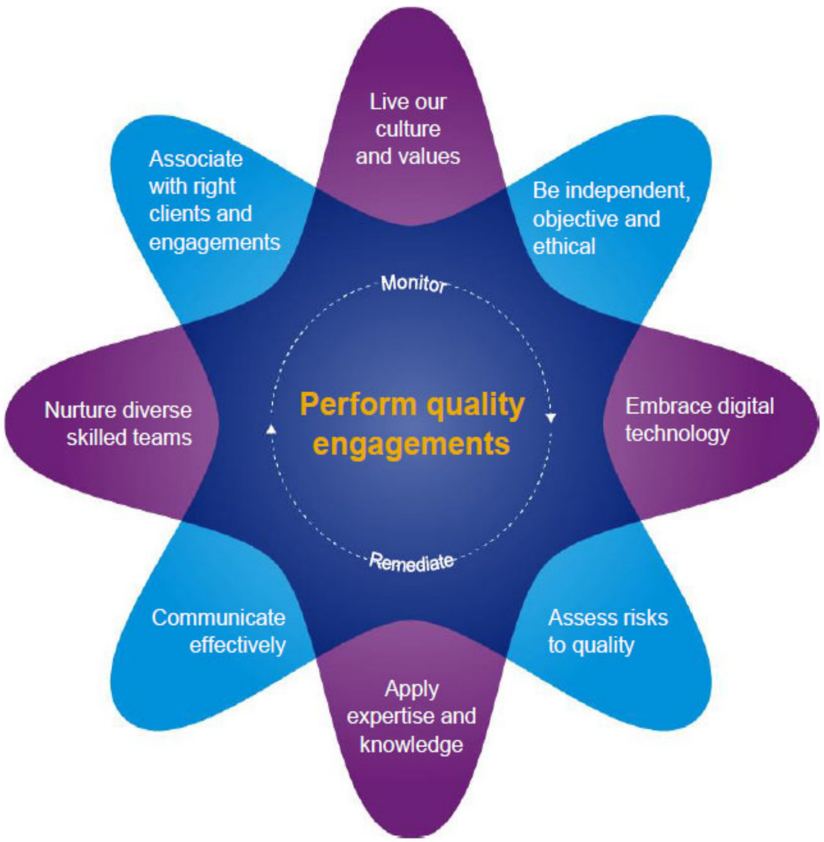
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'**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.

Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of County Council, in your review of the results of our audit of the financial statements as at and for the period ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to Council.

What's new in 2020

There have been significant changes in 2020 which impacted financial reporting, the Company's internal control over financial reporting and our audit:

- COVID-19 pandemic – See pages 7-8
- New CAS auditing standards – See page 9

Changes from the audit plan

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

Finalizing the audit

As of July 5, 2021, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

– Receipt of the signed management representation letter
– Final review of certain file sections
– Completing our discussions with County Council
– Obtaining evidence of the Council's approval of the financial statements

We will update County Council, and not solely the Warden, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided in Appendix 4, will be dated upon the completion of any remaining procedures.

Uncorrected differences

We did not identify differences that remain uncorrected. Please see the representation letter in Appendix 2.

Significant accounting policies and practices

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

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

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[1] This Audit Findings Report is intended solely for the information and use of Management, the Audit Committee, and the Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Independence

We confirm that we are independent of the Corporation of the County of Middlesex and related entities in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

What's new in 2020

COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting as a result of the COVID-19 pandemic.

Area of Impact	Key Observations
Company's financial reporting impacts	— We considered impacts to financial reporting due to COVID 19 pandemic and the increased disclosures needed in the financial statements as a result. ○ In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty.
Company's internal control over financial reporting	— As a result of the changes to the County's work environment during certain times in F2020 we updated our understanding of internal control over financial reporting due to the COVID-19 pandemic as necessary. We noted that there were no significant changes to the County's control environment as a result of the pandemic
Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements.
Risk Assessment	— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).

COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting as a result of the COVID-19 pandemic.

Area of Impact	Key Observations
Working remotely	— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. — We used secure and innovative technologies to conduct walkthroughs, perform tests of controls and observe and perform test counts of inventory. — We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and Supervision of the audit	— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the County's financial reporting and changes in the County's internal control over financial reporting. — Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

New auditing standards

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

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

Audit risks and results

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

Significant financial reporting risk	New or changed?	Estimate?
Fraud risk from revenue recognition.	No	No

Our response

We have rebutted this fraud risk as it is not applicable to the County where performance is not measured based on earnings and a significant portion of revenues can be tied directly to government funding support.

Audit risks and results

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

Area of focus	New or changed?	Estimate?
Fraud risk from management override of controls.	No	No

Our response

– 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 evaluation of business rationale pertaining to significant unusual transactions.

Significant findings

We did not identify any issues as a result of our testing.

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Accounts that comprise significant balances for the County.	No	No (A/R, deferred revenue and revenues, A/P and expenses). Yes (Payroll and EFB)

Our response and Significant Findings

Accounts receivable, deferred revenue and revenues

Total revenues, excluding the loss/gain on disposal of tangible capital assets, were $118.7 million for fiscal 2020 (2019 – $110.3 million), with deferred revenues of $6.8 million (2019 - $6.2 million), current accounts receivable of $8 million (2019 - $7.4 million), and long-term account receivable of $95K as at December 31, 2020 (2019 - $149K).

Audit Approach and findings

KPMG performed the procedures as indicated in our Audit Planning report.

We did not identify any issues as a result of our testing.

Accounts payable and expenses

Total expenditures were $105.7 million for fiscal 2020 (2019 - $100.1 million), with accounts payable and accrued liabilities as at December 31, 2020 of $13.1 million (2019 - $11.6 million)

Audit Approach and findings

KPMG performed the procedures as indicated in our Audit Planning report.

We did not identify any issues as a result of our testing.

Payroll and employee future benefits

- The County's employee future benefit plan consists of post-employment health, dental, and life insurance benefits. The calculations associated with employee future benefits requires management to rely on an expert to assist with making certain estimates including estimates of discount rate, inflation rate, rate of compensation increase, retirement age and expected heath care and dental costs.
- The liability for these future benefits has been determined by a full actuarial valuation performed by Dixon Actuarial Services Inc. as at December 31, 2020. The liability for this was $2.7 million at December 31, 2020 (2019 - $2.5 million).
- Assumptions and methods used in the valuation performed by Dixon have been determined by management in accordance with the requirements of PSAB Section 3250 of the CICA Handbook.
- Management discussed the significant assumptions with Dixon and was provided guidance on the discount rate and other significant assumptions to be utilized as of the valuation date. Dixon recommended a discount rate of 2.9% which is based on the Ontario municipal bond yields as at December 31, 2020 (2019 – 2.9%). The methodology of determining discount rate remains consistent with prior year.

Audit Approach and findings

- KPMG performed the procedures as indicated in our Audit Planning report. As a result of our work and review of information provided by management's actuarial expert, we have recorded an uncorrected audit difference

We did not identify any issues as a result of our testing.

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Tangible Capital Assets	Yes	Yes

Our response and Significant Findings

- In December 2020, the County sold land and buildings for proceeds of $30 million. Proceeds were comprised of cash of $13 million and a mortgage receivable of $17 million.
- As part of the Agreement of Purchase and Sale (“Agreement”), the mortgage is non-interest bearing until December 2024. As compensation for the non-interest-bearing mortgage, the County is entitled to occupy one of the buildings sold rent free until December 2024.

Audit Approach and findings

- We read the Agreement and vouched cash received to the bank
- We read management’s assessment of the accounting treatment and validated the assumptions used to determine the value of the mortgage receivable and prepaid rent assets recorded as a result of the sale.
- We consulted with our subject matter experts on the appropriate application of GAAP

Significant findings

- PSAB has specific rules surrounding recognition of sale-leaseback transactions
- Management completed an assessment of the sale-leaseback transaction in accordance with PSG #2 and PSG #5.
- As a result of the assessment, management has recorded a prepaid rent asset of $1.26 million, a mortgage receivable of $15.7 million and a gain on disposal of the two properties of $28.4 million.

We did not identify any issues as a result of our testing.

Financial statement presentation and disclosure

Misstatements, including omissions, if any, related to financial statement presentation and disclosure items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	The financial statements are, in all material respects, in accordance with the applicable financial accounting framework. The disclosures in the notes to the financial statements are appropriate.
Significant qualitative aspects of financial statement presentation and disclosure	There are no concerns at this time regarding future implementation of new and revised standards.

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

Uncorrected differences

There were no corrected or uncorrected differences recorded as a result of the audit of the financial statements for the year ended December 31, 2020.

Appendices

Content

Appendix 1: Other Required Communications

Report	Engagement terms
Refer to the draft report attached.	Engagement terms are outlined in our Engagement Letter, as provided in prior years. There have been no changes to the terms of our engagement in the current year.

Representations of management	Matters pertaining to independence
A copy of the management representation letter is attached. See Appendix 2.	We confirm our independence to Council.

Appendix 2: Management Representation Letter

(Letterhead of Client)

KPMG LLP
1400-140 Fullarton Street
London, Ontario
N6A 5P2

July XX, 2021

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 the Corporation of the County of Middlesex ("the Entity") as at and for the period ended December 31, 2020.

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 November 20, 2017, 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 such summaries.

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

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

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

f) providing you with unrestricted access to persons within the 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

      — others

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

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

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

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

Subsequent events:

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

Related parties:

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

Going concern:

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

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

Non-SEC registrants or non-reporting issuers:

11) 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).

12) 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,

____
Bill Rayburn, CAO

____
Cindy Howard, General Manager, Finance and Community Services

cc: City Council

Attachment I – Definitions

Materiality

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

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

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

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.

Related parties

In accordance with Canadian accounting standards for private enterprises *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control, or significant influence over the other. Two or more parties are related when they are subject to common control, joint control, or common significant influence. Related parties also include management and immediate family members.

In accordance with Canadian accounting standards for private enterprises a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Appendix 3: Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Members of Council of the Corporation of the County of Middlesex

Opinion

We have audited the consolidated financial statements of the Corporation of the County of Middlesex (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated results of operations, its consolidated remeasurement gains and losses, its consolidated changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

July XX, 2021

Appendix 4: Technology in the Audit

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

Technology	Areas of the audit where Advance Technology routines were used	Insights
Journal Entry Analysis	We utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts from January 1, 2020 to December 31, 2020. We further utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.	This allowed us to conclude over potential discrepancies in the completeness of the journal entry populations provided to us, and also enabled us to filter journal entries for certain higher risk criteria, thereby making our procedures to cover the risk of management overrides more targeted and effective. **As a result of our testing, no material misstatement or issues were identified.**

Appendix 5: Current developments

Public Sector Accounting Standards

Standard	Summary and implications
Impact of COVID-19	– In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – 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
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – 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.

Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 Financial Instruments, PS2601 Foreign Currency Translation, PS1201 Financial Statement Presentation and PS3041 Portfolio Investments are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – 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. – 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 will be released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. – 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.

Standard	Summary and implications
Public Private Partnerships ("P3")	– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB in the process of reviewing feedback provided by stakeholders on the exposure draft. – 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.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB is in the process of developing exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. – 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: • 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). • 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.

Standard	Summary and implications
International Strategy	– PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021.
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. – Based on stakeholder feedback, PSAB will develop a Public Sector Guideline to clarify the guidance in the exposure draft to PS1000 *Financial Statement Concepts*, PS1100 *Financial Statement Objectives* and PS1201 *Financial Statement Presentation*. The updates to the Handbook are expected to be released in fall 2020. The accounting for intangibles may be addressed through future PSAB projects.

kpmg.ca/audit