# CITY OF VICTORIA

## AUDIT PLANNING REPORT TO THE COUNCIL

For its meeting on October 7, 2021

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# EXECUTIVE SUMMARY

## Your BDO Audit Team

Brian Szabo, CPA, CA will be the lead on the engagement team, supported by Sarah Vettoretti as Engagement Manager and subject matter experts as deemed necessary. Please refer to page 5 for contact information should you have any questions or concerns regarding the financial statement audit.

## Timeline

See the Audit Timeline section of the report for the detailed milestones.

## Key Audit Areas

Our audit is focused on risks specific to your business and key accounts. Specifically, we have identified the following areas on which to focus:

- Risk of management override of internal controls
- Risk of Fraudulent Revenue Recognition
- Staff salaries
- Employee future benefits
- Development cost charges

## Materiality

For the purposes of our audit, overall materiality has been set at $11.2 million, and will be used for items related to the City's infrastructure projects. This has been based of 2% of tangible capital assets. For all other items, we have used a specific materiality of $5.2 million, based on approximately 2.5% of expenses.

Our materiality calculation is based on the City's prior year results. We will re-evaluate this amount based on actual results and, should they vary significantly from those used to calculate preliminary materiality, we will communicate these changes to Council as part of our year end communication.

## Engagement Objectives

Our overall responsibility is to form and express an opinion on the financial statements. The performance of this audit does not relieve management or those charged with governance of their responsibilities.

## Fraud Risk Discussion

Through our planning process, and prior years' audits, we have developed an understanding of your oversight processes.

We are not currently aware of any fraud affecting the City or changes in your operations that would give rise to additional fraud risk. Please see Appendix B for clarification of the auditor's responsibilities for detecting fraud.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the City, we request that you provide us with this information.

# YOUR DEDICATED BDO AUDIT TEAM

In order to ensure effective communication between the Council and BDO Canada LLP, the contact details of the engagement team are outlined below. We attempt to provide continuity of service to our clients to the greatest extent possible. Should rotation be proposed for key members of the team, we will discuss this matter with management and determine the appropriate new individual(s) to be assigned to the engagement based on particular experience, expertise and engagement needs.

| NAME | ROLE | PHONE NUMBER | EMAIL |
|---|---|---|---|
| Brian Szabo, CPA, CA | Engagement Partner | 604.646.3389 | bszabo@bdo.ca |
| Kristine Simpson | Quality Review Partner | 604.313.4973 | ksimpson@bdo.ca |
| Darren Taylor, CPA, CA | Tax Partner | 604.443.4725 | dtaylor@bdo.ca |
| Sarah Vettoretti, CPA, CA | Assurance Manager | 604.688.5421 | svettoretti@bdo.ca |
| Terry Tran | Audit Senior in-charge | 604.688.5421 | ttran@bdo.ca |

# AUDIT TIMELINE

The following schedule outlines the anticipated timing of the audit of the financial statements of the City.

As part of the year end Council meeting, we will provide Council with a copy of our draft audit opinion, discuss our findings, including significant estimates utilized by management, accounting policies, financial statement disclosures, and significant transactions completed during the year. We will also report any significant internal control deficiencies identified during our audit and reconfirm our independence.

| | |
|---|---|
| **Present audit planning report** | • October 7, 2021 |
| **Planning and interim fieldwork** | • October 25 - 29, 2021 |
| **Final audit fieldwork** | • March 7-18, 2022 |
| **Clearance meeting with management and BDO** | • March 31, 2022 |
| **Present final report to the Committee of the Whole** | • April 21, 2022 |
| **Release of Independent Auditor's Report** | • Upon approval of financial statements by Council |

# SIGNIFICANT AUDIT RISKS AND PLANNED RESPONSES

Based on our knowledge of the City's business, our past experience, and knowledge gained from management and Council, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that Council has identified.

| AREAS OF FOCUS | RISKS NOTED | AUDIT APPROACH |
|---|---|---|
| **Management Override of Internal Controls**<br><br>***(Mandatory audit consideration)*** | Management is generally in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.<br><br>It should be noted that this risk is not specific to the City. | Review of transactions recorded in the various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures.<br><br>Review of controls over journal entry processing and testing of a sample of journal entries processed. |
| **Risk of Fraudulent Revenue Recognition**<br><br>***(Rebuttable risk)*** | Under Canadian auditing standards, we are required to consider whether there is a risk of material misstatement due to fraudulent revenue recognition in all audits. Based on our understanding of the City's significant revenue streams, we have rebutted this risk.<br><br>However, there continues to be a risk of misstatement, unrelated to fraud, with respect to revenue as accounting standards over revenue recognition are complex and subject to variation in application. | Grant funding received will be confirmed through a review of agreements, which ensures that the amounts recorded exist. We will also ensure the revenue is recorded accurately in accordance with the settlement of any stipulations.<br><br>Other revenues streams may have revenue recognition issues which will be reviewed in accordance with the latest revenue recognition standards. |
| **Staff Salaries** | Employee compensation comprises the largest component of expenditures to the City. As a municipality, this figure is often of particular interest to financial statement users (taxpayers). | Application of computer audit testing to analyze payroll transactions in the year is a key step to identify unusual payroll relationships for testing.<br><br>We will also perform systems testing, tests of controls and analytical testing of staff salary and levels. |

| AREAS OF FOCUS | RISKS NOTED | AUDIT APPROACH |
|---|---|---|
| **Employee Future Benefits** | A complex area that requires much estimation and reliance on actuarial experts. | We will review actuarial reports and audit the significant assumptions.<br><br>We will directly communicate with the external actuaries. |
| **Development Cost Charges (“DCC”)** | As with all municipalities, DCC collection is a complex area requiring interaction of several City departments. There is a risk that DCCs may not completely or properly charged. | We will review management’s process for identifying the properties where new DCCs area applicable and test that appropriate amounts collected. We will also perform procedures over the use of funds in accordance with the relevant by-law. |

# MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in 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 include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

Overall materiality has been set at $11.2 million, and will be used for items related to the City's infrastructure projects. This has been based of 2% of tangible capital assets. For all other items, we have used a specific materiality of $5.2 million, based on approximately 2.5% of expenses.

Our materiality calculation is based on the City's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to Council as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to Council, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encourage management to correct any misstatements identified throughout the audit process.

# USING THE WORK OF OTHERS

## Experts

In order for us to perform adequate audit procedures on certain financial statement areas, we will be relying on the work of, and the report prepared by Mercer Canada Limited ("Mercer"). Mercer is considered to be "management's expert". Canadian generally accepted auditing standards require us to communicate with the expert. We propose to discuss the following with Mercer Canada Limited:

- The objective and nature of our audit engagement and how we intend to use the expert's findings and report.
- Our assessment of the significant and risk aspects of the engagement that will affect the expert's work.
- The requirement to advise us if they have any relationship with the organization which could impair their judgment or objectivity in the conduct of their engagement.
- The nature, timing and extent of the expert's work and our planned review of it, possibly including review of their working papers.
- Confirmation that the assumptions used in their calculations are consistent with those used in the prior periods and with industry standards.
- Their obligation to advise BDO Canada LLP of any matters up to the estimated audit report date that may affect their calculations and their report.

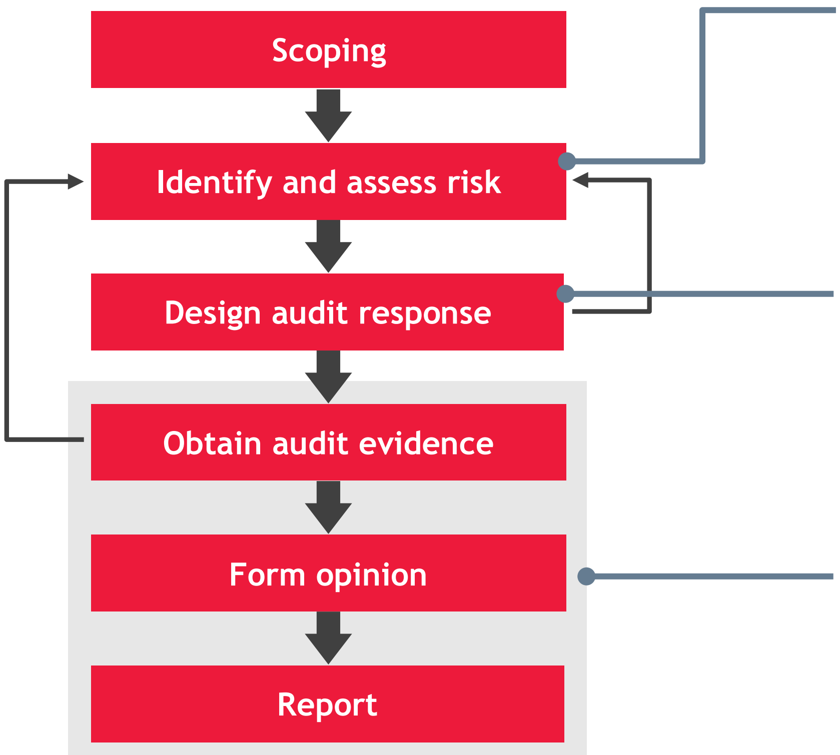
We request management to review the data provided to Mercer Canada Limited and that they also review the assumptions used and results reported by the expert for reasonableness.

# APPENDICES

# APPENDIX A: BDO AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the City.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and Council.




**Identify and Assess Risk:**
To assess risk accurately, we need to gain a detailed understanding of the City's business and the environment it operates in. As well, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

**Design Audit Response:**

Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

**Obtain Audit Evidence / Form Opinion / Report:**

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to conclude whether or not the financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards.

# APPENDIX B: RESPONSIBILITIES

It is important for Council to understand the responsibilities that rest with the City and its management, those that rest with the external auditor, and the responsibilities of those charged with governance. BDO's responsibilities are outlined below and within the annual engagement letter attached as Appendix B to this letter. The oversight and financial reporting responsibilities of management and Council are also summarized below.

## AUDITOR'S ENGAGEMENT OBJECTIVES

Our overall objective is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the City in accordance with Canadian public sector accounting standards.

### Year-End Audit Work

- Work with management towards the timely issuance of financial statements.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Present significant findings to the Council including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.

### Other Information

- Read the other information included in the City's Annual Report to identify material inconsistencies, if any, with the audited financial statements.

### Year-Round Work

- Consult regarding accounting, income tax and reporting matters as requested throughout the year.

# AUDITOR'S RESPONSIBILITIES FOR DETECTING FRAUD

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- Identifying and assessing the risks of material misstatement due to fraud;
- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

## Fraud Risk Assessment Procedures

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud in the City, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the City; and
- Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

## Response to Assessed Fraud Risks

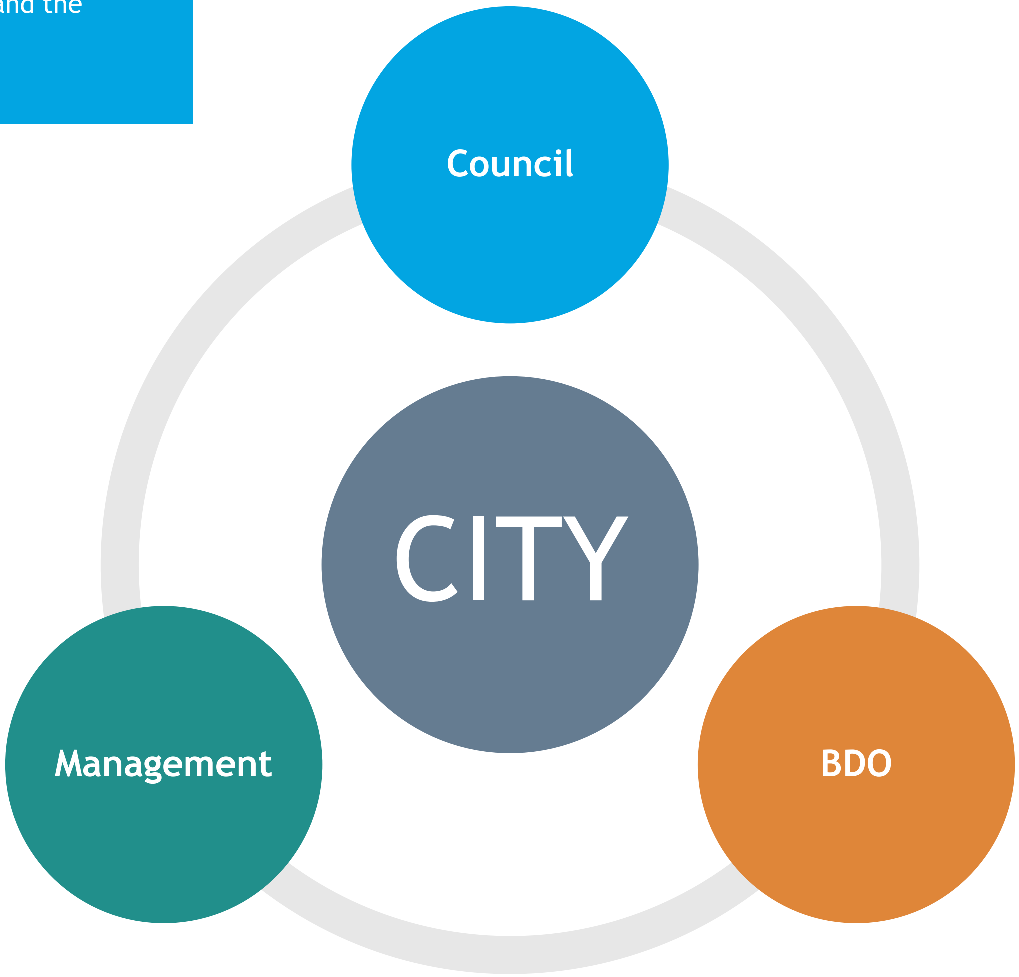
- Inquire of management, Council, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including:
  - Testing internal controls designed to prevent and detect fraud;
  - Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
  - Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
  - Evaluating the business rationale for significant unusual transactions.

## RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor’s report.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- Approve the financial statements

## MANAGEMENT RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the City.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual financial statements in accordance with Canadian public sector accounting standards.
- Safeguard the City’s assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- Make available to us, as and when required, all of the City’s accounting records and related financial information.



# APPENDIX C: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the global BDO network, we are able to provide seamless and consistent cross-border services to clients with global needs. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

## PUBLIC SECTOR RESOURCE CENTRE

BDO Canada's Public Sector Resource Centre is updated on a regular basis to assist our clients in navigating the risks and opportunities facing the industry.

Please access the Public Sector Resource Centre at the following link:

https://www.bdo.ca/en-ca/industries/public-sector/overview/

## BDO INSIGHTS

We continuously update industry-specific articles for our BDO Insights page ( https://www.bdo.ca/en-ca/insights/ ). Articles can be filtered by industry or service area. In particular the following topical articles have been added for our public sector clients in relation to the current environment:

- https://www.bdo.ca/en-ca/insights/advisory/cybersecurity/how-global-pandemic-breeding-ground-for-wire-fraud/
- https://www.bdo.ca/en-ca/insights/advisory/procurement/procurement-and-supply-chain-strategies-during-covid-19/

Please follow the above links to access the articles.

# APPENDIX D: CHANGES IN ACCOUNTING STANDARDS WITH POTENTIAL TO AFFECT YOUR ORGANIZATION

*The following summarizes the status of new standards and the changes to existing standards as of the fall of 2020. The Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.*

## NEW STANDARDS NOT YET IN EFFECT

### Section PS 3400 Revenue (effective years beginning on or after April 1, 2023 - date revised due to COVID)

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.

### Section PS 3280, Asset Retirement Obligations (effective years beginning on or after April 1, 2022 - date revised due to COVID)

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
  - editorial changes have been made to other standards; and

- Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2022, unless a public sector entity elects earlier adoption. For the City, this means the year ending December 31, 2023 is the first year that the standard must be followed.

This is one of the most significant new standards in years and will require considerable staff time in most entities to prepare for compliance. BDO has tools and resources to assist in this regard including our ARO Implementation Checklist.

## Section PS 2601, Foreign Currency Translation (effective years beginning on or after April 1, 2022 - date revised due to COVID)

This Section revises and replaces PS 2600, Foreign Currency Translation. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in PS 3450, Financial Instruments;
- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of re-measurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as PS 3450, Financial Instruments, and are effective for fiscal years beginning on or after April 1, 2022. For the City, this means the year ending December 31, 2023 is the first year that the standard must be followed. Earlier adoption is permitted.

## Section PS 3450, Financial Instruments (effective years beginning on or after April 1, 2022 - date revised due to COVID)

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.
- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.

- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as PS 2601, Foreign Currency Translation and are effective for fiscal years beginning on or after April 1, 2022. For the City, this means December 31, 2023 is the first year that the standard must be followed. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embed derivatives within contracts, which can be applied retroactively or prospectively.

Note also that Narrow Scope Amendments are expected (see below) that will not impact many readers of this Appendix.

## Section PS 3041, Portfolio Investments (effective years beginning on or after April 1, 2022 - date revised due to COVID)

This Section revises and replaces Section PS 3040, Portfolio Investments. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in PS 3450, Financial Instruments;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

The new requirements are effective for fiscal years beginning on or after April 1, 2022. For the City, this means the year ending December 31, 2023 is the first year that the standard must be followed. Earlier adoption is permitted.

## Financial Instruments Narrow Scope Amendments (effective years beginning on or after April 1, 2022 - date revised due to COVID)

As the name implies, these amendments are quite narrow in scope and will not impact many entities.

The amendments are intended to:

- clarify how to deal with financial instruments intended to maintain orderly conditions for the circulation of the Canadian dollar (will impact Federal Government only)
- change treatment of bond repurchases such that will not always be an immediate extinguishment of debt
- clarifies and simplifies certain transitional provisions

An Exposure Draft was issued in January 2019 and a Final Standard was issued in March 2020.

## Purchased Intangibles: Narrow Scope Amendments (effective years beginning on or after April 1, 2023)

This project came together quickly as a result of a submission to the Public Sector Accounting Discussion Group. An Exposure Draft was issued in November 2019 and comments closed January 31, 2020. It is expected that PSAB will approve the amendments in fall 2020.

The main features of these amendments will be to:

- remove the recognition prohibition on purchased intangibles from Section PS 1000;
- remove the disclosure requirements from Section PS 1201 relating to purchased intangibles not recognized; and thus,
- allow for the recognition of purchased intangibles in public sector financial statements.

PSAB approved final amendments to the Handbook and a new guideline, PSG-8, Purchased Intangibles, at its September 2020 meetings. The final standard was issued in November 2020 and is effective for fiscal years beginning on or after April 1, 2023. For the City, this means the year ending December 31, 2023 is the first year that the standard must be followed.

## Public Private Partnerships (effective years beginning on or after April 1, 2023)

This project has been underway since 2014 and is nearing completion. PSAB is currently deliberating feedback received on the exposure draft which closed at the end of February 2020.

The exposure draft recommends the following:

- an asset would be recorded when the public sector entity controls:
  - the purpose and use of the infrastructure;
  - access to the infrastructure; and
  - any significant interest accumulated in the infrastructure when the public private partnership's term ends.
- asset to be recorded at cost/fair value -- usually based on present value of future payments related to construction/acquisition of asset
- record liability at same amount as asset
- liability a financial liability when cash/asset consideration, but if non-financial consideration may be:
  - a non-financial liability such as unearned revenue
  - or if no performance obligations may be immediate recognition of proceeds from grants of rights for use
- where a liability is recorded, it should be reduced as performance obligations are settled
- fairly detailed disclosure requirements

The Public Private Partnerships standard, Section PS 3160, was approved in December 2020. The standard will be issued in the PSA Handbook in April 2021, and is effective for fiscal years beginning on or after April 1, 2023. For the City, this means the year ending December 31, 2023 is the first year that the standard must be followed.

CONSULTATION PAPERS AND INVITATIONS TO COMMENT

## Concepts Underlying Financial Performance

This project includes both the "Conceptual Framework" and "Reporting Model" related to it. It is also nearing completion with an Exposure Draft expected in January 2021.

The existing Conceptual Framework found in Sections PS 1000, Financial Statement Concepts and PS 1100, Financial Statement Objectives will be replaced by 10 new chapters. Because the Conceptual Framework is used to develop generally accepted accounting principles (GAAP) but is not considered GAAP itself, there is not expected to be immediate impact from the introduction of the Conceptual Framework. It will, however, influence future Standards development so it is important that the concepts and principles be understood and considered.

Further a new Reporting Model will come along to amend and/or replace PS 1201, Financial Statement Presentation. It is expected that the new Reporting Model will allow better flexibility for application of PSAS to financial statements of government organizations and general improvements to aid understanding of financial statements. In particular, potential options for presentation of endowment investments and related fund balances.

PSAB deliberated the feedback received on the initial Statement of Concepts and Statement of Principles and developed two exposure drafts (one for a revised conceptual framework and one for a revised reporting model), with two accompanying bases for conclusions documents, and two other exposure drafts outlining the resulting consequential amendments.

These documents were issued on January 11, 2021 and the comment deadline was extended from May 12, 2021 to June 30, 2021.

PSAB is currently deliberating the feedback on the four exposure drafts related to this project (The Conceptual Framework for Financial Reporting in the Public Sector, Consequential Amendments Arising from the Proposed Conceptual Framework, Financial Statement Presentation, Proposed Section PS 1202 and Consequential Amendments Arising from Financial Statement Presentation, Proposed Section PS 1202).

## Review of International Strategy

On May 5, 2020, PSAB voted to approve “Option 2 – Adapt IPSAS principles when developing future standards,” as described in Consultation Paper 2, “Reviewing PSAB’s Approach to International Public Sector Accounting Standards.” This decision resulted from extensive consultation with Canadian stakeholders. The Board initiated the project through its 2017-2021 Strategic Plan, “Review of PSAB’s Approach to International Public Sector Accounting Standards.”

Option II: Adapt IPSAS principles when developing future standards. PSAB would continue to develop PSAS, but future standards would be based on principles in existing individual IPSAS as each is considered by PSAB. The Board would establish a “Criteria for Modifying Principles” document to provide guidance on when departures from IPSAS principles in a standard under consideration are permitted. The Board’s conceptual framework and financial reporting model would continue as the foundation for Canadian public sector generally accepted accounting principle (GAAP). So, a departure from principles in an individual IPSAS would be required if they conflict with the Board’s framework or model. Changes to GAAP under this option would occur prospectively, and the Board’s due process would be modified to incorporate the Criteria for Modifying Principles. Given that future PSAS would be based on principles in existing individual IPSAS, there would be an increased focus toward influencing the principles under development for new IPSAS.

## Government Not-for-Profit Strategy

When government not-for-profits were brought into the PSA Handbook they were given the option of applying PSAS standards or PSAS standards in conjunction with the “4200 Series” of standards that mirror Part III of the CPA Handbook. It was always recognized that the 4200 Series was likely a stop-gap measure with additional NPO-specific standards being brought into the “regular” PSA Handbook. The need to review the GNFPO strategy became more urgent with several provinces mandating that their organizations not use the 4200 series.

This is a difficult area because of the fact that many GNFPOs operate quite differently than governments do and therefore do not fit well into a government financial reporting model. Moreover, not-for-profit organizations that are not government controlled follow different standards than GNFPOs do (particularly those GNFPOs that do not use 4200 series) which makes comparisons between some entities difficult.

PSAB has recognized the issues facing the GNFPO sector and has created a GNFPO Strategy Committee to guide it through a process of developing improved guidance for GNFPOs.

Retired BDO partner Bill Cox is the Chair of this committee. The committee issued its first Consultation Paper in May 2019 which was mostly fact-finding. A second consultation paper issued in January 2021 included options and a recommended strategy. The recommendation is for GNFPOs to go “full PSAS” but that as part of this process the existing PS 4200 standards will be reviewed on a standard by standard basis. Each existing 4200 standard will either be brought in to amend or supplement PSA standards or be discarded.

The comment deadline for this consultation paper was extended from May 12, 2021 to June 30, 2021 and PSAB is currently deliberating the feedback received.

## Employment Benefits

The existing Employee Benefits standards in PS 3250, Retirement Benefits and PS 3255, Post-employment Benefits are some of the older standards currently existing in the PSA Handbook. Quite frankly, they have not kept pace with the changes that have occurred in the industry. New concepts such as "Target-Benefit Plans" and "Shared-Risk Plans" do not fit in neatly to existing standards.

In recognition of the wide scope of review required to modernize these standards, PSAB had broken initial review into three different sections:

- Deferral Provisions (Invitation to Comment issued in November 2016)
- Discount Rate Guidance (Invitation to Comment issued in November 2017)
- Non-Traditional Pension Plans (Invitation to Comment issued in October 2018)

The first exposure draft, “Employee Benefits, Proposed Section PS 3251”, and the accompanying Basis for Conclusions, was issued on July 28, 2021.

The first phase of this multi-phase standard is focused on the topics of deferral provisions and discount rate guidance. Future phases will focus on non-traditional pension plans and other issues.

Deferral provisions updated under the Exposure Draft propose that revaluations of the net defined benefit liability (asset) be recognized immediately on the statement of financial position within the net defined benefit liability(asset) and the accumulated other component of net assets. Deferral and amortization of actuarial gains and losses would no longer be used. Further, it is proposed that plan assets would be measured at market value.

Discount rate guidance from PSAB proposes that a public sector entity would assess the funding status of a post-employment benefit plan to determine the appropriate discount rate by considering the proportion of the current and projected plan assets balance compared to projected benefit payments, and the unique circumstances and characteristics of their post-employment benefit plan.

The comment deadline for the first Exposure Draft is November 25, 2021.

## PSAB's Draft 2022-2027 Strategic Plan

The Strategic Plan sets out the following broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period –

- Develop relevant and high-quality accounting standards
- Enhance and strengthen relationships with stakeholders
- Enhance and strengthen relationships with other standard setters
- Support forward-looking accounting and reporting initiatives

Feedback on PSAB's next Strategic Plan is open until October 6, 2021.