

AGENDA – AUDIT COMMITTEE MEETING

Monday, May 1, 2023 – 5:30 PM

Limestone Education Centre

220 Portsmouth Avenue, Kingston, ON

Virtual Link: <https://bit.ly/LDSBAuditMeetingMay2023>

PUBLIC MEETING – 5:30 PM

- 1. CALL TO ORDER**
- 2. OPENING GREETINGS AND INTRODUCTIONS**
- 3. ELECTION OF COMMITTEE CHAIR**

Acknowledgement of Territory: “The Limestone District School Board is situated on the traditional territories of the Anishinaabe and Haudenosaunee. We acknowledge their enduring presence on this land, as well as the presence of Métis, Inuit and other First Nations from across Turtle Island. We honour their cultures and celebrate their commitment to this land.”

- 4. ADOPTION OF AGENDA**
- 5. DECLARATION OF CONFLICT OF INTEREST**
- 6. REPORTS FOR INFORMATION**

- 6.1** 2022-2023 Regional Internal Audit Update, Genevieve Segu, Regional Internal Audit Manager and Pasquale L’orfano, Internal Auditor (Report Appended Pages 4 - 5)

Limestone District School Board

Limestone District School Board is situated on traditional territories of the Anishinaabe & Haudenosaunee.

6.2 Audit Planning Report for The Year Ending August 31, 2023, Lori Huber, KPMG
External Auditor (Report Appended Pages 6 -36)

7. OTHER BUSINESS

8. FUTURE MEETING DATES

September 11, 2023	5:30 pm
November 6, 2023	5:30 pm

PRIVATE SESSION – 6 PM

**In accordance with the Education Act, Section 207(2) a meeting of a committee of a board including a committee of the whole board, may be closed to the public when the subject under consideration involves,*

- a) *The security of the property of the board;*
- b) *The disclosure of intimate, personal or financial information in respect of a meeting of the board or committee, an employee or prospective employee of the board or a pupil or his or her parent or guardian;*
- c) *The acquisition or disposal of a school site;*
- d) *Decisions in respect of negotiations with employee of the board; or*
- e) *Litigation affecting the board.*

9. MOTION TO MOVE INTO PRIVATE SESSION

10. REPORTS FOR INFORMATION

- 10.1 2022-23 Follow-Up Procedures Final Report, Genevieve Segu, Regional Internal Audit Manager and Pasquale L'orfano (Report Appended Pages 37 -39)
- 10.2 Critical Positions Analysis Final Report, Genevieve Segu, Regional Internal Audit Manager and Pasquale L'orfano (Report Appended Pages 40 - 49)
- 10.3 Safe & Caring Schools Engagement Final Report, Regional Internal Audit Manager and Pasquale L'orfano (Report Appended Pages 50 - 53)
- 10.4 Safe Schools Survey Results Memo, Genevieve Segu, Regional Internal Audit Manager and Pasquale L'orfano (Report Appended Pages 54 - 62)

Limestone District School Board

Limestone District School Board is situated on traditional territories of the Anishinaabe & Haudenosaunee.

SEE YOURSELF IN LIMESTONE

11. ADJOURNMENT

13. PRIVATE DISCUSSION BETWEEN AUDITORS AND AUDIT COMMITTEE

The committee will excuse staff in order to provide for a private conversation with both the external and internal auditors.

Limestone District School Board

Limestone District School Board is situated on traditional territories of the Anishinaabe & Haudenosaunee.

SEE YOURSELF IN LIMESTONE

Subject:	2022-23 Regional Internal Audit Plan
Presented by:	Geneviève Segu, Regional Internal Audit Manager Pasquale L'orfano, Internal Auditor
Meeting Date:	May 1 st , 2023

Purpose

To provide the Audit Committee with an update from the Regional Internal Audit Manager (RIAM) on the progress of the 2022-23 RIAT work.

This is in alignment with Ontario Regulation 361/10: Audit Committees (9) Duties of an Audit Committee 3(2&3).

Content

2022 – 2023 Regional Internal Audit Plan Update

The Audit Committee approved the 2022-23 Audit Plan at the September 19, 2022 meeting. The following presents an update on the engagements:

Status	Audit & Scope	Schedule
Complete	<p>Critical Positions This engagement aligns with the preliminary region-wide Strategic Risk Assessment which identified Succession Planning as one of the top risks in the portfolio.</p> <p>The scope is to provide Management with a current state assessment/inventory of all positions, outside of the schools. Each position is critical, key, support or specialist.</p>	May 2023: Report to Audit Committee
Complete	<p>Safe Schools This engagement focuses on capacity, processes and systems in place to communicate, identify, protect and respond to issues relating to student's</p>	May 2023: Report to Audit Committee

	<p>health, with a focus on well-being, mental health and bullying.</p> <p>This engagement has been performed and well received by other RIATs in the province.</p>	
In Progress	<p>School Generated Funds Fraud Flags Identification</p> <p>This engagement focuses on fraud indicators and red flags applied to a selection of schools across the school board, using Data Analytics as well as interviews and documentation review.</p> <p>After discussion with Management, it was determined that the audit should focus on assisting the Board in developing strong policies and procedures relating to Fraud Management. This continues to align with managing the risk of Fraud which was determined to be a priority during the Risk Assessment.</p>	<p>March 2023: Met with Management to discuss timing, objective and scope of work.</p> <p>April 2023: Completed analysis of Fraud Policies in Municipalities, Universities, School and Hospitals (“MUSH”) for benchmarking purposes. In the process of writing draft report.</p>
Complete	<p>Follow-up Procedures</p> <p>This is a recurring item on RIAT’s annual plan.</p> <p>RIAT continues to follow-up on the remaining recommendation, as they come due.</p>	<p>May 2023: Report to Audit Committee</p>
As Needed	<p>Management Request Engagement</p> <p>To cover any important items that may be required to during the school year.</p>	<p>If Requested</p>
<p>Recommendation</p>		
<p>That the Limestone District School Board Audit Committee receives for information the May 1st 2023 RIAT update.</p>		



Limestone District School Board

**Audit Planning Report
for the year ending August 31, 2023**

KPMG LLP

Prepared on April 12, 2023 for the Audit Committee meeting on
May 1, 2023



KPMG contacts

Key contacts in connection with this engagement



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Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.



Click on any item in the table of contents to navigate to that section.

	Audit quality		KPMG Clara		Highlights
	Audit plan		Audit risks		Key milestones and deliverables
	Proposed fees		Appendices		

This report to the Audit Committee (the “Committee”) is intended solely for the information and use of management, the Committee, and the Board of Trustees 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 report to the Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit Quality: How do we deliver audit quality?

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.





Audit Quality: Indicators (AQIs)

Audit Quality Indicators (AQIs) - The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we believe are relevant and will discuss with the management prior to the audit. We would like to obtain agreement of the Committee that these are the relevant AQIs.

We will communicate the status of the below AQIs on an annual basis.



Audit team composition

Experience of the team

- Role – number of years experience in the industry



Technology in the audit

Implementation of technology in the audit

- Increase in use of technology in the audit year over year



Independence

Independence is our first priority

- We will never put ourselves in a situation where we would audit our own work.
- We apply the most rigorous standards to our professional services in order to ensure our continued independence in our role.



Client preparedness

Timeliness of client documentation

- Number of timely and overdue items received by the audit team.

Availability of personnel

- Participation of all personnel in the audit process, such as IT, HR, Legal, etc.



Committee meetings

Engagement Partner attends Committee meetings

- Engagement Partner provides current industry trends and updates to accounting and audit standards



Voice of the Client

Your feedback matters

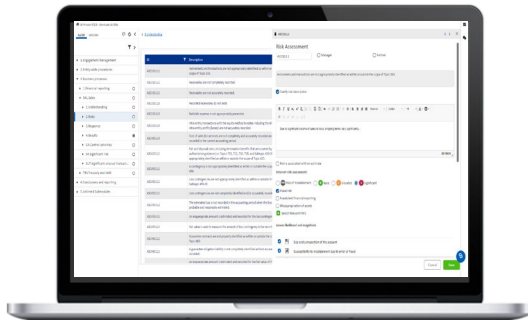
- Take deep personal accountability, individually and as a team, to fulfill our commitments to you;
- Measure our success from the only perspective that matters—yours



Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

KPMG Clara workflow



Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

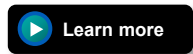


KPMG Clara for clients



Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

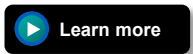


KPMG Clara analytics



Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.





Highlights

Scope of the audit

Our audit of the financial statements of Limestone District School Board (the "School Board") as at and for the year ending August 31, 2023 will be performed in accordance with Canadian generally accepted auditing standards (CASs).



Significant risks

The presumed fraud risk related to management override of controls.



Rebuttable significant risks

The presumed fraud risk involving improper revenue recognition has been rebutted by us.

Newly effective auditing standards

CAS 315 is effective for audits of financial statements for periods beginning on or after December 15, 2021. See Appendix 2: Newly effective auditing standards.



Newly effective accounting standards

The Asset Retirement Obligations standard will be applicable in the current year and is expected to have a significant impact. See Appendix 3: Newly effective accounting standards.



Report highlights

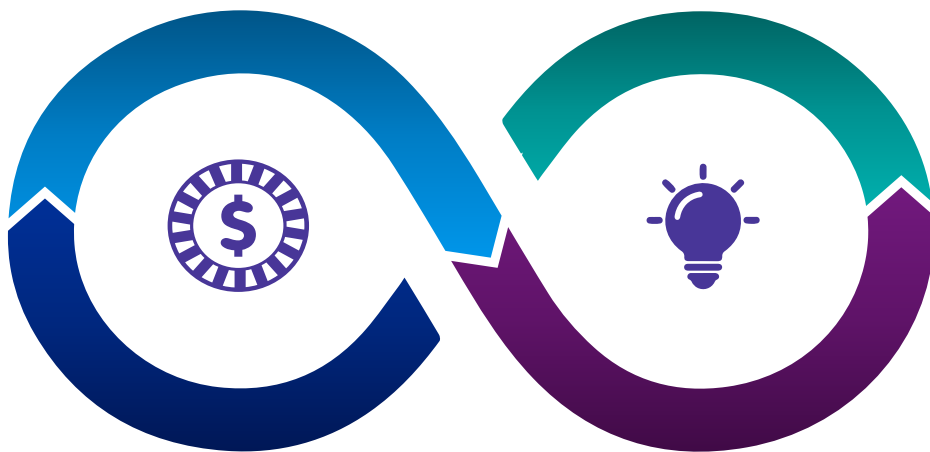
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Other Areas of Focus





Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.



Materiality

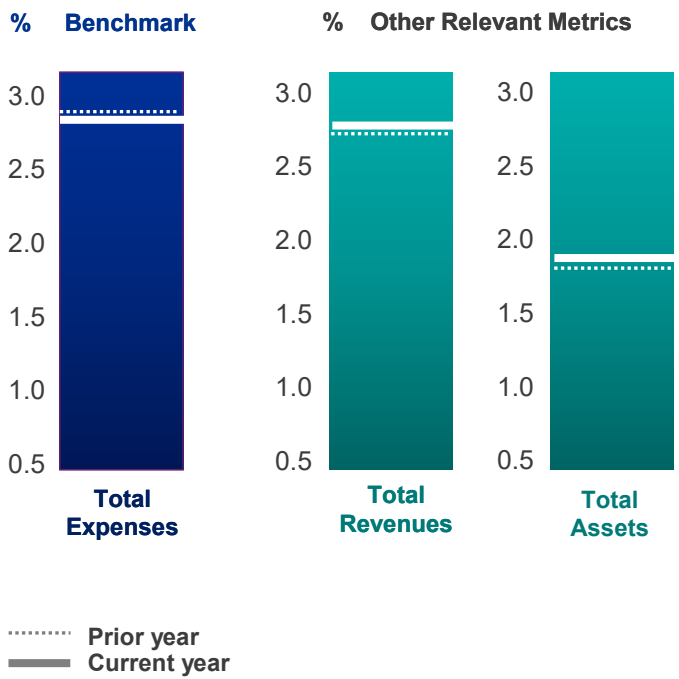


Materiality

\$8,000,000

(2022: \$7,500,000)

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.



Prior year total expenses

\$287,241,352

2022: \$264,757,554

Prior year total revenues

Normalized for the impacts of COVID-19

\$292,584,985

2022: \$274,411,049

Prior year total assets

\$429,130,175

2022: \$416,886,168

Audit Misstatement Posting Threshold (AMPT)

\$400,000

2022: \$375,000

Threshold used to accumulate misstatements identified during the audit.



Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the School Board and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the School Board's components of its system of internal control, including our business process understanding.

	Risk of fraud	Risk of error	Risk Rating
● Management override of controls	✓		Significant
● Grant revenue, accounts receivable and deferred revenue		✓	Base
● Payroll expenses		✓	Base
● Operating expenses		✓	Base
● Capital assets and deferred capital contributions		✓	Base
● Employee future benefit liabilities		✓	Base
● Cash and long-term debt		✓	Base
● Contingencies and commitments		✓	Base
● Financial reporting		✓	Base

Legend:

- PRESUMED RISK OF MATERIAL MISSTATEMENT
- OTHER AREA OF FOCUS

These areas of focus may be revised because of new transactions or events at the School Board, or changes in systems, people or structure, and/or the results of our audit procedures. We will report any changes to the Committee in our Audit Findings Report.



Significant risks



Management Override of Controls

RISK OF



FRAUD

Why is it significant?

**Presumption
of the risk of fraud
resulting from
management
override of
controls**

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Audit approach

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- assess the design and implementation of controls surrounding the journal entry process;
- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Advanced Technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.



[Click to learn more](#)



Other areas of focus

Areas	Risk due to error	Audit approach
Grant revenue (including related receivables, payables and deferred revenue)	Base	<ul style="list-style-type: none"> We will complete substantive audit including confirmation of cash flows during the year and verification of any significant performance criteria. We will complete analytical and substantive procedures to ensure appropriate recognition of revenue and related payables, deferrals and receivables, as required. We will perform substantive procedures to address the eligibility of costs incurred.
Payroll expenses (including related accruals)	Base	<ul style="list-style-type: none"> We will test and evaluate design and operating effectiveness over controls related to payroll input and monitoring controls. Significant payroll-related accruals will be recalculated and vouched to supporting documentation, including grievances and severance costs. We will perform substantive analytical procedures over salaries and benefits and related accounts.
Operating expenses (including related accruals)	Base	<ul style="list-style-type: none"> We will perform substantive procedures over operating expenses and accounts payable and accrued liabilities. Perform a search for unrecorded liabilities and recalculate significant accruals. Vouch a sample of expenses to supporting documentation.
Capital assets and deferred capital contributions (including related amortization)	Base	<ul style="list-style-type: none"> Vouch significant additions and disposals to supporting documentation. Review of repair and maintenance expenses for proper accounting treatment. Perform analytical audit procedures to ensure adequacy of amortization and amortization of deferred capital contributions. Inquire as to the status of major capital projects. Inquire as to the impairment of any capital assets. Review presentation of capital assets note disclosure.



Other areas of focus (continued)

Areas	Risk due to error	Audit approach
Employee future benefit liabilities	Base	<ul style="list-style-type: none"> — We will obtain the School Board's most recent actuarial extrapolation report and will agree the details to the provision and applicable note disclosure related to employee future benefit accruals. — We will perform required accounting estimates procedures per the auditing estimates standards including gaining a detailed understanding of the process used by Management to make the assumptions and develop procedures to test the reasonableness of the assumptions, completeness and accuracy of the data and resulting amount recorded in the School Board's financial statements
Cash and long-term debt	Base	<ul style="list-style-type: none"> — Direct confirmation of balances with third parties and review of banking agreements. — Review of bank reconciliations and vouch significant reconciling items to supporting documentation. — Review of restrictions and disclosures.
Contingencies and commitments	Base	<ul style="list-style-type: none"> — Review by the engagement team of the financial statements prepared by the School Board's management to ensure the disclosure is consistent with current public sector accounting, disclosure requirements, as well as industry practice.
Financial reporting	Base	<ul style="list-style-type: none"> — Assess the relationship and existence of control with related parties and ensure appropriately reflected in the financial statements. — Review the adoption of new accounting standards during the year, including PS 3280, Asset Retirement Obligations. — Review by the engagement partner to ensure the disclosure is consistent with current accounting and disclosure requirements in accordance with the School Board's financial reporting framework.



Key milestones and deliverables





Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management based on our most recent competitive proposal dated April 9, 2021.

Description of service	Current period (budget)	Prior period (actual)
Audit of the annual financial statements of the School Board	\$ 46,500	\$ 46,000
Incremental audit effort in relation to the implementation of <i>CAS 315, Identifying and Assessing the Risks of Material Misstatement</i> ¹	\$ 4,500	Not required
Incremental audit effort related to the implementation of <i>PS 3280, Asset Retirement Obligations</i> ²	To be determined	Not required
Agreed Upon Procedures for the 7-month period ended March 31, 2023 ³	\$ 8,350	\$ 8,300

¹ In response to a new Canadian auditing standard that will be in effect in fiscal 2023, CAS 315 Identifying and Assessing the Risks of Material Misstatement, there will be additional fees on adoption.

² In relation to this new accounting standard applicable in fiscal 2023, there will be additional fees based on time incurred.

³ There will be additional fees based on time incurred as the Ministry's 7-month procedures include incremental effort related to the adoption of PS 3280.



Proposed fees (continued)

Matters that could impact our fee

The following factors could cause a change in our fees:

- Audit readiness, including delays in the receipt of requested working papers, audit samples, inquiries and financial statements information from the agreed upon timelines, and the books and records being properly closed at the start of our year-end audit work
- The availability, participation and responsiveness of key Finance team members during the audit
- Significant changes to the relevant financial reporting framework
- Significant new or changed accounting policies or application thereof
- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- New audit standards or requirements arising as a result of changes in audit standards
- Changes in the timing of our work
- Other significant issues (e.g. cyber security breaches)
- Any accounting advice



Appendices

1

Other required communications

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Future accounting pronouncements

2

Newly effective auditing standards

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Technology

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Newly effective accounting standards

6

Audit and assurance insights



Appendix 1: Other required communications



CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2022 Interim Inspection Results](#)
- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Audit Quality Assessments](#)



Report

A draft report will be provided at the completion of the audit which will highlight the form and content of the report.



Representations of management

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



Matters pertaining to independence and confidentiality

We are independent of the School Board, and we have a robust and consistent system of quality control.

Confidentiality of our clients' information is an on-going professional and business requirement of both KPMG and our overall profession. In addition to our internal confirmation of independence of team members, we will request confirmation and acknowledgement of our policies regarding confidentiality of the School Board's information.



Engagement Terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as previously provided by management.



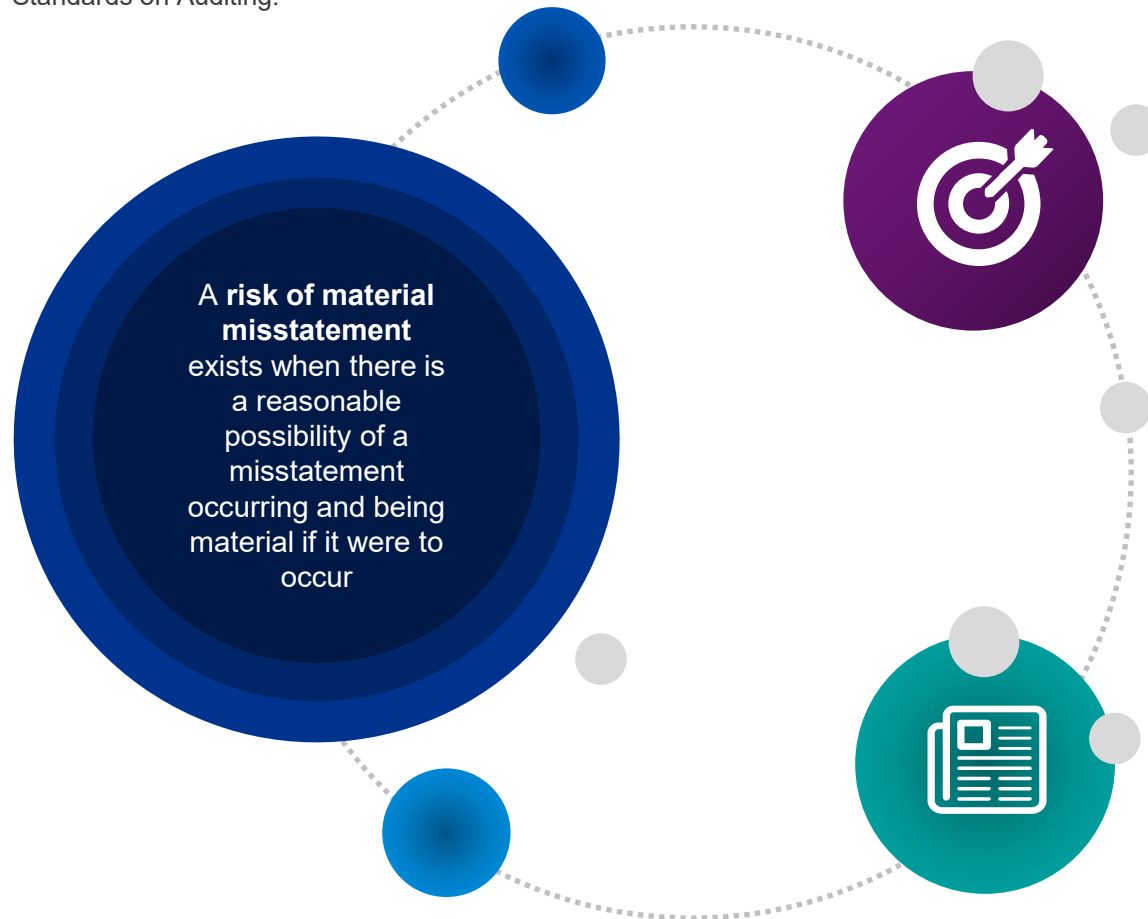
Control deficiencies

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



Appendix 2: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada



We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.



Appendix 2: Newly effective auditing standards (continued)

Key change

Overall, a more robust risk identification and assessment process, including:

- New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement
- New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement
- New requirement to separately assess inherent risk and control risk for each risk of material misstatement
- Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk

Impact on the audit team

When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.

We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement

The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.

If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.

Impact on management

If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.

We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.



Appendix 2: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
<p>Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement</p>	<p>When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p>	<p>In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.</p>
<p>Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process</p>	<p>We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.</p>	<p>In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.</p>



Appendix 2: Newly effective auditing standards (continued)

Key change

Modernized to recognize the evolving environment, including in relation to IT

Enhanced requirements relating to exercising professional skepticism

Impact on the audit team

New requirement to understand the extent to which the business model integrates the use of IT.

When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.

Based on the identified controls we plan to evaluate, we are required to identify the:

- IT applications and other aspects of the IT environment relevant to those controls
- related risks arising from the use of IT and the entity's general IT controls that address them.

Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.

New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.

Impact on management

We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.

Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.

Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.

We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.



Appendix 2: Newly effective auditing standards (continued)

Key change

Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control

Impact on the audit team

We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows:

- Controls that address a significant risk.
- Controls over journal entries, including non-standard journal entries.
- Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures

Impact on management

We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them.

We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.



Appendix 3: Newly effective accounting standards

Asset retirement obligations (“AROs”)

Effective date

August 31, 2023

Summary and implications

- 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.
- 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 capital assets. As a result of the new standard, the public sector entity will:
 - Consider how the additional liability will impact the financial reporting.
 - Carefully review legal agreements, senior government directives and legislation in relation to all controlled capital assets to determine if any legal obligations exist with respect to asset retirements.



Appendix 3: Newly effective accounting standards (continued)

Asset retirement obligations: key audit risks

1

Do you have **completeness** of ARO's on your financial statements, particularly in terms of assets identified as in-scope?

2

Have you determined **measurement** of ARO's based on reliable data and costing models?

3

Have you correctly applied an appropriate **transition method**?

4

Do you have adequate **documentation** of your process and audit working papers enabling auditability?



Appendix 3: Newly effective accounting standards (continued)

Asset retirement obligations: implementation project

Project planning

- Project team is cross-functional and includes Finance and non-Finance personnel.
- Sufficient personnel resources are available for the implementation project.
- Where required, external experts have been engaged.
- The project plan identifies who is responsible for each project task.
- Project timelines are reasonable.
- Auditor involvement has been scheduled at each significant project milestone.
- Asset retirement obligations policy has been drafted.

Scoping

- The tangible capital assets listing reconciles to the audited financial statements.
- Agreements (e.g. leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- Productive and non-productive assets have been included in the scoping analysis.
- Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- All relevant legal acts, regulations, guidelines, etc. have been identified.
- Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- Cost information is relevant and reliable.
- Only costs directly attributable to legally required retirement activities have been included in the liability.
- If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- Asset retirement obligations have been linked to specific tangible capital assets.
- The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- The transition method selected is appropriate based on the measurement information available.
- Calculations are mathematically accurate.

Financial reporting

- Financial statements have been mocked up to include asset retirement obligations.
- Note disclosures, including significant accounting policies, have been drafted.
- Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.



Appendix 3: Newly effective accounting standards (continued)

Asset retirement obligations: implementation milestones

PHASE 1

Step 1:

Development of a PS3280 compliant policy. Include a definition for in-scope assets, productive and non-productive assets, and document known sources of legal obligations (such as regulations and contracts) as well as key roles and responsibilities for retirement obligation identification, measurement and reporting.

Step 2:

Identification of TCA/sites inventory. Develop an inventory of potential in-scope assets or sites based on existing TCA listings, and inventories used for PS3260 contaminated sites. Reconcile the listing of TCA items to the audited financial statements. Assess in-scope assets against PS3280 recognition criteria.

Milestone – KPMG Audit Team review of PS3280 policy, asset listings, and in-scope assets

PHASE 2

Step 3:

Measure the estimated liability. Assess available information, and consider the need for additional environmental assessment of any sites. Document key assumptions and variables, and selection of transition method. Determine if discounting will be applied for any assets. Consider impacts on useful life assumptions for in-scope assets. Document measurement methodology and range of estimate for in-scope assets.

Milestone – KPMG Audit Team review of measurement methodology and range of estimates

Step 4:

Reporting. Prepare a library of documentation and assumptions supporting each retirement obligation for audit purposes, and comprehensive documentation of the process followed for implementation. Prepare template financial statements and related note disclosure for 2023 year end.

Milestone – KPMG Audit Team review of working papers and template financial statements



Appendix 4: Future accounting pronouncements

Revenue

Effective date

August 31, 2024

Summary and implications

- 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 revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Public Private Partnerships (“P3s”)

Effective date

August 31, 2024

Summary and implications

- PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard may be applied retroactively or prospectively.
- The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
- The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.

Purchased intangibles

Effective date

August 31, 2024

Summary and implications

- The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.
- Narrow scope amendments were made to *PS 1000 Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to *PS 1201 Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized.
- The guideline can be applied retroactively or prospectively.



Appendix 5: Technology

KPMG Clara – Bringing the audit to one place



Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



Secure

A secure client portal provides centralized, efficient coordination with your audit team.



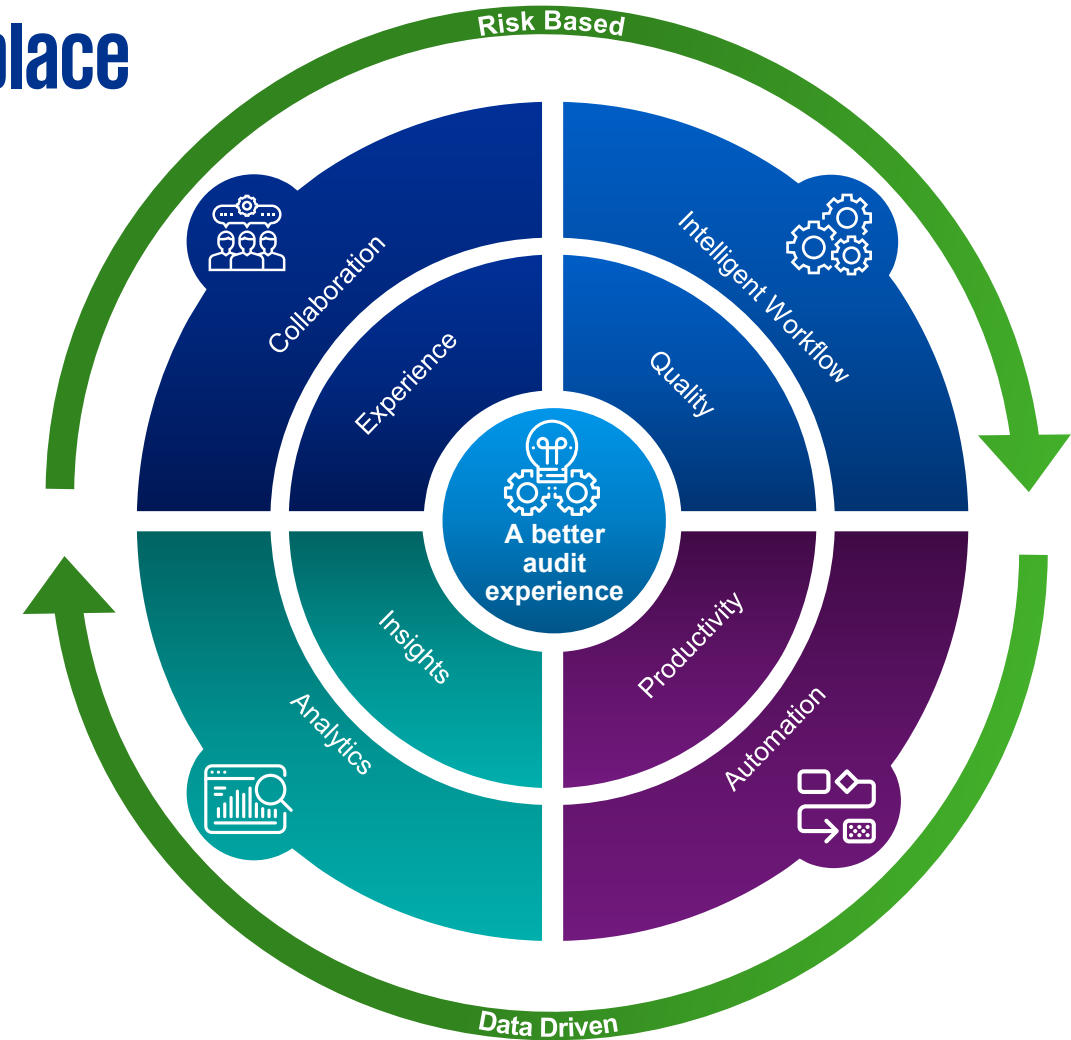
Intelligent workflow

An intelligent workflow guides audit teams through the audit.



Increased precision

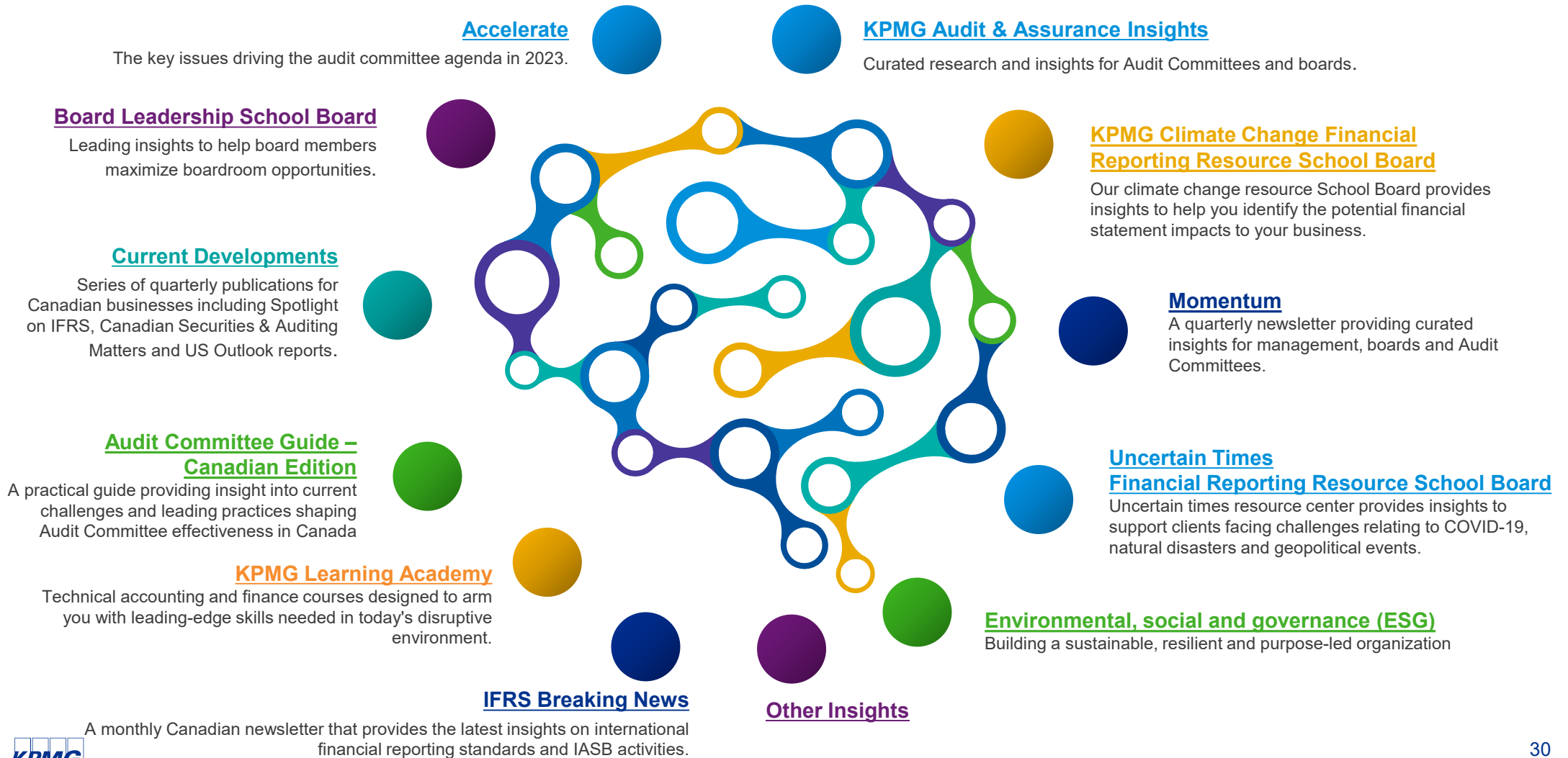
Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.





Appendix 6: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.





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KPMG member firms around the world have 227,000 professionals, in 145 countries.

