




CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 07, 2017
SUBJECT/REPORT NO:	2017 City of Hamilton External Audit Plan (FCS17101) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Jackie-Lee McInnes (905) 546-2424 Ext. 5347
SUBMITTED BY:	Rick Male Director, Financial Services, Taxation and Corporate Controller Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That Appendix "A", attached to Report FCS17101 respecting the 2017 City of Hamilton External Audit Planning Report prepared by KPMG be received.

EXECUTIVE SUMMARY

Council, at its meeting of September 11, 2017, approved the Audit, Finance and Administration Committee recommendation and Report FCS17073, "Appointment of External Auditor 2017-2021" wherein KPMG was selected as the City's external auditor.

KPMG's audit approach and scope of audit work for the City of Hamilton (City) and its related entities for the 2017 fiscal year is provided in their Audit Planning Report for the year ended December 31, 2017 (refer to Appendix "A" to Report FCS17101). KPMG's Audit Planning Report outlines their audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The audit standards focus the audit on areas where there is greater risk of misstatement. KPMG has tailored their audit of the City to several specific audit areas; including revenue recognition and deferral policies, tangible capital assets, employee future benefits, contaminated sites liabilities, solid waste landfill liabilities, investments and related income and operating expenses.

KPMG will be discussing the audit work required on the financial statements for the Library, Housing and Business Improvement Areas with the respective boards or oversight bodies.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2017 external audit fees of \$215,000 are within the limits of the approved 2017 Operating Budgets for the City and the entities included in the report.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

KPMG has been the provider of the City of Hamilton's external audit services since 2012, having been the successful proponent of a 2011 Request for Proposals (RFP). In December 2016, KPMG had approached senior management with a proposed contract renewal for the next five years. Financial Services staff brought Report FCS17048 to the Audit, Finance and Administration Committee on May 08, 2017, to seek authority to negotiate with KPMG and to bring back the results of such efforts to a future Committee meeting. Report FCS17073 was presented to the Audit, Finance and Administration Committee on August 16, 2017, and provided the necessary follow-up and recommendations. Council at its meeting of September 11, 2017, approved the Audit, Finance and Administration recommendation and Report FCS17073 "Appointment of External Auditor for Fiscal Years 2017 to 2021" wherein KPMG was selected as the City's external auditor. Under this appointment KPMG's annual audit fees for the five year period of 2017-2021 will be \$215,000 per year.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

The 2017 Audit Planning Report from KPMG and the City of Hamilton 2017 Year End Plan has been discussed with management of the City's Departments and Boards including:

- Corporate Services Department:
 - o General Manager of Finance and Corporate Services
 - o Director of Financial Services, Taxation and Corporate Controller
 - o Director of Financial Planning, Administration and Policy
 - o Manager of Business Application Support, Accounts Payable and Receivable
 - o Manager of Payroll and Pensions
 - o Managers of Finance and Administration
 - o Manager of Tax Accounting
 - o Manager of Current Budgets and Fiscal Planning
 - o Manager of Capital Budget and Development
- Hamilton Police Services – Chief Accountant
- Hamilton Public Library – Director of Finance and Facilities

The Finance and Administration staff of the Corporate Services Department co-ordinate the audit work with the City's operating departments and divisions.

ANALYSIS AND RATIONAL FOR RECOMMENDATION

The annual audit planning report and external audit plan provides the committee with an opportunity to review the audit approach and expectations of the audit. KPMG will be available to answer questions about their report.

ALTERNATIVES FOR CONSIDERATION - N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS17101 - The City of Hamilton Audit Planning Report for the year ending December 31, 2017, as prepared by KPMG.



The City of Hamilton

Audit Planning Report

For the year ended December 31, 2017

KPMG LLP

Licensed Public Accountants

Prepared for December 7th, 2017 Audit, Finance and Administration
committee meeting

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

Lois Ouellette

Audit Engagement
Partner

Tel: 905 687 3276
louellette@kpmg.ca

Paul Ciapanna

Audit Senior Manager

Tel: 905 523 2228
ppciapanna@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Audit and business risk

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Revenue recognition and deferral policies including grants
- Tangible capital assets
- Employee future benefits liability
- Landfill liability
- Investment and related income
- Operating expenditures

See pages 4 – 6 and Appendix 1

Audit Materiality

Materiality has been determined based prior period total revenues. We have reviewed the scope of work across segments and businesses across the group. Materiality will be set at lower thresholds where necessary to meet requirements of various funding agencies. We have determined group materiality to be \$45,900,000 for the year ending December 31, 2017 (2016 – 44,000,000).

See page 8

KPMG team

The KPMG team will be led by Lois Ouellette, and she will be supported by Paul Ciapanna, Senior Manager and the audit team.

Independence

We are independent and have extensive quality control and conflict checking processes in place.

Current developments

Please refer Appendix 6 for relevant accounting changes relevant to the Company.

A collective audit approach

We have planned the audit to coordinate our work with our information risk management group to reduce overlap and leverage their work performed.

We will continue to liaise regularly and extensively with our information risk management group.

Effective communication

We are committed to transparent and thorough reporting of issues to senior management and the Audit Committee. We have planned our work closely with your management team.

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

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all organizations. The risk of fraudulent revenue recognition can be rebutted, but the risk of management override of control cannot, since management is typically 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.

Significant financial reporting risks	Why	Our audit approach
Fraud risk from revenue recognition	<p>This is a presumed fraud risk under Canadian Auditing Standards.</p> <p>We have identified the following areas where this presumed fraud risk is relevant:</p> <ul style="list-style-type: none"> - Government grants - Development charges <p>Government grant revenue recognition is dependent on the terms of the grant and can be complex depending upon the terms. The City receives many different types of grants with different terms and conditions.</p> <p>Fraud could include misapplying expenditures to incorrect grant funded programs in order to maximize returnable funding.</p> <p>The nature of development charges and their use create complexity in the timing of revenue recognition.</p>	<p>Our audit approach will consist of evaluating the design and implementation and testing the operating effectiveness of selected relevant controls. It will also consist of performing substantive procedures to address the relevant assertions associated with the significant risk.</p>
Fraud risk from management override of controls	<p>This is a presumed fraud risk.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions</p>

Audit approach (continued)

Other areas of focus include the following:

Other areas of focus	Why	Our audit approach
Government Grants	Risk of material misstatement related to the completeness and accuracy of grant revenue	<ul style="list-style-type: none"> – Substantive test of timing of revenue recognition
Tangible Capital Assets	Risk of material misstatement related to the classification, completeness, and accuracy of tangible capital assets	<ul style="list-style-type: none"> – Evaluate the design and implementation of controls over disbursements – Test the operating effectiveness of the controls – Substantive test to confirm treatment as an asset versus expense
Employee Future Benefits	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> – Substantive test over liability balance – Reliance is placed on work of actuary
Landfill Liability	Risk of material misstatement related to the completeness and accuracy of the liability and related expenses	<ul style="list-style-type: none"> – Substantive test over the completeness and accuracy of the liability
Investments and related income	Risk of material misstatement related to the existence and valuation of investments and accuracy of related income	<ul style="list-style-type: none"> – Substantive approach – Confirmation of balances – Assess valuation
Operating expenditures including payroll	Risk of material misstatement related to the completeness, existence, and accuracy of expenditures	<ul style="list-style-type: none"> – Evaluate design and implementation of controls over disbursements – Test the operating effectiveness of the controls – Substantive test to confirm treatment as expense

Audit approach (continued)

Professional standards require that we obtain an understanding of the City's organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

Group auditors are required to be involved in the component auditors' risk assessment in order to identify significant risks to the group financial statements. If such significant risks are identified, the group auditor is required to evaluate the appropriateness of the audit procedures to be performed to respond to the identified risk.

The components over which we plan to perform audit procedures are as follows:

Components	Why	Our audit approach
Hamilton Utilities Corporation Auditor: KPMG	Individually financially significant	Statutory audit of component financial statements
Hamilton Public Library, Hamilton Street Railway Company, Hamilton Renewable Power Incorporated, CityHousing Hamilton, BIAs, Mohawk 4Ice Centre, Hamilton Farmers Market Auditor: KPMG	Non-significant components; however, necessary to issue group audit opinion	Statutory audit of component financial statements Same KPMG audit partner and audit team
Confederation Park, Westfield Heritage Village, Flamborough Recreation Sub- Committees, Hamilton Police Services Board	Non-significant components; however, necessary to issue group audit opinion	Substantive audit procedures over material transactions

Data & analytics in the audit

We will be integrating Data & Analytics (D&A) procedures into our planned audit approach. Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

We believe that D&A will improve both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks.

Area(s) of focus	Planned D&A routines
Journal Entry Testing	<ul style="list-style-type: none"> – We plan to utilize KPMG application software (IDEA) to evaluate the completeness of the journal entry population . – We further plan to utilize computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. – This will help us to identify discrepancies in completeness of the journal entry populations provided to us, and will also enable 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. – This will also allow us to evaluate and identify key journal entries that may not be supported with a valid business rationale.

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

Materiality



The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

The first step is the determination of the amounts used for planning purposes as follows:

Materiality determination	Comments	Amount (in 000's)
Benchmark	Based on prior period total revenues. This benchmark is consistent with the prior year.	\$1,837,901
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was 44,000.	\$45,900
% of Benchmark	The corresponding percentage for the prior year's audit was 2.5%	2.5%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the 2016 audit was \$33,000.	\$34,400
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$2,200.	\$2,295

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate. Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

Highly talented and experienced team

	Team member	Background / experience	Discussion of role
	Lois Ouellette, CPA, CA Lead Audit Engagement Partner louellette@kpmg.ca 905-687-3276	<ul style="list-style-type: none"> – 35 years of experience serving Public Sector clients – PSAB resource within KPMG for the province of Ontario and is a member of the Global Public Sector Accounting Standards Team. – Authored the PSAB Financial Reporting course for the Institute of Chartered Accountants of Ontario ("ICAO", now CPAO). – Taught the Chartered Professional Accountants of Ontario PSAB 101 course. 	<ul style="list-style-type: none"> – Lois will lead our audit for City of Hamilton and be responsible for the quality and timeliness of everything we do. – She will often be onsite with the team and will always be available and accessible to you.
	Paul Ciapanna, CPA, CA Audit Senior Manager ppciapanna@kpmg.ca 905-523-2228	<ul style="list-style-type: none"> – 7 years of public account experience serving several clients reporting in the public sector. – Municipal audit experience with the Town of Oakville, City of Hamilton, Region of Niagara and Town of Milton. – Previously interim acting treasurer of the Township of Wainfleet. 	<ul style="list-style-type: none"> – Paul will work very closely with Lois on all aspects of our audit for the City. – He will be on site and directly oversee and manage our audit field team and work closely with your management team.

Value for fees

The value of our audit services

We recognize that the primary objective of our engagement is the completion of an audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the City and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. We know that you expect this of us.

We want to ensure we understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive municipal experience on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in audits of municipalities. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you;
- Involvement of KPMG specialists – Our audit team is supported by specialists in information risk management. We use these specialists to provide insights and observations resulting from their audit support processes;
- Statutory audits – we will act as the core liaison for the City. We will ensure that all statutory audits are performed efficiently by ensuring work is not duplicated and knowledge is shared between corporate team and site teams. Most importantly we will ensure you are receiving quality audit service throughout the audit.

Our fees are set out in our audit proposal where we 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 upon our most recent proposal.

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

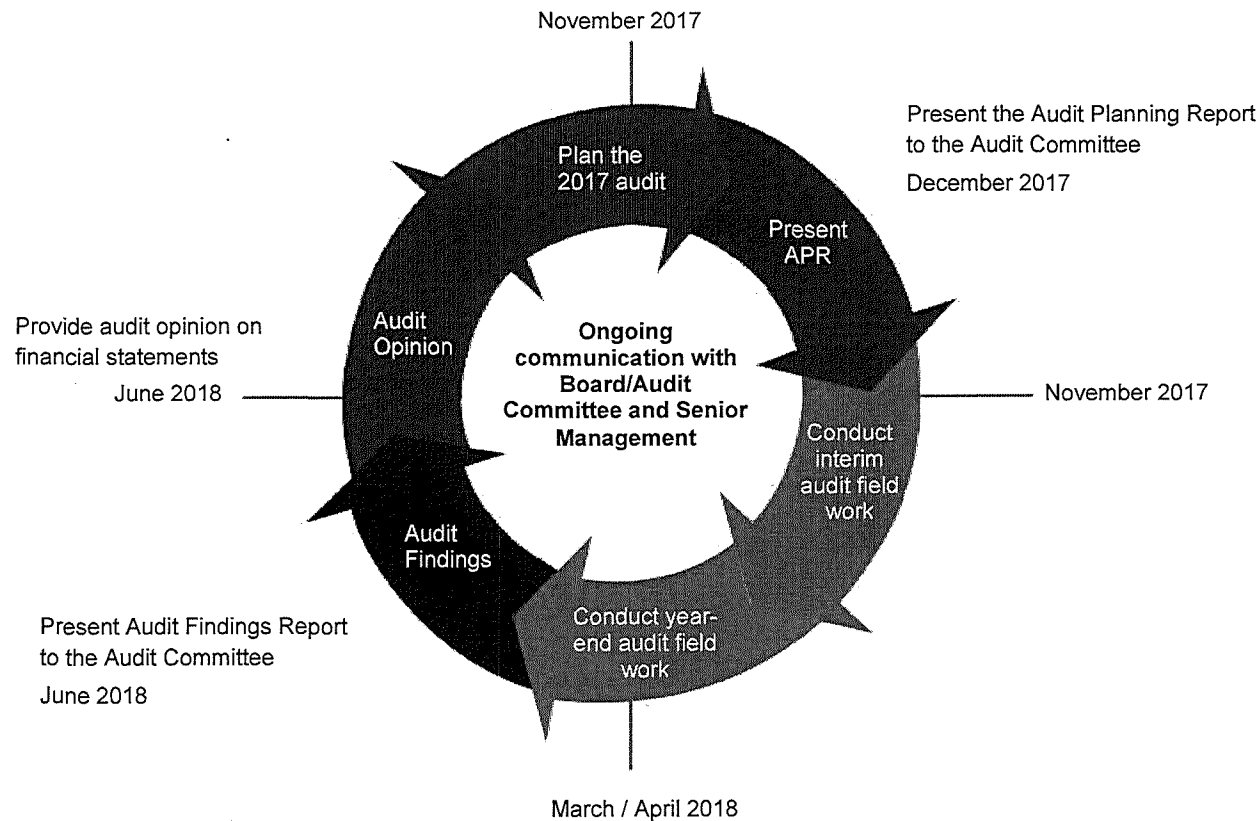
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the timing of our work

Audit cycle and timetable

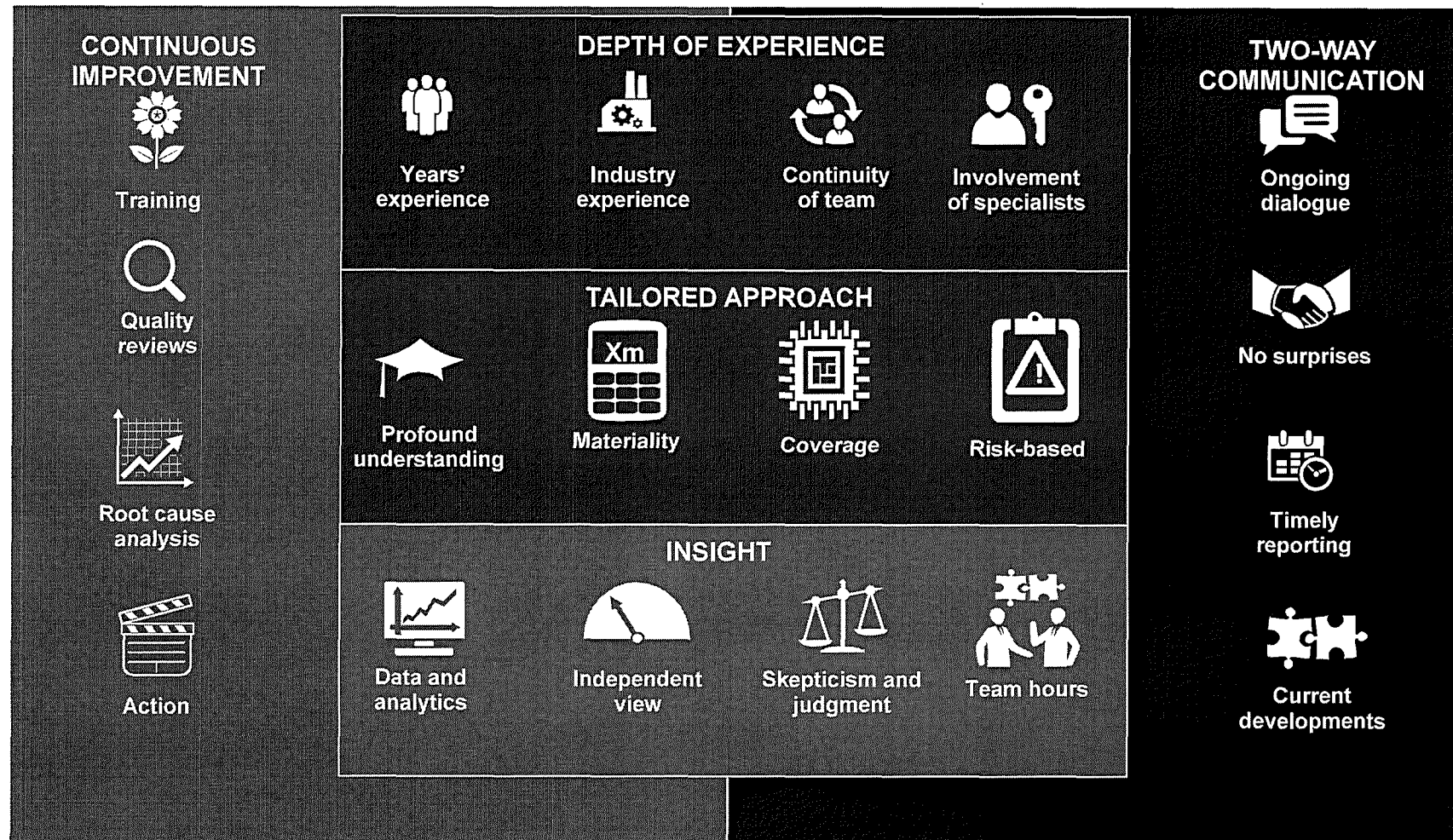
Our key activities during the year are designed to achieve our one principal objective:

- To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Our timeline is in line with prior year.



How we deliver audit quality



Appendices

Appendix 1: Audit quality and risk management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Data & analytics in audit

Appendix 5: Current developments

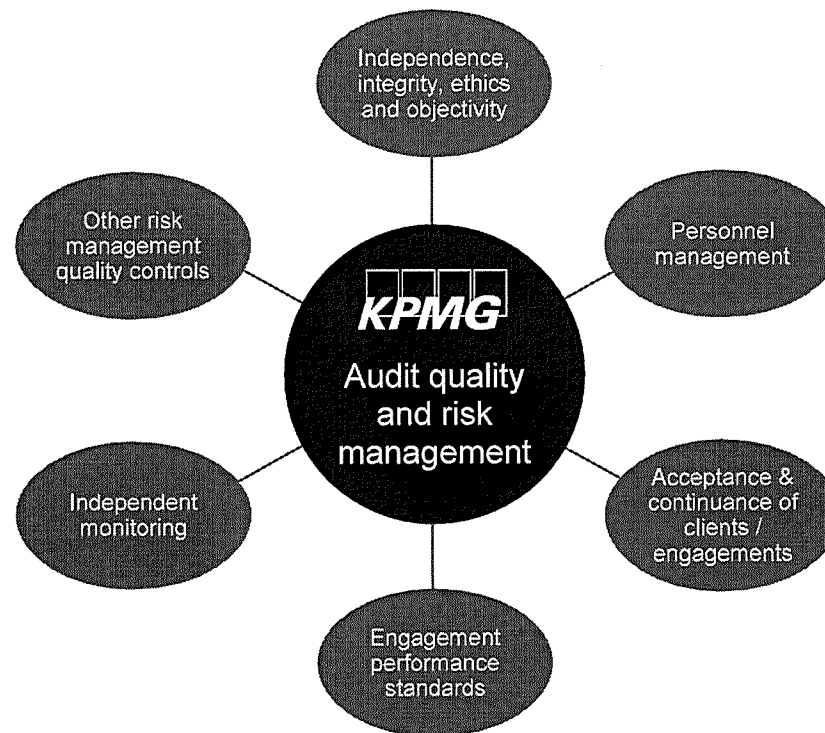
Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 2: KPMG's audit approach and methodology

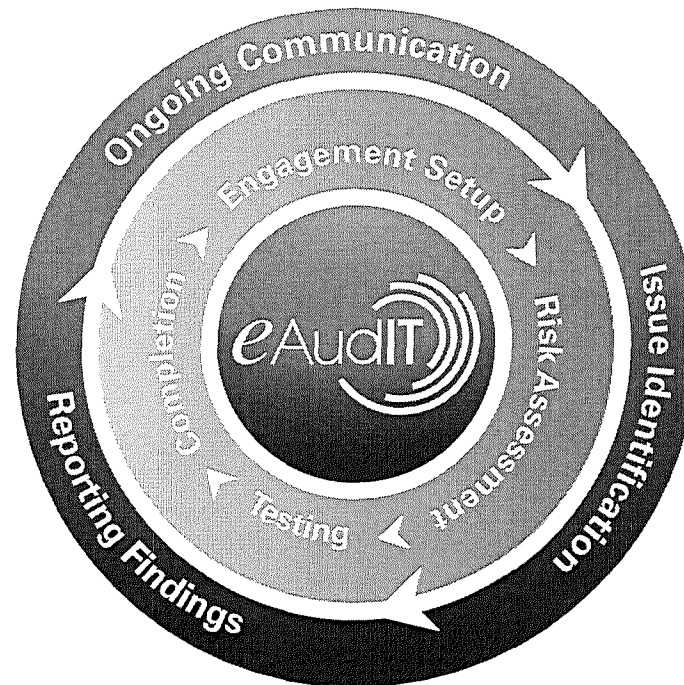
Technology-enabled audit workflow (eAudit)

Engagement Setup

- Tailor the eAudit workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudit workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters.
- **Audit planning report** – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Audit Committee

Appendix 4: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.

For the audit

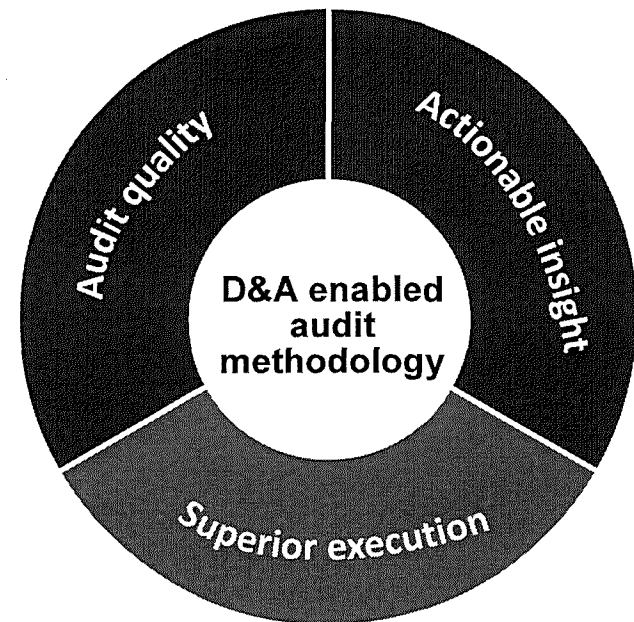
Audit quality

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For your business

Actionable insight

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?



Appendix 5: Current developments

Current developments, created by KPMG Public Sector and Not-for-profit Practice, summarizes regulatory and governance matters impacting Government Organizations. We provide this information to help you understand upcoming changes and challenges they may face in the industry. We attach this summary to every audit plan and findings report (if significant changes occur).

A new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use is under development by PSAB. A Statement of Principles that addresses the accounting and reporting of retirement obligations associated with tangible capital assets controlled by a public sector entity was issued in 2014. PSAB has had regular updates on this project. An exposure draft is under development and is expected to be issued in Q1 2017. Implementation of this standard will require a review of the legal obligations associated with the retirement of long-lived tangible capital assets. An effective date for this standard has not yet been proposed.

The following is a summary of the current developments that are relevant to the City.

Standard	Summary and implications	Reference
PS 3380 – Contractual Right	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. <p>Examples of a contractual right include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contractual rights to assets or revenue exist.</p>	

Standard	Summary and implications	Reference
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.</p>	
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity.</p> <p>Transactions are recorded at carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> - In the normal course of business – use exchange amount - Fair value consideration – use exchange amount - No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair - Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City's December 31, 2019 year end).</p> <p>Implications: The City will have to identify these transactions and determine if they have been measured at the carrying amount if required.</p>	
PS 3210 Assets	<p>This standard provides a definition of assets and further expands that definition as it relates to control.</p> <p>Assets are defined as follows:</p> <ul style="list-style-type: none"> - They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. 	

Standard	Summary and implications	Reference
	<ul style="list-style-type: none"> - The public sector entity can control the economic resource and access to the future economic benefits. - The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Assets will have to be reviewed to determine if they meet this definition.</p>	
PS 3320 Contingent Assets	<p>This standard defines contingent assets.</p> <p>They have two basic characteristics:</p> <ul style="list-style-type: none"> - An existing condition or situation that is unresolved at the financial statement date. - An expected future event that will resolve the uncertainty as to whether an asset exists. <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year end).</p> <p>Implications: Additional disclosures may be required if contingent assets exist.</p>	
Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2020 year-end).</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>	

PS 3280 Asset Retirement Obligations

A exposure draft has been issued and the Public Sector Accounting Board is deliberating the comments received on the exposure draft. A final handbook section is expecting in Q2 2018. This is a new accounting standard to address the reporting of legal obligations associated with the retirement of tangible capital assets.

The proposed effective date for this new standard is for fiscal periods beginning on or after April 1, 2021.

Implications: This standard will require the city to identify the legal obligations associated with the retirement of tangible capital assets. Such liabilities will increase the carrying value of TCA and be expensed in a systematic and rational manner. The obligations include the cost of post-retirement operation, maintenance and monitoring. The liability will have to be estimated using *present value techniques*.

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