City of Edmonton

Audit Planning Report
for the year ending December 31, 2022

KPMG LLP

Prepared for the Council meeting on December 6, 2022

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

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

Highlights

Scope of the audit

Our audit of the consolidated financial statements ("financial statements") of the City of Edmonton ("the City") as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards ("CASs"). In addition to our audit of the financial statements of the City, we have been engaged to report on the following for the year ending December 31, 2022:

- Financial statements of the City of Edmonton combined Pension Fund financial statements;
- Financial statements of the City of Edmonton Pension Fund Financial Statements for the Firefighters Supplementary Pension Fund which is prepared to comply with Section 14(3) of the Employee Pension Plan Act (Alberta) R.S.A. 2000, C.E-8, as amended;
- Financial statements of the City of Edmonton Employee Benefit Plans including individual statements for the Group Life Plan, Dependent Group Life Plan, Dental Plan, Long Term Disability Plan and Major Medical and Supplementary Hospital Plan Fund;
- City of Edmonton Municipal Financial Information Return (FIR) which is prepared to comply with Section 277 of the Municipal Government Act R.S.A. 2000, C.M-26, as amended;
- Family and Community Support Services (FCSS) grant reporting; and
- Social Supports to Communities for COVID-19 Response grant reporting.

Further, we have been separately engaged and will report on the following entities for the year ended December 31, 2022 which are included within the consolidated financial statements of the City:

- EPCOR Utilities Inc.;
- The City of Edmonton Library Board;
- The City of Edmonton Non-Profit Housing Corporation;
- 2492369 Canada Corporation (operating as Waste RE-Solutions Edmonton);
- Explore Edmonton Corporation; and
- Edmonton Unlimited.

Highlights

Significant risks

We have identified significant risks of material misstatement for the audit. See significant risks and other areas of focus sections for details.

Rebuttable significant risks

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

Newly effective auditing standards

CAS 315 (Revised) is effective for audits of financial statements for periods beginning on or after December 14, 2021. See Appendix A2: Newly effective auditing standards for details.

Future pronouncements

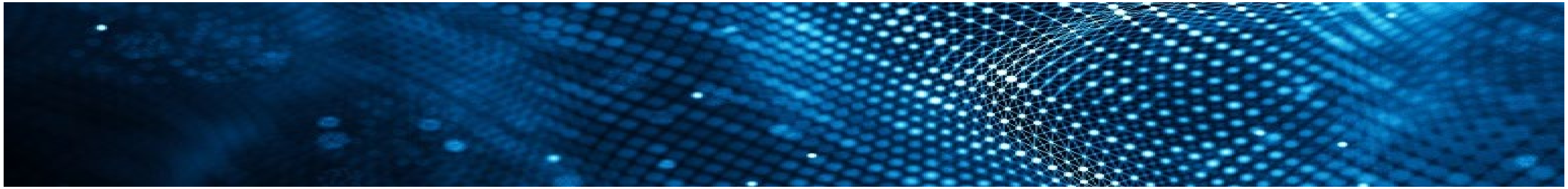
The most significant accounting pronouncement in the near term relates to Asset Retirement Obligations that will be applicable in fiscal 2023. See Appendix A3: Asset retirement obligations.

Required communications

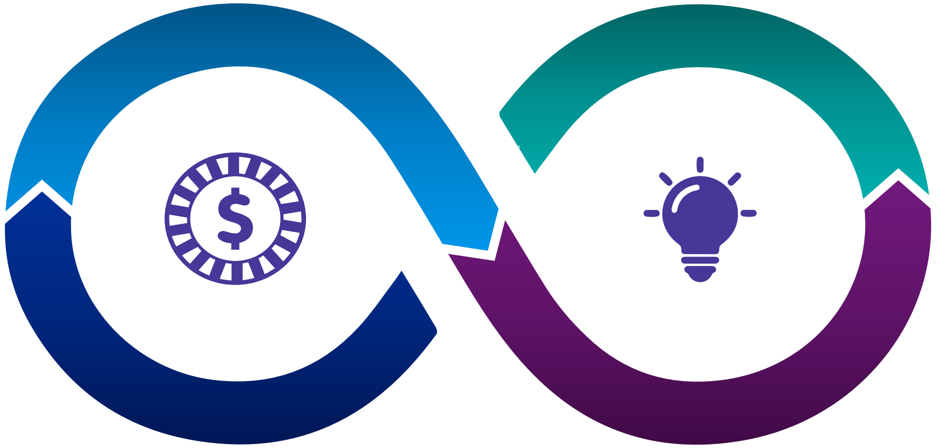
See Appendix: Engagement letter and Appendix 1: Other required communications.

Collective Approach

We are working closely with the Office of the City Auditor to ensure any findings are appropriately considered in our risk assessment and planned audit procedures. We will continue to liaise periodically with the Office of the City Auditor.



Audit plan - 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:

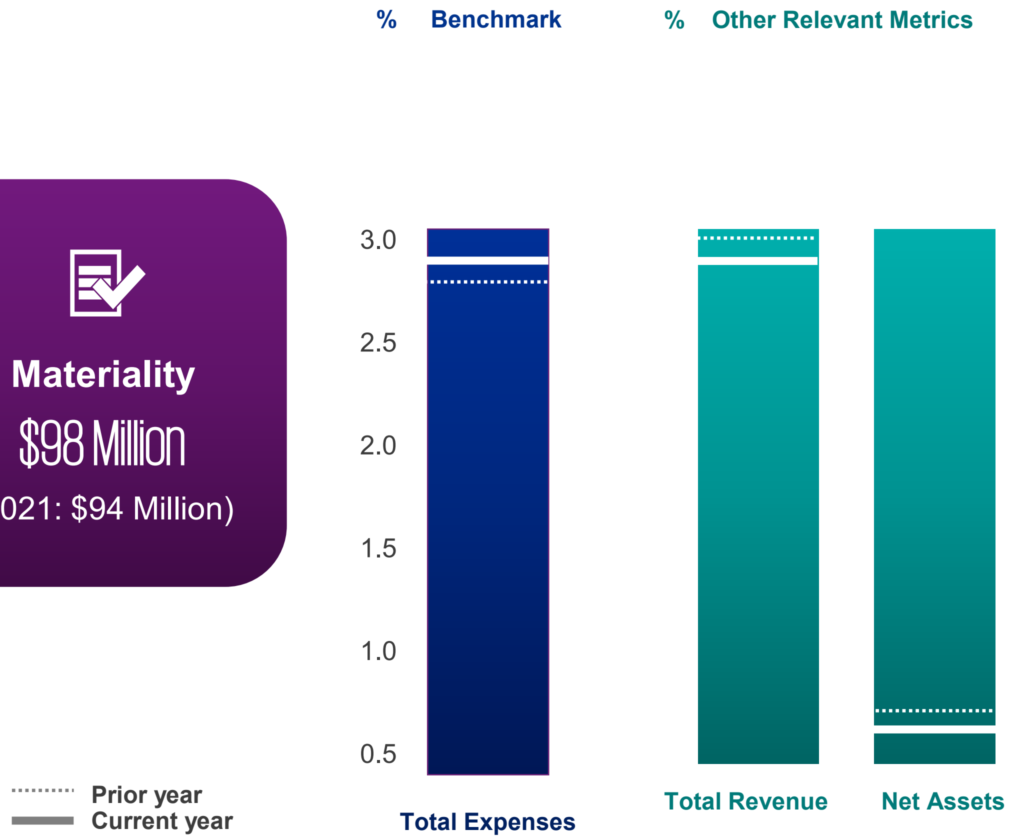
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Audit plan - Materiality

Materiality

$98 Million

(2021: $94 Million)



Total Budgeted Expenses

$3.4 Billion

(2021: $3.3 Billion)

Total Budgeted Revenue

$3.4 Billion

(2021: $3.1 Billion)

Net Assets

$16.6 Billion

(2021: $15.7 Billion)

Audit Risks - Significant risks

Management Override of Controls

RISK OF FRAUD

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

Why is it significant?

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:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

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

Audit Risks - Other areas of focus

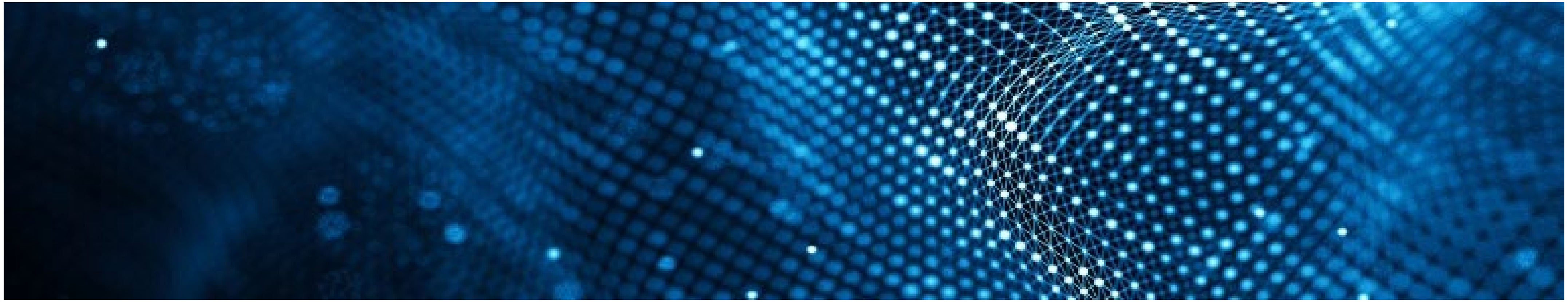
Areas	Why are we focusing here?	Audit approach
Recognition of revenue amounts subject to external restrictions	There is a risk of inappropriate revenue recognition of amounts received with external restrictions attached to them (special taxes and levies, government transfers and other amounts).	• We will test the recognition of amounts subject to external restrictions to ensure they are recognized appropriately. • We will confirm all significant government transfers and other similar inflows received from third parties. • On a sample basis, we will validate that the expenses incurred in the period are in compliance with restrictions imposed by third parties through an inspection of signed agreements and related invoices.
Valuation of investments	There is a risk that investments are not appropriately valued; specifically, impairment of investments is not appropriately assessed, and valuation adjustments are not recorded where appropriate.	• We will verify through confirmation of investment accounts the cost and market value of investments. • We will recalculate investment premiums/discounts for investments recorded at amortized cost. • We will test management's assessment of impairment and consider if any potential impairment of the investments exists.
Completeness and accuracy of contributed tangible capital assets	There is a risk that contributions of tangible capital assets are not appropriately recorded in the consolidated financial statements.	• We will obtain an understanding of the process by which departments capture tangible capital assets which are contributed from developers and other parties and assess the consistency of the process applied across all departments. • We will test a sample of developments which have been contributed to the City during the year to assess whether contributed tangible capital assets have been appropriately recorded. • We will test the value ascribed to assets contributed and donated to the City for reasonableness. • We will also review a sample of developments currently ongoing in the City to ensure that they are appropriately not recorded as contributed during the year.

Audit Risks - Other areas of focus

Areas	Why are we focusing here?	Audit approach
Completeness of transfer of tangible capital assets under construction to available for use	There is a risk that tangible capital assets under construction are not appropriately transferred to tangible capital assets and amortized once available for use.	• We will evaluate the City's capitalization process to ensure appropriate communication is taking place between managers and finance with respect to when a tangible capital asset is available for use. • We will perform a high-level review of projects included in tangible capital assets-under-construction to ensure selected tangible capital assets are appropriately classified and amortized once available for use.
Completeness and accuracy of accounts payable and accrued liabilities	There is a risk that appropriate cut-off of accounts payable and accrued liabilities is not achieved.	• We will use our understanding of the City's operations, our discussions with management and our review of City Council and City Committee minutes to determine if completeness of accruals has been achieved. • Our year-end procedures will include a search for unrecorded liabilities (primarily through review of unprocessed transactions and payments subsequent to year-end) and a detailed analysis of key accruals.
Existence of developer obligation liabilities	There is a risk that developer obligation liabilities are not being appropriately derecognized as a liability upon project initiation.	• We will obtain an understanding of the process of regular review over the developer obligation fund accounts, including management's monitoring of projects that the City has assumed responsibility over. • We will test a sample of developer obligation liabilities and verify the details of the associated project, including status and ownership.

Audit Risks - Other areas of focus

Areas	Why are we focusing here?	Audit approach
Upcoming asset retirement obligation ("ARO') standard	The ARO standard will have a significant impact on the public sector when it comes into effect in fiscal 2023.	• We will review the City's Asset Retirement Obligation accounting policy to ensure alignment with requirements of PS3280. • We will ensure all qualifying ARO transactions are recognized appropriately and the liability is complete. • We will perform a recomputation of expected ARO and accretion expense and compare results to the City's assessment.



Key milestones and deliverables

October – Risk assessment

- Perform preliminary risk assessment activities

Oct - Dec – Risk assessment & planning

- Planning meetings with management
- Presentation of Audit Planning Report to Council – December 6, 2022

November – Interim Work

- Interim fieldwork – November 1 to 30, 2022

Feb - March – Final fieldwork & reporting

- City audit – February 27 to March 31, 2023

March - April – Statutory audit/Other reporting

- Closing meetings with management
- Presentation of Audit Findings Report to Council – TBD

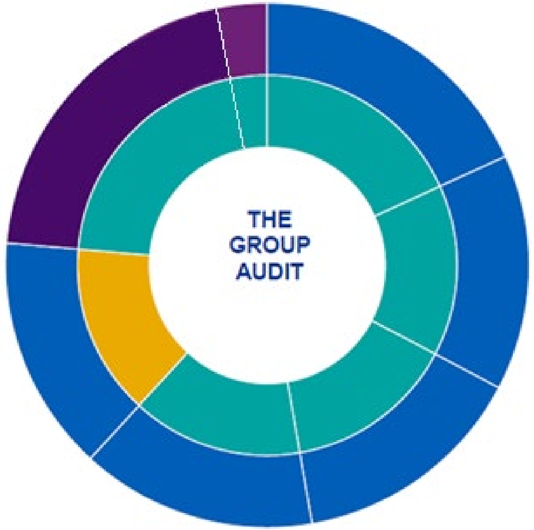
May - June – Debrief

- Debrief discussions

Group audit plan - Scoping

Type of work performed	Components	Legend
Individually financially significant	Transportation Services Police Services Facility Services Corporate Programs EPCOR Utilities	
In-scope not significant	Components with accounts subject to specified procedures[1]	
Not significant - Untested	Not applicable	

Procedures performed by	Legend
Group team – KPMG Edmonton	
Component auditors – KPMG Edmonton	



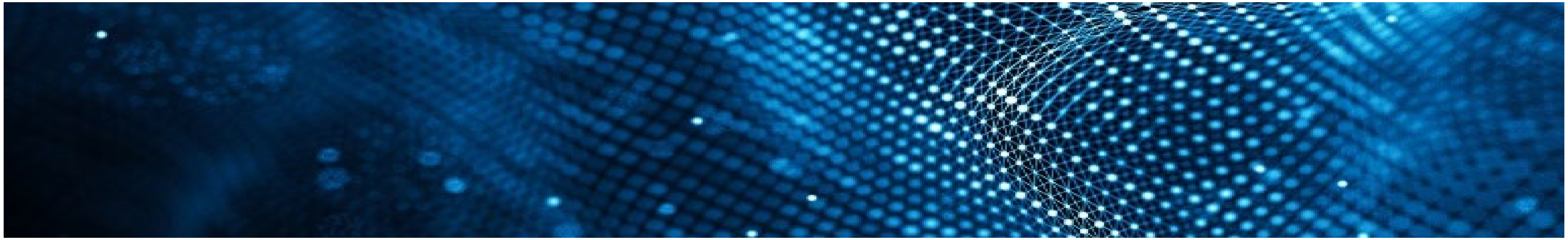
[1] Substantive audit procedures deemed necessary to issue our audit opinion on the consolidated financial statements. Such procedures will be performed over the following financial statement captions:

- Salaries, wages and benefits
- Cash and cash equivalents
- Investments
- Investment earnings
- Land held for resale
- Tangible capital assets
- Accounts payable and accrued liabilities
- Long-term debt

Group audit - Scoping

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality for each individually financially significant component.

Individually financially significant component	Component materiality	Component performance materiality	Component AMPT
Corporate Programs	$75 million	$56 million	$3.7 million
Transportation services	$65 million	$48 million	$3.2 million
EPCOR Utilities	$51 million	$38 million	$2.5 million
Police services	$44 million	$33 million	$2.2 million
Facility Services	$42 million	$31 million	$2.1 million



Audit Quality: How do we deliver audit quality?

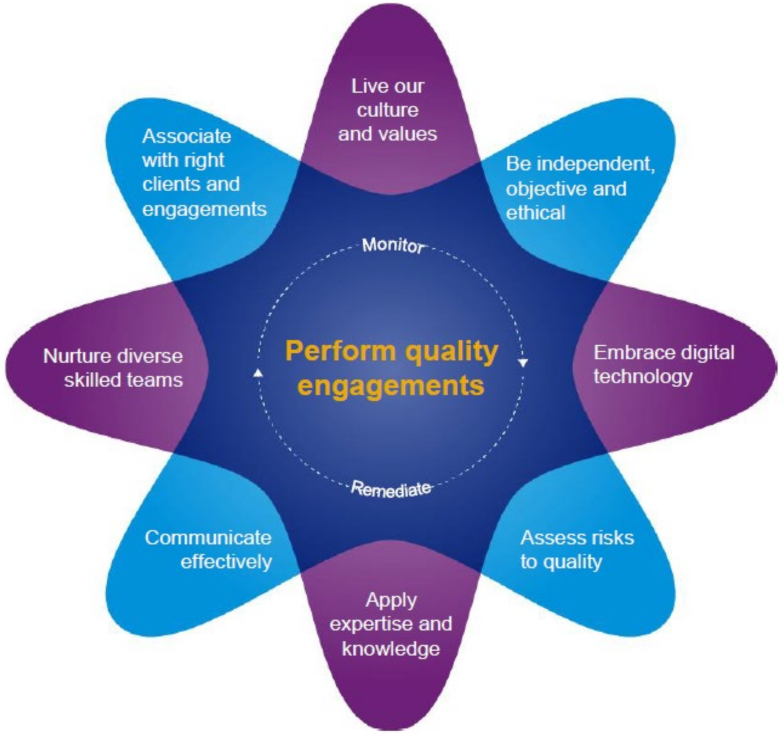
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'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.

Appendices

A1 **Other required communications**

A2 **Newly effective and upcoming changes to accounting standards**

A3 **Asset retirement obligations**

A4 **Audit and assurance insights**

A5 **KPMG Clara**

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: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- The 2022 Annual Inspection Results will be available in March 2023

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.

A **risk of material misstatement** exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

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

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

Key change	Impact on the audit team	Impact on management
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	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.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	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.

Appendix 2: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Modernized to recognize the evolving environment, including in relation to IT	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.	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.
Enhanced requirements relating to exercising professional skepticism	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.	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

Key change	Impact on the audit team	Impact on management
Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control	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	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: Asset retirement obligations

Appendix 3: Asset retirement obligations (continued)

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Appendix 3: Asset retirement obligations (continued)

Municipalities have evolved significantly over the last two decades and this evolution has escalated over the last two years due to the huge push towards digital transformation. Municipalities have come to a refreshed realization about the dynamic change it needs from their citizens resulting in a push towards a citizen-centric approach to defining their goals and objectives.

With all this change, the citizens are looking for new and improved ways to obtain information from the municipalities and public sector entities generally. They are looking for information that is timely, accurate and accessible. For instance, more and more municipalities are moving towards quarterly financial reporting to provide more timely information to stakeholders.

The finance function within municipalities tend to focus a large portion of their resources on their budget-setting process each year, relative to financial reporting. This budget sets out the municipality's operating and capital spending plan for the next year, leading to the determination of the necessary tax levy to support the planned spend. It is necessarily a cash-based document, which leads to difficulty in comparing it to a municipality's financial results, which are prepared on a basis prescribed by the Chartered Professional Accountants Canada. The annual financial statements are presented on an accrual basis in accordance with Public Sector Accounting Standards (PSAS). This disconnect between the cash basis and accrual basis often makes it difficult for 'Those Charged With Governance' (TCWG) to fully understand the actual financial results since relatively more resources are deployed towards the creation of the budget than the presentation of the financial results. While there are quite a few intersections between the budget-based reporting and PSAS reporting, there are many differences that can come in the way of effective municipal financial management and oversight.

Please note that the discussion in this paper is relevant for all public sector entities that report their financial results in accordance with PSAS. While the specific examples in this paper focus on municipalities, the same implications can be applied to other entities with slight modification to incorporate the differences in operations in the various types of public sector entities.

With that in mind, let's talk about a new reporting standard which is required to be implemented by public sector entities for years ending on or after April 1, 2022 and why it is important for TCWG to understand the implications of this new standard. This standard pertains to Asset Retirement Obligations (ARO) and requires public sector entities to set up a liability related to the legal obligation for retiring a tangible capital asset. The assets that fall into this standard are the ones that are controlled by the public sector entity and includes leased assets. This standard has far-reaching impacts for municipalities and requires proper attention from TCWG, in order to exercise appropriate oversight over the financial reporting process. We have highlighted some key items here:

(a) Completeness of liabilities
(b) Legal obligations
(c) Completeness of assets
(d) Technical expertise
(e) Financing repercussions
(f) Environmental Social Governance (ESG) implications

Let's talk about these one by one!

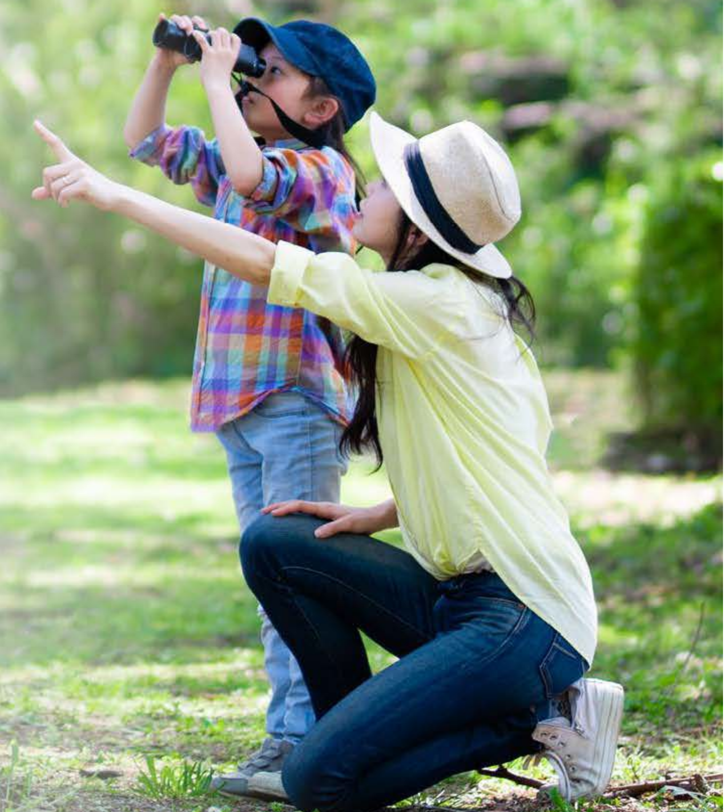
Appendix 3: Asset retirement obligations (continued)

a. Completeness of liabilities

In many cases, the liability associated with AROs has not been recorded within the financial records of the public sector entities which means that these entities are underreporting their obligations. It is possible that certain public sector entities might have some of these obligations included within their legal obligations however it is unclear how these are being tracked and whether the process used to determine the magnitude of these legal obligations is accurate.

Not only is it important to have accurate and complete information for the measurement and recognition of these liabilities for financial reporting purposes, but the same information is also equally important for financial planning and for effective financial management of the municipalities.

One of the tools used by municipalities in order to perform long term financial planning is through reserves and reserve funds to ensure they have sufficient funds set aside for future needs. If a municipality does not have a clear understanding of their ARO liability, it would hinder their ability to assess the adequacy of their reserve funds. Cash flow management would also be impacted due to the potential unplanned outflow in any given year.



Appendix 3: Asset retirement obligations (continued)

b. Legal obligations

Next, let's talk about legal obligations. It is important to understand that the obligation related to the ARO is a legal obligation. However, unlike some of the traditional legal obligations, where there might be uncertainty around the outcome of the legal item, there is no uncertainty related to the existence of the future obligation related to an ARO. This means that the future settlement is guaranteed for an ARO and the uncertainty in this situation is limited to the quantification or the amount of the future settlement.

Not getting a good handle on the ARO liability also increases the risk of negative legal implications for the municipality in the future. As an example, if there is a contaminated site that requires a municipality to perform clean up to ensure the safety of the residents, but this contamination is not rectified in a timely and reasonable manner as required by environmental regulations. This could result in severe legal implications for the municipality due to the hazardous nature of these materials and potential negative health impact on the residents.

The new ARO reporting standard also includes the concept of promissory estoppel as part of the legal liability assessment. For your convenience, we have included the definition of promissory estoppel in the glossary at the end of this document.

The key point that is important to emphasize is that it would be important to engage a legal expert as part of the ARO implementation team as this assessment might be outside the expertise of the core finance team members.

Appendix 3: Asset retirement obligations (continued)

c. Completeness of assets

When Canadian municipalities first began reporting their tangible capital assets as a component of their balance sheets back in 1999, it was apparent that many municipalities did not have good historical data on the assets that they owned at that time and consequently many still do not have a complete listing of owned assets. A comprehensive approach to asset management brings numerous benefits to local and regional governments and assists them in being able to demonstrate that taxpayers get good value from each capital asset they fund, in part or in whole.

This is a contributing factor as to why there are regulatory requirements for good asset management practices. For example, the Federal Gas Tax Agreement requires municipalities to demonstrate a strong asset management system. In absence of a well-thought-out asset management plan, local municipalities could put at risk the operational effectiveness of their assets, public health and safety and overall public confidence in the local government. A solid asset management approach helps to ensure reliability of the services offered by a local government and thus instill more confidence from the public.

Asset management itself is quite a broad topic of discussion for municipalities, perhaps the above description provides an understanding of why there is so much emphasis placed on good asset management. As important as it already was to have a complete listing of tangible capital assets in order to develop a reasonable asset management plan, it has become even more so with the implementation of financial reporting standards for AROs. This due to the fact that AROs are based on identifiable tangible capital assets controlled by the Entity. If the asset listing is not complete or not up to date, any obligations relating to assets not being reported would also not be captured. If items are missed in the scoping and measurement of AROs, this results in a significant risk for the municipalities where the corresponding liabilities will be incomplete. There might be other consequences of missing these liabilities for municipalities depending on the nature and extent of error such as cash-flow management, environmental and social implications.

The ARO standard does not require entities to assess their overall asset management approach for reasonableness. The ARO standard also does not require entities to undertake an asset management exercise to make sure they have a complete inventory of all of their assets. However, it is quite clear that the entities who have an accurate and complete listing of their assets through a well-thought-out asset management plan are the ones who will be in the best position to ensure completeness of their AROs.

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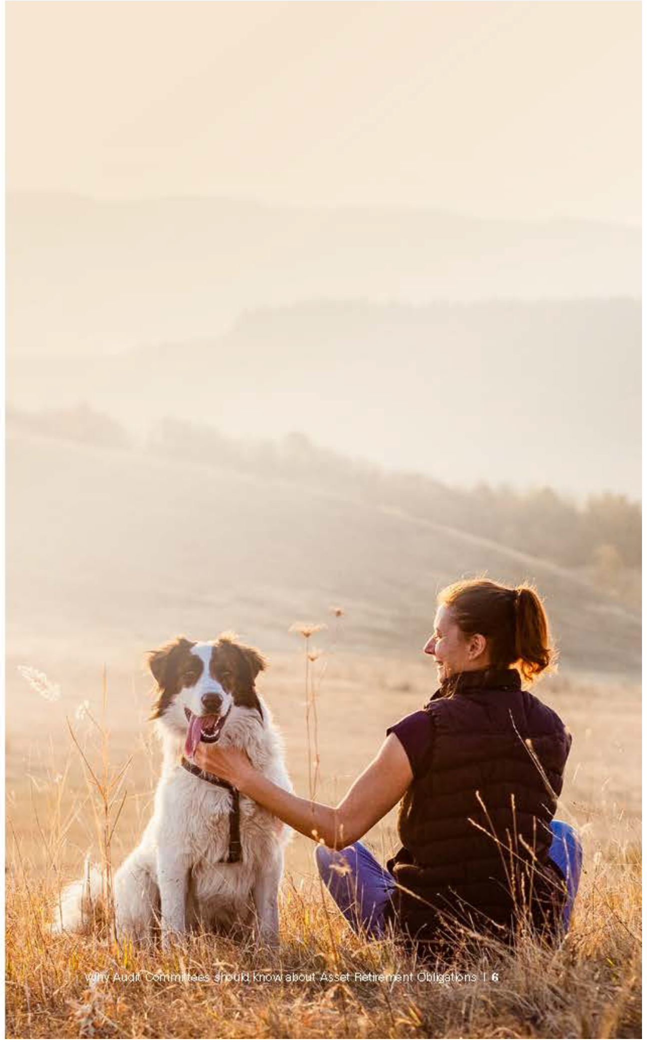

Appendix 3: Asset retirement obligations (continued)

d. Technical expertise

Another matter to consider and assess is the quality of the information that the entity has regarding their assets. How well does the entity understand its assets including the nature and components of its assets? For the finance team to scope and measure the ARO associated with different assets, they would need clear guidance from subject matter experts that understand the technical aspect of this determination.

Finance teams would likely have the requisite expertise relating to the cost and fair value of these assets but may not be as aware of the legal, environmental, and / or other obligations attached to these assets. The knowledge of subject matter experts will be to assist the finance team in this area.

In addition to legal experts, other experts on which the exercise may depend upon include individuals from the operations team, mechanical and engineering teams, etc.

It would be important to have a discussion with the finance team to identify which subject matter experts are considered necessary based on their initial assessment in order to make optimal resource allocations. It would also be important to note that these needs could change as the implementation project matures.

Appendix 3: Asset retirement obligations (continued)

e. Financing repercussions

Even though not directly related to ARO, financing repercussions should also be front of mind with overall asset management, particularly when planning for asset replacement / remediation / maintenance. In different provinces in Canada, there are restrictions on the amount of borrowing for local municipalities. In Ontario, for instance, long-term borrowing is restricted to capital investments and is also subject to a prescribed maximum level based on a preset formula.

Local municipalities use debt to help finance large capital projects. Local municipalities conduct long-term financial planning through the adoption of a multi-year capital plan and a long-term fiscal plan that would typically consider the amount and timing of debt necessary to support the planned expenditures over the term of Council. It also becomes important to understand the useful life of the asset in order to match the cost to the period over which the benefits are received. This provides more affordable financing by matching the repayment term to the economic useful life of the project, instead of funding the entire cost from current revenues.

In recent years, we have noted the trend of the issuance of green bonds, with the province of Ontario reaching a whopping $10.75 billion in green bonds in 2021. Other local municipalities are following suit and this move is expected to continue. It would be important to have a good grasp on the asset management plans before these green bonds are attached to environmentally friendly infrastructure capital projects. Talking about green bonds, let's move into other ESG considerations.

Appendix 3: Asset retirement obligations (continued)

f. ESG Implications

It is quite interesting that the concept of ARO touches all three aspects of the ESG spectrum i.e., environmental, social and governance. Physical contamination caused by hazardous materials such as asbestos or the toxins and leachate from landfills are all contributors towards damaging the environment.

Inappropriate or sub-optimal treatment of these hazardous materials can have significant health detriments which becomes a social responsibility issue whereby the expectation is that public sector entities, especially municipalities would ensure appropriate level of remediation for these hazardous items. The heightened fiduciary responsibility in the public sector environment especially with the elected officials with the municipalities creates a huge need for an appropriate level of governance in place.

The ESG implications for ARO have gained a lot of traction in recent years. These discussions have become more important now as public sector entities work towards the implementation of this new standard. While it is important to embrace ESG into our strategic planning, it will be critical to ensure that this planning is comprehensive and well thought out. As daunting as this task can seem, the key is to have a structured approach to map out what is relevant for the organization and to design a plan to tackle these implications.

In conclusion, while the ARO standard implementation may seem like any other accounting standard implementation, it has far reaching implications from a municipal operational and governance perspective requiring consideration and input from the organization as a whole, not just its finance team. It is therefore critical to take the time to understand these implications and design a plan to address them in a meaningful manner.

We would be more than happy to continue this discussion with you. We are currently running customized sessions for different entities to help them understand these various implications of AROs and how to best address them.

Special thanks to Kevin Travers, Partner KPMG Enterprise and Bailey Church, Partner Accounting Advisory Services for their contributions to this publication.

Appendix 3: Asset retirement obligations (continued)

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Appendix 3: Asset retirement obligations (continued)

Glossary

Public Sector

Public sector refers to governments, government components, government organizations and partnerships. Each of these entities is a "public sector entity". A government component is an integral part of government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued. A government organization is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued. Public sector organizations have a higher accountability to the taxpayer – above and beyond the traditional fiduciary duty.

Promissory estoppel

The elements of a promissory estoppel claim are "(1) a promise clear and unambiguous in its terms; (2) reliance by the party to whom the promise is made; (3) [the] reliance must be both reasonable and foreseeable; and (4) the party asserting the estoppel must be injured by his reliance."

Appendix 4: Audit and assurance insights

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

KPMG Audit & Assurance Insights
Curated research and insights for Audit Committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities.

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

KPMG Learning Academy
Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

Other Insights

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

Momentum
A quarterly newsletter providing curated insights for management, boards and Audit Committees.

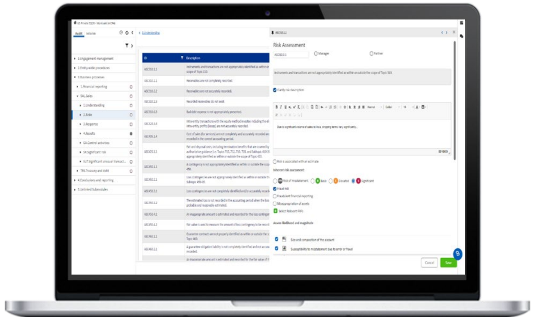
Uncertain Times Financial Reporting Resource Centre
Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

Environmental, social and governance (ESG)
Building a sustainable, resilient and purpose-led organization

Appendix 5: 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.

Learn more

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.

Learn more

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.

Learn more

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