
KPMG

# Central Coast Regional District

Audit Findings Report for the year ended December 31, 2021

KPMG LLP

April 7, 2022

kpmg.ca/audit

# Table of contents



# KPMG contacts

The contacts at KPMG in connection with this report are:


**Micaela Roque**
Engagement Partner
Tel: (250) 614-4070
mroque@kpmg.ca

**Tamara Taylor**
Engagement Manager
Tel: (250) 614-4016
tamarataylor@kpmg.ca


# Our refreshed Values

**What we believe**

## Integrity

We do what is right.

## Excellence

We never stop learning and improving.

## Courage

We think and act boldly.

## Together

We respect each other and draw strength from our differences.

## For Better

We do what matters.

# Executive summary

## Areas of focus for financial reporting

Our audit of the Central Coast Regional District (the "Entity") is risk-focused. In our audit, we have taken into account key areas of focus for financial reporting. These include:

- Revenues and deferred revenue
- Expenses, including payroll
- Tangible capital assets
- Landfill closure and post-closure liability
- Hagensborg Waterworks District transfer

See pages 4 to 6.

## Audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions. Professional standards require that we request of management and the Board that all identified audit misstatements be corrected. We have already made this request of management.

Uncorrected audit misstatements

We identified two misstatements that remain uncorrected.

Corrected audit misstatements

The management representation letter includes all misstatements identified as a result of the audit, communicated to management and subsequently corrected in the consolidated financial statements.

See page 7.

## Materiality

Materiality has been determined based on total revenues. We have determined materiality to be $79,000 (2020 - $70,000).

See page 3.

## Quality control and independence

We are independent with respect to the Entity up to the date of this report and have a robust and consistent system of quality control. We provide complete transparency on all services and follow the Board approved protocols.

See page 9.

## Current developments

Please refer to Appendix 2 for the current development updates.

## Effective communication

We are committed to transparent and thorough reporting of issues to management and the Board of Directors (the "Board"). This is achieved through formal and informal meetings and communications throughout the year. If you have any comments you would like to bring to our attention, please contact Micaela Roque.

See Appendix 1.

# Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

| Materiality determination | Comments | Amount |
|---|---|---|
| **Materiality** | Established by considering various metrics that are relevant to the users of the financial statements and 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.<br>The corresponding amount for the prior year's audit was $70,000. | $79,000 |
| **Benchmark** | Based on December 31, 2021 revenue normalized for one-time funding as an expectation.<br>This benchmark is consistent with the prior year.<br>The corresponding amount for the prior year's audit was $2,383,000 based on prior year extrapolated expenses. | $2,726,000 |
| **% of Benchmark** | The prescribed range is between 0.5% and 3.0% of the benchmark.<br>The corresponding percentage for the prior year's audit was 3%. | 3% |
| **Audit misstatement posting threshold** | Threshold used to accumulate misstatements identified during the audit.<br>The corresponding amount for the prior year's audit was $3,500. | $3,900 |

**We will report to the Board:**

- Corrected audit misstatements
- Uncorrected audit misstatements

# Areas of focus for financial reporting

| Areas of focus | Why are we focusing here? | Our audit approach |
|---|---|---|
| **Revenue and deferred revenue** | Risk of error relating to completeness, existence and accuracy of revenue and deferred contributions. | - Obtained an understanding of the process activities and controls over revenue.<br>- Obtained agreements and agreed to cash received sample grant funding and reviewed any significant reconciling items between grant agreements and grants recorded.<br>- Performed test of details on contributions received as well as amounts spent to assess that revenues were appropriately recognized, and contributions were appropriately deferred.<br>- Performed substantive analytical procedures over taxation revenues and taking into consideration the approved bylaws and budget.<br>- Selected a sample of individual cash receipts and obtained documentation supporting classification, amount, and date of receipt.<br>- KPMG identified an audit misstatement in revenue. Emergency Initiatives Funding was adjusted to increase revenue and expenses for funds received and spent in the fiscal year. |
| **Expenses, including payroll** | Risk of error relating to completeness, existence, and accuracy of expenses, including payroll. | - Obtained an understanding of the process activities and controls over expenses, including payroll.<br>- Analyzed the change in payroll expenses relative to the prior year based on changes in head count and pay rates.<br>- Performed a search for unrecorded liabilities to ensure expenses were recorded in the appropriate fiscal year.<br>- Reviewed and perform substantive testing over significant balances taking into consideration the approved budget.<br>- Reviewed and discussed with management significant contracts entered into to ensure they had been appropriately recorded and disclosed in the consolidated financial statements.<br>- There were no additional issues noted in addition to the misstatement identified in revenue and the corresponding expenses above. |

# Areas of focus for financial reporting (continued)

| Areas of focus | Why are we focusing here? | Our audit approach |
|---|---|---|
| **Tangible capital assets** | Risk of error relating to existence, accuracy and valuation of tangible capital assets. | - Obtained an understanding of the process activities and controls over recording recognizing tangible capital assets.<br>- Selected significant tangible capital assets additions during the year, agreed to supporting documentation and reviewed the supporting contribution agreements, if any. Selected significant disposals of tangible capital assets and ensure they were recorded appropriately.<br>- Performed substantive analytical procedures over amortization of tangible capital assets taking into consideration budgeted and planned capital projects.<br>- Reviewed the reasonableness of amortization recognized to ensure the amortization is being recorded on the same basis as the Entity's policies.<br>- KPMG identified an audit misstatement in the area of tangible capital assets. The transfer of tangible capital assets from Hagensborg Waterworks District were not disclosed appropriately as a net addition. |
| **Landfill closure and post-closure liability** | Risk of error relating to completeness, accuracy and valuation of landfill closure and post-closure liability. | - We obtained the landfill closure and post closure liability summary and obtained an understanding on the assumptions and data used by management and recalculated the liability.<br>- The estimates used were obtained through the Morrison Hershfield engineer's report.<br>- We reviewed the process performed by management regarding the use of the engineer's report, along with reviewing and testing the inputs into the present value calculation to determine the liability for the landfill closure as at December 31, 2021.<br>- We concur with management's position that the estimates are reasonable for the purpose of the annual consolidated financial statements.<br>- The Liability is recorded and disclosed appropriately in accordance with PSAS - PS 3270 - Solid Waste Landfill Closure & Post Closure Liability.<br>- There were no issues noted in our testing. |

# Areas of focus for financial reporting (continued)

| Areas of focus | Why are we focusing here? | Our audit approach |
|---|---|---|
| **Hagensborg Waterworks District transfer** | Risk of error relating to completeness, accuracy and valuation of Hagensborg Waterworks District transfer. | - Effective January 1, 2021, pursuant to the orders of the Province of British Columbia, the rights, property, assets and obligations of the Hagensborg Waterworks District ("HWD") were transferred and assumed by the District.<br>- We reviewed the process performed by management regarding the transfer of assets and obligations, along with testing the transferred values.<br>- The transfer is recorded in accordance with PSAS – PS 3430 – Restructuring Transactions and resulted in a net impact to revenue of $1,980,371.<br>- KPMG identified an audit misstatement relating to the transfer as disclosed in the tangible capital assets section above. |

# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as "corrected adjustments" or "uncorrected differences". These include disclosure adjustments and differences.

| Difference | Comments | Amount |
|---|---|---|
| Uncorrected - Debt reserve fund | KPMG noted that the debt reserve fund liability does not meet the criteria of a liability according to the Canadian public sector accounting standards therefore liabilities are overstated and accumulated surplus understated. Management has not corrected the difference as they need to understand the adjustment required which is not material to the consolidated financial statements and we concur with management's representation. The difference has no effect on our auditors' report. | $10,277 |
| Uncorrected – General capital and water capital funds | KPMG noted that the capital fund balances do not agree to actual and therefore a reclassification is required to ensure it is correct. Management has not corrected the difference as they need to understand the adjustment required which is not material to the consolidated financial statements and we concur with management's representation. The difference has no effect on our auditors' report. | $156,846 |
| Corrected - Emergency Initiatives Funding | KPMG noted that funding received from Emergency Management Initiatives was recorded against the total expenses resulting in revenue and expenses being understated for these funded projects. | $28,332 |
| Corrected – Hagensborg capital assets | While reviewing that transfer of Hagensborg Waterworks District it was noted that the capital assets were presented in the general ledger at the original cost and accumulated amortization rather than the net impact as an addition to tangible capital assets. | $623,525 |
| Corrected - Accrued interest | KPMG noted a classification error relating to accrued interest on term deposits, the accrued interest was adjusted from cash to accounts receivable. | $19,096 |

# Audit risks

| Significant risk - professional requirements | 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. |

## Our audit approach

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.

## Inquiries required by professional standards

Professional standards require that we obtain your view on the risk of fraud. We make similar inquiries to management as part of our planning process:

- Are you aware of, or have you identified any instances of actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the Entity?
- How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the Entity and internal controls that management has established to mitigate these fraud risks?
- Has the Entity entered into any significant unusual transactions?

# Audit quality: How do we deliver audit quality?

Transparency report

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

**'Perform quality engagements'** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.


We define '**audit quality**' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity.**

**Doing the right thing. Always.**

# Appendices



# Appendix 1: Required communications

| Auditors' report | Engagement letter |
| --- | --- |
| A copy of our draft auditors' report setting out the conclusion of our audit has been provided and is attached to the draft consolidated financial statements. | 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 as provided to management. |
| **Audit findings report** | **Management representation letter** |
| Represented by this report. | We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter will be provided to the Board. |

# Appendix 2: Current developments and insights

## Public Sector Accounting Standards

| Standard | Summary and implications |
|---|---|
| Asset Retirement Obligations | – The new standard is effective for fiscal years beginning on or after April 1, 2022.<br>– The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.<br>– The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life.<br>– As a result of the new standard, the public sector entity will have to:<br>• Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>• Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;<br>• Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. |
| Revenue | – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.<br>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.<br>– 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.<br>– The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |

# Appendix 2: Current developments and insights (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
|---|---|
| Employee Future Benefit Obligations | – PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits.* In July 2020, PSAB approved a revised project plan.<br>– PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.<br>– Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.<br>– PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. |
| Public Private Partnerships ("P3") | – 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 has an effective date of April 1, 2023, and may be applied retroactively or prospectively.<br>– 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.<br>– 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.<br>– The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. |

# Appendix 2: Current developments and insights (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
|---|---|
| Concepts Underlying Financial Performance | – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.<br>– PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received.<br>– PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.<br>– In addition, PSAB is proposing:<br>• Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.<br>• Separating liabilities into financial liabilities and non-financial liabilities.<br>• Restructuring the statement of financial position to present non-financial assets before liabilities. Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).<br>• Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called "accumulated other".<br>• A new provision whereby an entity can use an amended budget in certain circumstances.<br>• Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position. |

# Appendix 2: Current developments and insights (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
|---|---|
| Purchased Intangibles | – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.<br>– PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized.<br>– The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective. |
| 2022 – 2027 Strategic Plan | – PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021.<br>– The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities<br>– The Strategic Plan emphasizes four key priorities:<br>– Develop relevant and high-quality accounting standards<br>– Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project.<br>– Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting.<br>– Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB.<br>– Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector. |

# Appendix 2: Current developments and insights (continued)

## Thought leadership

| Thought leadership | Overview | Link |
|---|---|---|
| **2020 Audit Quality and Transparency Report** | Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do? | Link to report |
| **KPMG 2021 CEO Outlook** | This year we surveyed over 1,300 CEOs globally and the results are pointing to an optimistic outlook amongst Canadian CEOs. Some of the key themes coming out of the survey include expectations for aggressive growth through expansion, investment in both people and technology as well as a focus on delivering on environmental, social and governance ("ESG") and sustainability commitments. | Link to portal |
| **2021 CEO Pulse Survey** | Building on our findings from the CEO Outlook report, this year's survey remains aligned with these three key themes: growth in a digitally accelerated economy, digital workforces, and leading with purpose. The findings have revealed while there has been a shift in priorities in some areas, other areas have remained unchanged. | Link to portal |
| **Implications of coronavirus (COVID-19)** | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat. | Learn more |
| | KPMG Global IFRS Institute - COVID-19 financial reporting resource center | Learn more |
| **Put your data to work to gain competitive advantage** | There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever-increasing pace. | Link to report |
| **Board Leadership Centre** | KPMG in Canada Board Leadership Centre engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting and more. | Learn more |

# Appendix 2: Current developments and insights (continued)

## Thought leadership (continued)

| Resources | Summary | Links |
|---|---|---|
| **Accelerate** | Our Accelerate series offer insight into the key issues driving the Audit Committee agenda in a number of key areas in risk management: cyber risk; internal control of financial reporting, disclosure and regulation; digital disruption and the future of the finance function; enterprise risk management; and the evolution of environmental, social and governance issues. | Link to series |
| **Return to the workplace** | As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.<br>We have put together a Return to the Workplace guide to support an organization's planning efforts in preparing to return to physical workplace. Our guide includes a list of considerations, stages and factors that can help establish a robust action plan for your organization to safely return to work. The guide is supported by a dynamic playbook, which our team has developed to outline a comprehensive list of actions an organization can take, based on their unique situation and immediate needs. | Website link<br>Link to guide |
| **Audit and Assurance Insights** | KPMG provides curated research and insights on audit and assurance matters for audit committees and boards. | Link to portal |
| **KPMG Climate Change Financial Reporting Resource Centre** | KPMG's climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business. | Link to portal |
| **You Can't Go Green Without Blue – The Blue Economy is Critical to All Companies' ESG Ambitions** | In this report, KPMG considers how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy. | Link to portal |

# Appendix 3: PS 3280 Asset Retirement Obligations

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the fiscal years beginning on or after April 1, 2022. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

### Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

### Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

### Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

### Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government to determine the impact of PS 3280 on current requirements.

### Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

# Appendix 3: PS 3280 Asset Retirement Obligations (continued)

**Implementation Project:** The following checklist is intended to provide you with reminders for key activities in each phase of your PS 3280 implementation project. The items noted are not a complete list of factors influencing the successful adoption of PS 3280, nor is it intended to provide any type of assurance.

**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.
- ☐ Funding is available for PS 3280 implementation costs.
- ☐ Recurring project updates are provided to the Audit Committee or other governance body to engage them in the implementation process.

**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 4: Lean in Audit™

## An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit™, further improves audit value and productivity to help deliver real insight to you. Lean in Audit™ is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide real insight on your processes and actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both our audit team and management. For example, the audit team may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

## How it works

Lean in Audit™ employs four key Lean techniques:

### 1. Lean training

Provide basic Lean training and equip our audit teams with a new Lean mindset to improve quality, value and productivity.

### 2. Process mapping workshop

Perform an interactive workshop with your team to map selected financial process providing end-to-end transparency and understanding of the process.

### 3. Insight reporting

Quick and pragmatic insight report including PACE matrix with prioritized opportunities to realize benefit.

### 4. Kaizen event

Perform an interactive workshop to find the root cause of the problem and empower your team to find a solution.

42

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KPMG