Near North District School Board
963 Airport Road, Box 3110
North Bay, ON P1B 8H1

Agenda
Audit Committee Meeting
PUBLIC SESSION
November 20, 2017– 5:00 – 7:00 p.m.

North Bay Board Room, 963 Airport Road, North Bay, ON
Parry Sound Board Room, 111 Isabella Street, Parry Sound, ON

1.0 Opening - Public Session – 5:00 p.m.

1.1 Welcome and Call to Order
1.2 Adoption of the Agenda for Public Session
THAT the Audit Committee approve the Public Meeting agenda as presented for the Audit Committee Meeting of November 20, 2017
1.3 Declaration of Conflict of Interest
1.4 Adoption of the Previous Minutes of Proceedings of Public Session (*Enclosure)*
THAT the Audit Committee approve the Audit Committee minutes as presented for the Public Session held on October 16, 2017

2.0 Standing Item

2.1 Not scheduled for this meeting

3.0 Items for Information, Discussion and/or Action

3.1 External Member Position Update – *Jim Beatty, Chair (verbal)*
3.2 External Auditors Report and Draft Audited Financial Statements Presentation for the Year ended August 31, 2017 – *Dean Decaire and Liz Chirico, BDO Dunwoody and Liz Therrien, Superintendent of Business (Enclosure)*
3.3 Recommendation
THAT the Audit Committee recommend to the Board of Trustees to approve the draft audited financial statements for the year ended August 31, 2017 as presented/amended at the Audit Committee meeting of November 20, 2017
3.4 Charity Audit Report (draft) – *Information purposes only, Liz Therrien, Superintendent of Business (Enclosure)*
3.5 "Preventing fraud in public sector entities" from Royal Bank – *Information purposes only, Wende Proulx, Manager of Finance (Enclosure)*

4.0 Adjournment

4.1 Motion to Adjourn
THAT the Audit Committee Meeting of November 20, 2017 adjourn at ____p.m.

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705.472.8170, Fax: 705.472.9927
Website: www.nearnorthschools.ca

Audit Committee Meeting – Public Session
October 16, 2017 – 5:00 p.m.
Head Office of the Near North District School Board
963 Airport Road, North Bay, ON

Committee Members Present
James Beatty, Committee Chair (Videoconference)
Michelina Beam, Trustee
Gary Jodouin, External Member
Judy Kleinhuis, External Member
David Thompson, Trustee

Staff Present
Liz Therrien, Superintendent of Business
Marjorie Campbell, Executive Assistant
Wende Proulx, Manager of Finance
Jackie Young, Director of Education

Guests
Elizabeth Chirico, BDO
Dean Decaire, BDO

1.0 Opening – Public Session

1.1 Welcome and Call to Order

Committee Chair Jim Beatty called the meeting to order at 5:03 p.m.

1.2 Adoption of the Agenda

Moved by Michelina Beam seconded by Gary Jodouin that the agenda for Audit Committee Public session be approved as presented.

CARRIED

1.3 Declaration of Conflict of Interest

No conflict of interest declared.

1.4 Adoption of the Previous Minutes of Public Session

Moved by Michelina Beam seconded by Gary Jodouin that the Committee approve the Audit Committee minutes as presented for the Public Session held on June 19, 2017.

CARRIED

2.0 ITEMS FOR DISCUSSION AND/OR ACTION

2.1 BDO Presentation on the Year End Audit Plan for the period ending August 31, 2017

- Elizabeth Chirico provided an overview of the plan circulated to members last week. She noted that page seven provides an overview of the risk based approach to auditing. Dean Decaire, BDO explained that with an organization of this size the preliminary materiality amount is set at $2,800,000. He advised that it will be updated if the Board's preliminary results change, the materiality figure is used for decision making and it drives the work they do when testing, to determine a sample size. Elizabeth Chirico noted that the number is the same or very close to last year.

- During the school visits, the external auditors will look at controls and processes around school generated funds. They will visit three elementary and three secondary schools and selection is rotational each year. Chair Beatty asked if the team would go back to see if a school had implemented the changes, Liz Chirico indicated that yes, they would.

- Brief discussion with the committee regarding fraud, it was noted that this committee has oversight over the risk of fraud with respect to information used in financial reporting. To the knowledge of the audit committee there have been no instances or indications of fraud.

- Liz Therrien, Superintendent of Business noted that the Board had engaged a new actuary, that being SBCI – School Board Cooperative Insurance.

- The BDO audit team will be in next Monday, October 23, 2017 to start the field audit. The audit must be completed before November 15, 2017 EFIS deadline. The next Audit Committee meeting will be scheduled for the last week of November, with the Audit Committee's recommendation regarding the audited financial statements going to the Board of Trustees at the December board meeting.

- Chair Jim Beatty asked about the audit work completed in August. Dean Decaire explained that in August, the BDO audit team came in for two or three days. The audit team completed testing of internal controls, substantive work on expenses, reviewed meeting minutes, and had preliminary discussions with Wende Proulx, Manager of Finance.

- External member Gary Jodouin asked about the announced school closures, particularly in regards to the effects it would have on the valuation of the school assets and whether it could now become an issue.

  Liz Therrien, Superintendent of Business stated that we currently have four surplus schools. We have obtained evaluations of those properties. In accordance with O. Reg. 444/98, three of these properties have been offered to the preferred agencies. Having received no written expressions of interest, the Board was granted permission from the Ministry of Education to proceed to open market. She spoke briefly about the Ministry of Infrastructures Community Hubs Initiative. This is a two stage process, the Ministry of Infrastructure reviews and decides if an agency's proposal should proceed, then they ask the school board if they wish to participate. The sale of the school can be placed on hold for up to 18 months, to allow the agency time to secure funds to purchase the intended school.

  Wende Proulx, Manager of Finance explained the difference between tangible assets and assets held for sale. The properties are still tangible assets. Prior to transferring buildings from the tangible asset class to assets held for sale, we need to ensure the building will be sold within 12 months. The transfer or loss on sale does not affect the bottom line due to the corresponding unamortized building cost sitting in deferred capital contributions.

- External member Judy Kleinhuis questioned if the increased use of KEV and the cash on line system, changes the audit. Elizabeth Chirico indicated that it would change the auditors expectations around internal controls, particularly when it comes to the handling of cash. The auditors will still review six schools and their transition to the new system.

Trustee David Thompson questioned the process that would be followed if a parent refuses to use the cash online system. Liz Therrien, Superintendent of Business explained that there is a strong push to migrate to cash on line as it eliminates cash in schools. We have high intake numbers in elementary schools, students that will move on to high schools. Those families are already familiar with using the system. Wende Proulx, Manager of Finance spoke to the security of the cash on line system and that the system does not store personal information. Wende Proulx indicated follow up work with the Principals and schools to help them better understand and utilize the system is required.

- Elizabeth and Dean Decaire concluded their presentation and reminded everyone that the fieldwork starts next week. There will be a focus on accounts payable, and year end "cut off", Dean Decaire noted that the end of the year "cut off" for accruing payables has historically been good at the Board and that tangible assets are properly matched with the deferred revenue. This year will be different with the provincial impact on the creation of another trust, a health care trust. He noted the auditors are also responsible for searching that all litigations are properly disclosed, and will go through the legal files and the public/private board meeting minutes from September. This has not been a significant area over the past few years. He advised staff that if they are aware of any significant contingencies, that this is the time to bring them up.

- Dean Decaire, BDO mentioned that just as last year with the significant changes related to technology, software developments, tech companies and data analytics, they have benchmarked our board against seven other boards. Always looking to be more inventive and looking for irregularities, comparing similar boards.

- Chair Beatty thanked Dean Decaire and Elizabeth Chirico from BDO for their presentation.

3.0 PRIVATE SESSION

Moved by Michelina Beam seconded by David Thompson that the Audit Committee move into Private Session at 5:55 p.m.

CARRIED

4.0 RATIFICATION OF BUSINESS TRANSACTED IN PRIVATE SESSION

None

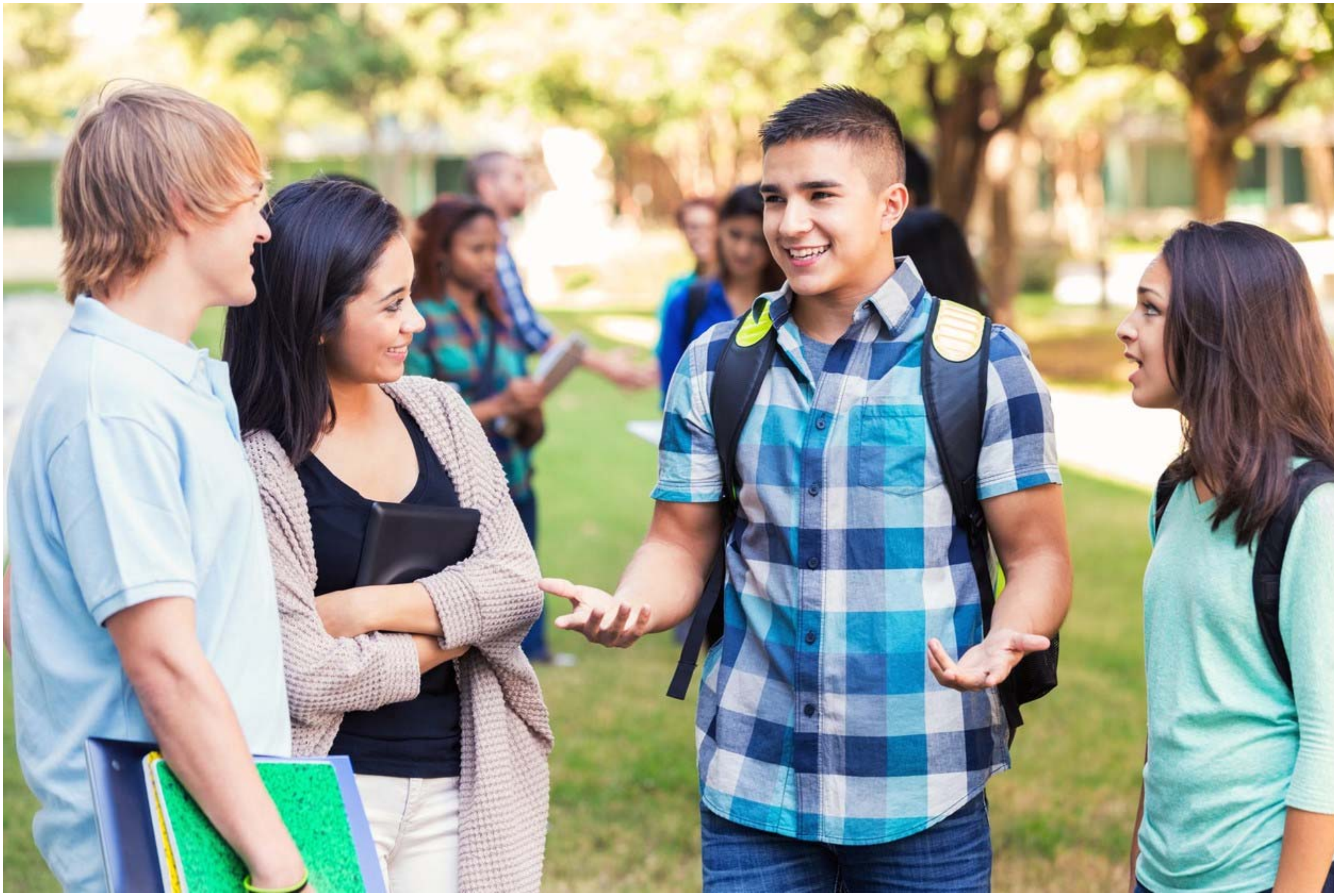
5.0 ADJOURNMENT

M*oved by David Thompson seconded by Michelina Beam that the Audit Committee Meeting of October 16, 2017 adjourn at 6:57 p.m.*

CARRIED

Jim Beatty
Committee Chair

Jackie Young
Director of Education



Near North District School Board

Final Report to the Audit Committee

November 20, 2017

Tel: 705 495 2000
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BDO Canada LLP
101 McIntyre Street W
Suite 301
North Bay ON, P1B 2Y5

November 20, 2017

Members of the Audit Committee
Near North District School Board

Dear Audit Committee Members:

We are pleased to present the results of our audit of the financial statements of Near North District School Board (the "Board") for the year ended August 31, 2017. The purpose of our report is to summarize certain aspects of the audits that we believe to be of interest to the Audit Committee and should be read in conjunction with the draft financial statements.

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Audit Committee in fulfilling its responsibilities.

This report has been prepared solely for the use of the Audit Committee and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

We wish to express our appreciation for the co-operation we received during the audit from the Board's management and staff who have assisted us in carrying out our work. We look forward to meeting with you to discuss the contents of this report and any other matters that you consider appropriate.

Yours truly,

Dean Decaire, CPA, CA
Partner
BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants

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STATUS OF THE AUDIT

As of the date of this final report, we have substantially completed our audit of the 2017 financial statements pending the completion of the items highlighted below. These items will need to be completed prior to issuance of our audit report on the financial statements.

COMPLETION OF AUDIT

- Receipt of signed Management representation letter
- Receipt of outstanding legal confirmations
- Subsequent events review through to financial statement approval date

FINANCIAL STATEMENTS

- Approval of financial statements by the Board of Trustees

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the financial statements are free from material misstatement. Except as described in this report, the scope of the work performed was substantially the same as that described in our Planning Report to the Audit Committee dated October 16, 2017.

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INDEPENDENCE

At the core of the provision of external audit services is the concept of independence. Canadian generally accepted auditing standards require us to communicate to the Audit Committee at least annually, all relationships between BDO Canada LLP and its related entities and Near North District School Board and its related entities, that, in our professional judgment, may reasonably be thought to bear on our independence with respect to the audit of the Board.

Our annual letter confirming our independence was previously provided to you on October 16, 2017. We are not aware of any circumstances that would cause us to amend the previously provided letter.

MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As communicated to you in our Planning Report to the Audit Committee, preliminary materiality was $2,800,000. Final materiality was increased to $2,900,000 due to actual results.

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AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Board's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

ACCOUNTING AND AUDIT MATTERS

Revenue Recognition
• Inherent fraud risk related to revenue recognition which could lead to a material misstatement of the financial statements. • May be incorrectly deferred into future periods in order to reduce surplus or reduce deficiency.
• All grant revenue confirmed to funding agreements, which ensured that the amounts recorded exist, are complete and are recorded accurately. • Performed student enrollment testing to ensure reports prepared agree to grant submissions for funding.
• All audit testing in this area was executed as planned and no errors were noted.

Management Override of Controls
• Management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
• Identified and selected journal entries and other adjustments for testing. • Performed a retrospective review of significant accounting estimates. • Identified significant unusual transactions that are outside the normal course of operations. • Reviewed payments made to management.
• All audit testing in this area was executed as planned and no errors were noted.

Deferred Capital Contributions

- Risk that calculations for adjustments required to record deferred amounts may not be accurate and correctly present the information.

- Reviewed government capital grant transfers and local taxation amounts that have been deferred as capital contributions for appropriate treatment under accounting policy.

- All audit testing in this area was executed as planned and no errors were noted.

School Generated Funds

- Risk associated with misdirection of school generated funds.
- Risk associated with lack of controls and absence of "best practices" around accounting and accountability.

- Reviewed school generated funds by school on sample basis.
- Reviewed accounting practices and control procedures at schools tested.

- All audit testing in this area was executed as planned with some management letter points noted.

Post-Retirement Benefits

- Risk that assumptions and input data used by actuary is incorrect resulting in a possible material misstatement to the liability recorded.

- Obtained actuarial valuation from the Board's actuary and assess the reasonableness of assumptions used to prepare the valuation based on our knowledge of the Board and similar entities.
- Tested for completeness and accuracy of the data provided to the actuary.
- Reviewed the benefits plan.

- All audit testing in this area was executed as planned and no errors were noted.

ADJUSTED AND UNADJUSTED DIFFERENCES

We have disclosed all significant adjusted and unadjusted differences and disclosure omissions identified through the course of our audit engagement. Each of these items has been discussed with Management.

Management has determined that the unadjusted differences are immaterial both individually and in aggregate to the financial statements taken as a whole. Should the Audit Committee agree with this assessment, we do not propose further adjustments.

For purposes of our discussion, a summary of adjusted and unadjusted differences and disclosure omissions has been presented in Appendix A.

MANAGEMENT REPRESENTATIONS

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

A summary of the representation we have requested from management is set out in the management representation letter included in Appendix B to the report.

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FRAUD DISCUSSION

Canadian generally accepted auditing standards require us to discuss fraud risk with the Audit Committee on an annual basis. As an update to the discussion held with the Audit Committee during the planning of our audit, we have prepared the following comments:

Required Discussion	BDO Response	Question to Audit Committee
Details of existing oversight processes with regards to fraud.	Based on our discussions during the planning of our audit, the Audit Committee's oversight processes include: • Audit Committee charters; • Discussions at audit committee meetings; • Review of related party transactions; and • Consideration of tone at the top.	Are there any new processes or changes in existing processes relating to fraud since the date of our previous discussions, that we should be aware of?
Knowledge of actual, suspected or alleged fraud.	Currently, we are not aware of any actual, suspected or alleged fraud.	Are you aware of any instances of actual, suspected or alleged fraud affecting the Board?

AUDITORS' RESPONSIBILITIES FOR DETECTING FRAUD

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

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

The scope of the work performed was substantially the same as that described in our Planning Report to the Audit Committee dated October 16, 2017.

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INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the Board's internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks with management.

The results of these procedures were considered in determining, the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the Board's financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

OTHER REQUIRED COMMUNICATIONS

Professional standards require independent auditors to communicate with those charged with governance certain matters in relation to an audit. In addition to the points communicated within this letter, the table below summarizes these additional required communications.

Communication Required	Auditors' Response
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Legal letters sent to relevant law firms; discussion with management and review of legal expenses.
The final draft of the representation letter.	Attached

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BDO RESOURCES

BDO is one of Canada's largest accounting services firms providing assurance and accounting, taxation, financial advisory, risk advisory, financial recovery and consulting services to a variety of publicly traded, privately held companies, not for profits and public sector organizations.

BDO serves its clients through 105 offices across Canada. As a member firm of BDO International Limited, BDO serves its multinational clients through a global network of over 1,100 offices in more than 100 countries. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources and services which may be of interest to the Audit Committee.

OTHER BDO SERVICES

Solutions	BDO Solutions provides NPO's with the accounting software management tools needed to run a better operation. Our expert team understands the complex reporting requirements NPO's must adhere to, as well as the limited resources they have to address these needs. Spend more time serving your constituents, better manage budgets, allocate time and resources more effectively and improve your ability to focus on the work that really matters to your Board. For more information, please visit the following link: http://www.bdosolutions.com/ca/
Risk Advisory	As Canada's leading financial advisory firm, BDO helps organizations and their management teams effectively assess, develop and manage strategic initiatives. Visit the following link to find out more: http://www.bdo.ca/en/Services/Advisory/Financial-Advisory/pages/default.aspx

Indirect Tax	BDO's Indirect Tax team advises clients on the measures needed to navigate complexities, identify tax efficiencies, and drive value. We review returns to find errors and recover overpaid taxes, manage the government audit process, advise on cash flow improvement, identify tax or duty recovery opportunities, and more. Our professionals draw on deep experience helping companies with unique needs, such as entrepreneurial businesses, as well as those companies facing especially complex sales tax issues including not-for-profits, municipalities, charities, hospitals, real estate companies, and healthcare organizations. Our partner-led service teams and industry knowledge allow us to identify and resolve issues quickly and efficiently. Our services include: • Compliance Obligations • Conflict Resolution • Planning Opportunities • Technical Interpretations/ Ruling Requests • Recovery and Compliance Reviews • Indirect Tax Recovery Reviews https://www.bdo.ca/en-ca/services/tax/commodity-tax-services/overview/

PUBLICATIONS

ASSURANCE AND ACCOUNTING: PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2017 (Attached)

APPENDIX A
Adjusted and Unadjusted Differences

SUMMARY OF UNADJUSTED DIFFERENCES

The following is a summary of uncorrected misstatements noted during the course of our audit engagement:

	Increase (Decrease)			
	Assets	Liabilities	Equity	Net Income
None	$	$	$	$
Total				
Tax Effect				
Effect of Prior Year's Reversing Errors				
Total Unadjusted Differences	**$**	**$**	**$**	**$**

SUMMARY OF ADJUSTED DIFFERENCES

The following is a summary of differences that were corrected by management during the course of our audit engagement:

	Increase (Decrease)			
	Assets	Liabilities	Equity	Net Income
None	$	$	$	$
Total Corrected Differences	**$**	**$**	**$**	**$**

SUMMARY OF DISCLOSURE OMISSIONS

The following is a summary of disclosures that have not been made within the financial statements:

Disclosure Omission	Management's Response
None	N/A

APPENDIX B
Representation Letter

Near North District School Board
963 Airport Road
P.O. Box 3110
North Bay Ontario P1B 8H1

November 28, 2017

BDO Canada LLP
Chartered Professional Accountants
101 McIntyre Street West, Suite 301
North Bay, Ontario
P1B 2Y5

This representation letter is provided in connection with your audit of the financial statements of Near North District School Board for the year ended August 31, 2017, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated July 31, 2017, for the preparation of the financial statements in accordance with the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements; in particular, the financial statements are fairly presented in accordance therewith.

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements.
- All events subsequent to the date of the financial statements and for which the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements require adjustment or disclosure have been adjusted or disclosed.
- The financial statements of the entity use appropriate accounting policies that have been properly disclosed and consistently applied.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

Information Provided

- We have provided you with:
    - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from us for the purpose of the audit; and
    - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Fraud and Error

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

Existence, Completeness and Valuation of Specific Financial Statement Balances

- There are no pledges or assignments of assets as security for liabilities except as disclosed in the financial statements.
- All financial instruments have been appropriately recognized and measured in accordance with the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements.
- Significant assumptions used in arriving at the fair value of financial instruments are reasonable and appropriate in the circumstances.
- Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
- The employee future benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with the financial reporting provision described in the summary of significant accounting policies attached to the consolidated financial statements. The source data and plan provisions provided are complete and accurate. The plans included in the valuation are complete. The determination of the discount rate and the use of specific actuarial assumptions are our best estimate assumptions. We feel that the extrapolations are accurate and have properly reflected the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.
- There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the entity, except as disclosed in the financial statements.
- We confirm that there are no derivatives or off-balance sheet financial instruments held at year end that have not been properly recorded or disclosed in the financial statements.

General Representations

- The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- We have disclosed to you all significant customers and/or suppliers of the entity who individually represent a significant volume of business with the entity. We are of the opinion that the volume of business (sales, services, purchases, borrowing and lending) done by the entity with any one party is not of sufficient magnitude that discontinuance would have a material negative effect on the ongoing operations of the entity.
- There have been no plans or intentions that may materially affect the carrying value or

classification of assets and liabilities.

- No significant matters, other than those disclosed in the financial statements, have arisen that would require a restatement of the comparative financial statements

Other Representations Where the Situation Exists

- We have informed you of all known actual or possible litigation and claims, whether or not they have been discussed with legal counsel. Since there are no actual, outstanding or possible litigation and claims, no disclosure is required in the financial statements.

Yours truly,

Signature	Position
Signature	Position

ASSURANCE AND ACCOUNTING

PUBLIC SECTOR ACCOUNTING STANDARDS (PSAS) UPDATE 2017

Introduction

2017 was a busy year for the Public Sector Accounting Board (PSAB or the "Board"). Five new CPA Canada Public Sector Accounting Handbook (PSA Handbook) Sections became effective as did the amendments to the Introduction to Public Sector Accounting Standards. Additionally, the Board and its task forces advanced the progress of existing projects including issuing two Exposure Drafts, a Statement of Principles and an Invitation to Comment. This publication will provide an overview of these projects as well as a review of the standards that are effective for public sector entities this year and those that will become effective over the next few years.

Standards Effective January 1, 2017

Amendments to the Introduction

The Board amended the *Introduction to Public Sector Accounting Standards* to clarify the applicability of the PSA Handbook for various public sector entities.

Main Amendments

The main amendments to this Section are:

- The introduction of the term "public sector entity", which is defined as a government, government component, government organization or government partnership.
- The introduction of the term "government component", which is defined as an integral part of a 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.
- The definition of a government organization has been amended to state that it 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.
- Definitions for each type of government organization and government partnership are now included in this Section. Previously these definitions were scattered throughout various Sections of the PSA Handbook.
- The definition of each type of government organization has been amended to clarify that they are separate legal entities that have the power to contract in their own name and that can sue and be sued.
- The definition of a government partnership has also been amended to clarify that it is not a government organization.
- Guidance has been added to explain what GAAP is to be followed by government components and government partnerships as this guidance was not previously provided in the PSA Handbook:
  - Government components follow the guidance for governments in the PSA Handbook.
  - Government partnerships between two or more public sector entities normally follow the standards for governments in the PSA Handbook. However, when these standards do not meet the needs of the users of their financial statements, the government partnership considers following International Financial Reporting Standards (IFRS) in Part I of the CPA Canada Handbook.
  - Government business partnerships between two or more public sector entities follow IFRS.
  - Government partnerships or government business partnerships with one or more private sector partners follow the GAAP that their partners determine is most appropriate for the partnership.

Transition

Since the amendments to this Section introduced a definition of government components as well as guidance on what GAAP government partnerships and government business partnerships should be following, this may result in some government components, government partnerships and government business partnerships needing to adopt a different GAAP from what they are currently following. As a result, specific guidance on effective dates and transition has been provided:

- Government components and government partnerships that adopt the PSA Handbook should do so for fiscal periods beginning on or after January 1, 2017. The adoption of these standards should be accounted for by retroactive application with restatement of prior periods in accordance with Section PS 2125, *First-time Adoption*.
- Government partnerships and government business partnerships that determine standards applicable to publicly accountable enterprises (i.e. IFRS) are most appropriate for their partnership should do so for fiscal periods beginning on or after January 1, 2017.

Standards Effective April 1, 2017

Related Party Disclosures

Project Background

The Board issued new Sections PS 2200, *Related Party Disclosures*, and PS 3420, *Inter-entity Transactions*, in 2015. Prior the issuance of these two Sections the PSA Handbook did not include a standard dealing with related party transactions. The reason two standards were developed instead of only one is because related party transactions can occur with individuals and entities both inside and outside of a government's reporting entity. However, the Board believes that generally issues of recognition and measurement would not arise for related party transactions that are not part of the same government reporting entity. These types of related party transactions would be recognized at the exchange amount according to their substance and the individual accounting standards applied for reporting purposes. Disclosures about these related party transactions would be sufficient for users to understand the effect of those transactions on an entity's financial position and changes in financial position. So these types of transactions would be within the scope of Section PS 2200 and disclosed in accordance with that Section, but would not be in the scope of new Section PS 3420, which provides recognition and measurement guidance for related party transactions that occur between entities within the government's reporting entity (i.e. inter-entity transactions).

Definitions

Section PS 2200 defines a related party and a related party transaction as follows:

> **Related party** - A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.
>
> **Related party transaction** - A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

When is Disclosure Required?

The standard does not require disclosure of key management personnel compensation arrangements, expense allowances or other similar payments routinely paid in exchange for services rendered. Additionally the standard does not require disclosure of all related party transactions. Instead, disclosure is generally only required when:

- A transaction occurs between related parties at a value different from that which would have been arrived at if the parties were unrelated; and
- Transactions and events between related parties have or could have a material financial effect on the financial statements.

Determining which items to disclose is based on an assessment of the terms and conditions underlying the transactions, the financial materiality of the transactions, relevance of the information to the decisions of users, and the need for the information to enable users' understanding of the financial statements and for making comparisons to other entities. When it is determined that information about related party transactions needs to be disclosed in the financial statements, the disclosure would include the following, aggregating items that are similar in nature:

- Information about the nature of the relationship with related parties involved in related party transactions;

- The types of related party transactions that have been recognized;
- The amounts of the transactions recognized classified by financial statement category;
- The basis of measurement used;
- The amount of outstanding balances and the terms and conditions attached to them;
- Contractual obligations with related parties, separate from other contractual obligations;
- Contingent liabilities involving related parties, separate from other contingent liabilities; and
- The types of related party transactions that have occurred for which no amount has been recognized.

Transition

Section PS 2200 is effective for fiscal years beginning on or after April 1, 2017 and must be applied prospectively. Additionally, the Board has withdrawn Section PS 4260, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*, which was previously applied by government not-for-profit organizations following the PSA Handbook with the PS 4200 Series of standards. As a result, these government not-for-profit organizations will now look to Section PS 2200 for guidance on defining and disclosing related party transactions.

Inter-entity Transactions

As previously mentioned, related Section PS 3420 provides guidance on how to account for and report transactions between public sector entities that comprise a government's reporting entity (i.e. inter-entity transactions) from the perspective of both the provider and the recipient.

Recognition & Measurement

Under this Section, for a transfer of assets or liabilities, the provider removes the assets or liabilities from its financial statements and any difference between the net proceeds received and the carrying amounts transferred is accounted for as a revenue or expense in the statement of operations. The recipient then recognizes the assets or liabilities in its financial statements when the items satisfy the definition and recognition criteria for an asset and liability in Section PS 1000, *Financial Statement Concepts*.

When there is a policy of cost allocation and recovery for the provision of goods and services, the provider recognizes all revenues and expenses on a gross basis and the recipient recognizes expenses on a gross basis.

When there is no policy for allocating costs, the recipient may choose to recognize these costs when they would otherwise have been purchased and a reasonable estimate of the amount involved can be made. In this case, the recipient recognizes these items as revenues and expenses.

Under Section PS 3420 transactions are measured at the carrying amount by the recipient, other than in the following situations:

SITUATION	THEN MEASURED AT
Transactions are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length	Exchange amount
Assets or liabilities are transferred for nominal or no consideration	Carrying amount or fair value
Transactions are allocated costs and recoveries	Exchange amount
Transactions are unallocated costs	The carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice

Disclosure

Inter-entity transactions are disclosed in accordance with the requirements of Section PS 2200.

Transition

Section PS 3420 is effective for fiscal years beginning on or after April 1, 2017. If application of Section PS 3420 results in a change of accounting policy Section PS 2120, *Accounting Changes*, applies. Per paragraph PS 2120.13, when a change in an accounting policy is made to conform to a new Public Sector Accounting Standard the new standard may be applied retroactively or prospectively. As noted above, the Board has withdrawn Section PS 4260, *Disclosure of Related Party Transactions by Not-for-Profit Organizations*. As a result, government not-for-profit organizations will look to Section PS 3420 for guidance on recognizing and measuring inter-entity transactions.

Assets

Additional Guidance

Section PS 3210, *Assets*, was issued during 2015 and provides additional guidance on the definition of assets. Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

This new Section provides additional guidance on what is meant by economic resources, control, past transactions or events, and future economic benefits. This guidance will be helpful in determining whether an item meets the definition of an asset. It may also result in public sector entities reassessing whether items meet the definition of an asset upon adoption of this Section.

Section PS 3210 requires public sector entities to disclose in their financial statements major categories of assets that are not recognized in their financial statements (i.e. intangibles, crown lands, heritage assets, etc.).

Transition

This Section is effective for fiscal years beginning on or after April 1, 2017. Since the standard is silent on transition, if a change in accounting policy results from application of the new Section, paragraph PS 2120.13 applies which allows the Section to be applied retroactively or prospectively.

Contingent Assets

Definition and Disclosure

During 2015, Section PS 3320, *Contingent Assets*, was issued in the PSA Handbook. Prior to this the PSA Handbook included a definition of contingent liabilities, but did not include a definition of contingent assets. This new Section defines contingent assets as:

> Possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

Section PS 3320 requires disclosure of contingent assets in the financial statements when the occurrence of a confirming future event is likely.

This new Section may result in public sector entities performing a reassessment of items that meet the definition of a contingent asset and additional information being disclosed upon adoption of this Section.

Transition

Section PS 3320 is effective for fiscal years beginning on or after April 1, 2017 and since it is a disclosure standard the impact will be the same if applied retroactively or prospectively.

Contractual Rights

Definition and Disclosure

Before Section 3380, *Contractual Rights*, was issued in 2015 the PSA Handbook included a definition of contractual obligations, but did not define contractual rights. This new Section provides a definition of contractual rights as:

> Rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

This Section also requires that information about a public sector entity's contractual rights be disclosed in the financial statements. This disclosure would include a description about the nature, extent and timing of the contractual rights. Since an entity may have many contractual rights, professional judgment will be required in determining what to disclose. Factors to consider include, but are not limited to:

- Contractual rights to revenue that is abnormal in relation to the financial position or usual business operations of the entity; and
- Contractual rights that will govern the level of a certain type of revenue for a considerable period into the future.

Transition

This Section is effective for fiscal years beginning on or after April 1, 2017 and since it is a disclosure standard the impact will be same if applied retroactively or prospectively.

Standards Effective April 1, 2018

Restructurings

Section PS 3430, *Restructuring Transactions*, was also issued in 2015. This new Section provides guidance on accounting for restructuring transactions. Previously, no such guidance existed in the PSA Handbook. As public sector entities are entering into these types of transactions more often, guidance was needed to ensure these transactions are accounted for on a consistent basis.

What are Restructuring Transactions?

Restructuring activities include, but are not limited to:

- Amalgamations of entities or operations within the government reporting entity;
- The amalgamation of local governments;
- Annexation or boundary alteration between neighbouring local governments;
- Transfers of operations or programs from one entity to another; and
- Shared service arrangements entered into by local governments in a region.

Section PS 3430 defines a restructuring transaction as a transfer of an integrated set of assets and / or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred.

Key Characteristics

The key characteristics of restructuring transactions are:

- Their non-purchase nature;
- Transfers of an integrated set of assets and/or liabilities that are not random or unrelated; and
- Transfers of program or operating responsibilities related to the assets and liabilities transferred.

The key distinction between a restructuring transaction and an acquisition is that a restructuring transaction's non-purchase nature is reflected by the absence of consideration that is primarily based on the fair value of the individual assets and liabilities transferred.

Recognition and Measurement

Under Section PS 3430 the individual assets and liabilities transferred in a restructuring transaction would be derecognized by the transferor and recognized by the recipient at their carrying amounts with applicable adjustments. The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction would be recognized as revenue or as an expense. In addition:

- Any costs incurred related to the restructuring would be expensed when incurred;
- The accounting policies and circumstances of the recipient at the restructuring date would determine the initial classification of the individual assets and liabilities received in the restructuring transaction;
- The net effect of a restructuring transaction is presented as a separate revenue or expense item in the statement of operations;
- Financial position and results of operations prior to the restructuring date would not be restated; and
- A transferor and a recipient need to disclose sufficient information to enable financial statement users to assess the nature and financial effects of a restructuring transaction on their financial position and operations. Disclosure of information about the transferred assets, liabilities and related operations prior to restructuring date is encouraged but not required.

Transition

This Section only applies to new restructuring transactions that occur in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.

Standards Effective April 1, 2019

Financial Instruments, Foreign Currency, Financial Statement Presentation and Portfolio Investments

During 2015, the Board delayed the effective date for Sections PS 3450, *Financial Instruments,* and PS 2601, *Foreign Currency Translation*. These Sections are now applicable for fiscal years beginning on or after April 1, 2019, for public sector entities that did not previously apply the CPA Canada Handbook – Accounting prior to adopting the PSA Handbook. Therefore, public sector entities that meet this criteria, such as governments, will apply these Sections for the first time to their March 31, 2020 year ends (for governments with calendar year ends, December 31, 2020 will be the first year end affected). At the same time public sector entities adopt these two Sections, they must also adopt Section PS 1201, *Financial Statement Presentation*, Section PS 3041, *Portfolio Investments*, and the effective interest method outlined in paragraph .25 of Section PS 3050, *Loans Receivable*. For more details on these standards please refer to our publication "A Guide to Accounting for Financial Instruments in the Public Sector".

Part of the delay of the effective date for these standards was due to concerns raised by the senior levels of government regarding the guidance in the financial instruments standards not meeting their needs for hedge accounting. Over the past year, PSAB has carried out consultations with governments and not-for-profits to understand how financial instruments are being used. They have identified certain timing issues in PS 3450 that may impact a government's surplus or deficit in a manner that does not represent the underlying hedging transaction. In August 2017, the Board issued an update on this project stating that they have been following the work of the International Public Sector Accounting Standards Board (IPSASB), which has developed a new financial instruments model that includes a hedging option and was designed for the public sector. PSAB believes that this standards would resolve the hedge accounting issues identified in Canada and they are currently considering the use of this standard.

Projects on the Go

The Board currently has a number of projects in progress which propose future changes to the PSA Handbook. The following provides a brief discussion of these projects.

Exposure Draft – Revenue

Currently, the PSA Handbook does not include a standard on overall revenue recognition. The PSA Handbook only contains guidance on specific transactions, such as taxation, government transfers, etc. As a result, many public sector entities need to consult other sources of GAAP when accounting for types of revenues for which the PSA Handbook does not provide specific guidance. The Board believes guidance in this area is needed as there is diversity in practice. In May 2017, the Board issued an Exposure Draft proposing a new standard, Section PS 3400, *Revenue*. This proposed standard would provide guidance on two main categories of revenue:

- Exchange transactions; and
- Unilateral (non-exchange) transactions.

Exchange Transactions

The proposed standard defines exchange transactions as transactions where goods or services are provided for consideration. These transactions create performance obligations for a public sector entity. A performance obligation is defined as an enforceable promise to provide goods or services to a payor.

Revenue from an exchange transaction would be recognized as the public sector entity satisfies the performance obligation. A performance obligation may be satisfied at a point in time or over a period of time. An exchange transaction would be evaluated to identify goods and services that are distinct and would be accounted for as a separate performance obligation. An example of an exchange transaction is a user fee charged by a municipality for providing water services.

Unilateral Transactions

The other category of revenue is unilateral (non-exchange) transactions. According to the proposed definition, unilateral revenues increase the economic resources of a public sector entity without a direct transfer of goods or services to a payor. The right to the economic resources is attributable to legislation grounded on a constitutional authority or delegated constitutional authority and an event entitling the public sector entity to recognize revenue.

Unilateral revenues are unique to the public sector as the authority to enact legislation is unique to governments. Unilateral revenues do not necessarily entitle the payor to a specific public service or benefit. Instead, the public sector entity's right to the revenue results from its constitutional powers that allow it to impose the unilateral revenue. Unilateral revenues do not contain performance obligations. A public sector entity would recognize unilateral revenues when it has authority to claim or retain an inflow of economic resources and there is a past event that gives rise to a claim of economic resources. A fine imposed by a municipality is an example of unilateral revenue.

Proposed Effective Date and Transition

The proposed Section would apply to fiscal years beginning on or after April 1, 2021, with earlier adoption permitted. The Section would be accounted for as a change in accounting policy applied retroactively with restatement of prior periods.

The Board is currently deliberating the responses received from the Exposure Draft and will then determine its next steps.

Exposure Draft – Asset Retirement Obligations

The PSA Handbook does not include a standard on asset retirement obligations, and as a result there are currently inconsistencies in how public sector entities account for such obligations. In March of 2017, the Board issued an Exposure Draft proposing a new Section on asset retirement obligations associated with tangible capital assets controlled by a public sector entity.

Recognition and Measurement

Under the proposed standard, an asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset controlled by a public sector entity. Asset retirement obligations associated with tangible capital assets include post-retirement operation, maintenance and monitoring costs. A liability for an asset retirement obligation would be recognized when all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

Recognition of asset retirement costs would be accomplished by increasing the carrying amount of the related tangible capital asset, or a component thereof, and then expensing this amount in a rational and systematic manner. A present value technique may be the best method of estimating the liability. Depending on the nature of a re-measurement and whether the asset remains in productive use, subsequent re-measurement of the liability could result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense. Asset retirement costs associated with an asset that is not recognized on the public sector entity's financial statements and those associated with an asset no longer in productive use would be expensed immediately.

Landfills

The Exposure Draft also proposes to include landfill related asset retirement obligations within the scope of this new standard so that all asset retirement obligations are accounted for consistently within the public sector. Under the proposals, existing Section PS 3270, *Solid Waste Landfill Closure and Post-closure Liability*, would be withdrawn and this would result in asset retirement obligations associated with landfills being recognized earlier than they are under the current guidance. Asset retirement obligations associated with controlled tangible capital assets that are no longer in productive use would also fall within the scope of this proposed new standard.

Amendments to Section PS 3260

Changes would be made to Section PS 3260, *Liability for Contaminated Sites*, to clarify what would fall within the scope of that standard vs. the scope of the proposed new asset retirement obligation standard. Additionally, under the proposed new standard any expected recoveries associated with the asset retirement obligation would not be netted against the liability. Currently Section PS 3260 allows recoveries to be needed against the liability. Under the proposals, PS 3260 would be amended to no longer allow netting, which would ensure these two standards are consistent.

Proposed Effective Date and Transition

The proposed Section would apply to fiscal years beginning on or after April 1, 2021, with earlier adoption permitted. Transitional provisions have been proposed to help simplify adoption.

The Board is currently deliberating the responses received from the Exposure Draft and will then determine next steps.

Invitation to Comment – Employment Benefits

A project on employee benefits was identified as a top priority in PSAB's 2014 Project Priority Survey. The project will review existing Sections PS 3250, *Retirement Benefits*, and PS 3255, *Post-employment Benefits*, *Compensated Absences and Termination Benefits*. Since these Sections were originally issued many years ago, new types of pension plans have been introduced and there have been changes in the related accounting concepts. The first part of this project will involve looking at issues such as deferral of experience gains and losses and discount rates. The second part will address accounting for shared risk plans, multi-employer defined benefit plans, vested sick leave benefits and other improvements. The Board plans to issue a new comprehensive Handbook Section on employment benefits that will replace the two existing Sections.

In February 2017, the Board issued an Invitation to Comment on the deferral provisions in Sections PS 3250 and PS 3255. The purpose was to explain why the Board is considering whether the deferral provisions in the standards are still appropriate, to identify potential alternatives and related considerations and to seek stakeholder input prior to the Board establishing its preliminary views on the issue. A separate Invitation to Comment on discount rates is expected to be issued in the fourth quarter of 2017. The Board is currently deliberating comments received on the first Invitation to Comment and is also looking at ways to streamline the process of this project.

Statement of Principles – Public Private Partnerships

Another issue that was identified as a priority in PSAB's 2014 Project Priority Survey was public private partnerships. These types of arrangements are becoming more common across Canada as government entities look for new ways to finance capital projects and authoritative guidance on how to account for them is needed. As a result, the Board approved a project on this topic with the goal of developing a new Standard. During July 2017, the Board issued a Statement of Principles on this topic. The proposals explain that public private partnerships that would be within the scope of the proposed new standard include infrastructure that is procured by a public sector entity using a private sector partner whose obligations include:

- A requirement to build;
- Acquire;
- Improve or refurbish;
- Finance; and
- Maintain and / or operate the infrastructure.

Infrastructure Asset

The public sector entity would recognize the infrastructure as an asset on its financial statements when it controls the infrastructure. The criteria for control would be met when the public sector entity controls:

- The purpose and use of the infrastructure;
- Access to the infrastructure and the price, if any, that the private sector entity can charge to provide an associated service; and
- Any significant residual interest in the infrastructure at the end of the public private partnership's term.

Liability

The public sector entity would recognize a liability when the public private partnership gives rise to an obligation where the public sector entity is required to sacrifices future economic benefits. The infrastructure asset and the associated liability would be measured initially at cost. The infrastructure asset would then be expensed in a rational and systematic manner over the period the economic benefit is generated. Where there is financial consideration, the liability would be reduced as the consideration is paid to the private sector partner. For non-financial consideration where the private sector partner is granted the right to earn revenue, the liability would be reduced and revenue would be recorded by the public sector partner in a rational and systematic manner as the related performance obligation is satisfied.

The board will be seeking comments on this Statement of Principles until October 17, 2017 and after that will review the feedback received and determine next steps.

Public Sector Accounting Discussion Group

The Public Sector Accounting Discussion Group (PSADG) is a regular public forum at which issues arising on the application of the PSA Handbook can be discussed. The group meets two times a year and consists of members that include preparers, auditors and users of government and government organization financial reports. The group's purpose is to assist the Board regarding issues arising on the application of the PSA Handbook and to gather information to advise the Board on priorities and possible agenda items for its consideration. Recently, the group's mandate was updated to allow it to also discuss emerging issues and other public sector financial reporting issues. While the group does not issue any authoritative guidance or interpretations, as only the Board has the ability to do so, the group's meeting summaries provide meaningful insights on the application of the standards that can be used as a resource. These meeting summaries are available on the FRAS Canada website or by clicking here. During the group's November 2016 and March 2017 meetings, the following topics were discussed:

- **Whether an Investment Holding Company can be a Government Business Enterprise** - Discussion on the nature of an investment holding company in the public sector, which may hold investments in government business enterprises, government business partnerships or portfolio investments, and whether the investment holding company can meet the definition of a government business enterprise;
- **Scope of the Public Sector** - Discussion on how to apply the *Introduction to Public Sector Accounting Standards* in determining the standards to be applied by a not-for-profit organization that is a subsidiary of a government controlled not-for-profit organizations;
- **Recognition Prohibitions and Urban Forests** - Discussion on whether urban forests can be recognized as assets in public sector financial statements;
- **Recognition Prohibitions and Early Intervention Investments** - Discussion on whether early intervention investments can be recognized as assets in public sector financial statements;
- **Shared Control** - Discussion on the application of guidance for determining shared control in relation to government partnerships;
- **Trusts and Holding Companies – Economic Substance** - Discussion of the economic substance of trusts and holding companies for the purposes of applying Section PS 1300, *Government Reporting Entity*, which builds on the previous discussion of whether an investment holding company can be a Government Business Enterprise;
- **Foreign Currency Debt – Rates and Hedges** - Discussion of selected issues relating to foreign currency denominated debt for government departments and organizations; and
- **Authority to Pay and Transfer Receivables** - Discussion on whether the timing of recognition of a transfer receivable must always consider if the transferor's authority to pay is in place.

We would encourage public sector entities to keep up to date on topics discussed at these meetings.

Conclusion

As we head closer to the end of the year, now is the time to discuss with your BDO advisor how the changes made to the PSA Handbook and the proposed changes affect your organization.

Near North District School Board
Charity Works
Financial Statements
For the year ended August 31, 2017

Near North District School Board Charity Works
Financial Statements
For the year ended August 31, 2017

Contents

Independent Auditor's Report

To the Directors of the Near North District School Board Charity Works

We have audited the statement of financial position of the Near North District School Board Charity Works as at August 31, 2017, and the statements of operations and changes in net assets and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for government not-for profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization. We were unable to determine whether any adjustments might be necessary to donations and fundraising revenue, excess of revenues over expenses and cash flow from operations, fund balances and net assets for the years ended August 31, 2017 and August 31, 2016, current assets and net assets as at August 31, 2017 and August 31, 2016. Our audit opinion of the financial statements for the year ended August 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Near North District School Board Charity Works as at August 31, 2017, and the results of its operations and its cash flows for the year ended August 31, 2017 in accordance with Canadian public sector accounting standards for government not-for profit organizations.

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
November XX, 2017

Near North District School Board Charity Works
Statement of Financial Position

August 31	2017	2016
Assets		
Current		
Cash and cash equivalents	**$ 53,027**	$ 55,959
Investments (Note 2)	**25,619**	25,619
	78,646	81,578
Restricted		
Cash and cash equivalents	**142,174**	151,872
Interest receivable	**4,176**	6,769
Investments (Note 2)	**635,502**	635,502
	781,852	794,143
	$ 860,498	$ 875,721
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 4,492**	$ 3,994
Net Assets		
Unrestricted - general fund (Schedule 1)	**74,154**	77,584
Externally restricted (Note 4) (Schedule 2)	**781,852**	794,143
	856,006	871,727
	$ 860,498	$ 875,721

On behalf of the Board:

_______________________ Director

_______________________ Director

The accompanying notes are an integral part of these financial statements.

Near North District School Board Charity Works
Statement of Operations and Changes in Net Assets

For the year ended August 31		2017		2016
Revenues				
Donations	**$**	**54,918**	$	112,125
Investment		**15,643**		18,141
		70,561		130,266
Expenses				
Bursaries, scholarships, programs and activities (Note 3)		**81,787**		233,363
General expenses		**4,495**		4,950
		86,282		238,313
Deficiency of revenues over expenses for the year	**$**	**(15,721)**	$	(108,047)
Net assets, beginning of year	**$**	**871,727**	$	979,774
Deficiency of revenues over expenses for the year		**(15,721)**		(108,047)
Net assets, end of year	**$**	**856,006**	$	871,727

The accompanying notes are an integral part of these financial statements.

Near North District School Board Charity Works
Statement of Cash Flows

For the year ended August 31		2017		2016
Cash provided by (used in)				
Operating activities				
Deficiency of revenues over expenses for the year	**$**	**(15,721)**	$	(108,047)
Changes in non-cash working capital balances				
Interest receivable		**2,593**		1,595
Accounts payable and accrued liabilities		**498**		994
Decrease in cash and cash equivalents during the year		**(12,630)**		(105,458)
Cash and cash equivalents, beginning of year		**207,831**		313,289
Cash and cash equivalents, end of year	**$**	**195,201**	$	207,831
Represented by				
Unrestricted cash and cash equivalents	**$**	**53,027**	$	55,959
Restricted cash and cash equivalents		**142,174**		151,872
	$	**195,201**	$	207,831

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature and Purpose of Organization

The Near North District School Board Charity Works is a registered charity. The primary goal of the organization is to provide students with bursaries at graduation and to support other school activities within the Near North District School Board region.

Income Taxes

The charity is exempt from income taxes under the Canadian Income Tax Act. The charity may issue tax receipts to donors in the amount of property received.

Basis of Accounting

The financial statements have been prepared using Canadian Public sector accounting standards for government not-for profit organizations.

Fund Accounting

The charity follows the restricted fund method of accounting for contributions.

The General Fund accounts for the charity's administrative activities. This fund reports unrestricted resources.

The Restricted Fund represents externally restricted resources that are to be used for the bursaries, scholarships and other school programs and activities within the Near North District School Board.

Endowment contributions are reported in the restricted fund.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and balances with banks (restricted and unrestricted).

1. Summary of Significant Accounting Policies (continued)

Financial Instruments

Financial Instruments are recorded at fair value at initial recognition.

In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income

Revenue Recognition

Restricted donations are recognized as revenue of the appropriate fund in the year received.

Unrestricted donations are recognized as revenue of the general fund in the year received.

Contributions for endowment are recognized as revenue of the restricted fund.

Investment income earned on endowment fund resources that must be spent on restricted purposes or activities is recognized as revenue of the restricted fund.

Interest revenue is recognized as revenue of the appropriate fund when earned.

Contributed Services

A number of volunteers contribute a significant amount of time each year to the organization. Because of the difficulty in determining the fair value, contributed services are not recognized in the financial statements.

2. Investments

		2017		2016
Guaranteed Investment Certificates (i)	$	**661,121**	$	661,121

(i) Investments consist of guaranteed investment certificates which bear interest at rates from 2.01% to 2.72% with maturities ranging from January 18, 2018 to February 22, 2022. The cost noted above is presented as two items on the statement of financial position, as unrestricted in the amount of $25,619 and restricted in the amount of $635,502 totaling $661,121.

3. Related Party Transactions

The organization operates under the control of the Near North District School Board (NNDSB), whereby the NNDSB appoints all the directors of the board that governs the registered charity. During the current year the organization made payments totaling $2,803 (2016 - $88,520) to the NNDSB for approved restricted fund expenditures as part of it's bursaries, scholarships, school programs and activities. The expenses incurred were measured at fair value and were in the normal course of operations.

4. Externally Restricted Net Assets

Major categories of externally imposed restrictions on net assets are as follows:

		2017		2016
Endowments (i)	$	**480,039**	$	480,039
Bursaries and scholarships (i)		**246,325**		252,761
School donations		**38,149**		39,509
Breakfast program		**12,381**		15,991
Playground funds		**4,808**		5,693
Robotics		**150**		150
	$	**781,852**	$	794,143

(i) Of the net assets restricted for endowment purposes $480,039 is subject to externally imposed restrictions stipulating that the resources be maintained permanently. Investment income on the endowed funds is restricted for the purpose of funding bursaries, scholarships and other awards. Accrued unspent net investment income in the amount of $37,776 (2016 - $35,978) is included in amounts restricted for bursaries and scholarships.

5. Financial Instrument Risk

Credit Risk

Credit risk is the risk of financial loss to the Charity if a debtor fails to make payments of principal and interest when due. The charity's cash and cash equivalents are all held at one major financial institution and the charity is therefore exposed to the credit risk from this concentration of cash and cash equivalents and investments. The charity's interest receivable is made up of a large number of balances from their investments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The charity is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the fair value of fixed income denominated investments.

Near North District School Board Charity Works
Schedule 1 - General Fund
- Statement of Operations and Changes in Fund Balances

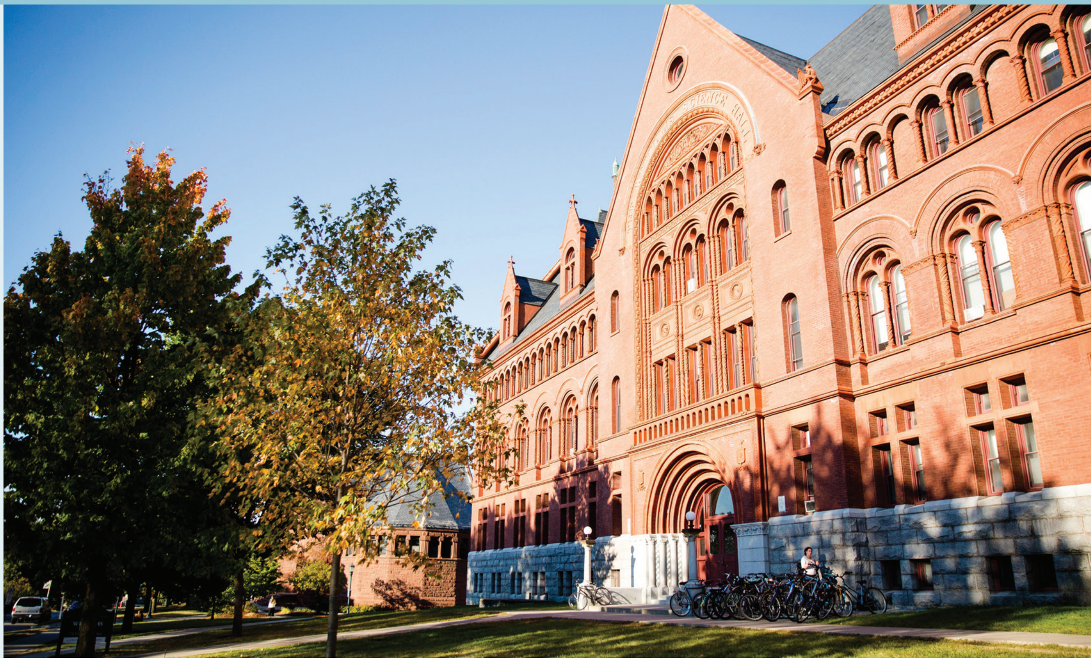
For the year ended August 31	2017	2016
Revenues		
Interest	**$ 1,065**	$ 1,108
Expenses		
General expenses	**4,495**	4,950
Deficiency of revenues over expenses for the year	**$ (3,430)**	$ (3,842)
General fund balance, beginning of year	**$ 77,584**	$ 81,426
Deficiency of revenues over expenses for the year	**(3,430)**	(3,842)
General fund balance, end of year	**$ 74,154**	$ 77,584

Near North District School Board Charity Works
Schedule 2 - Externally Restricted Fund
- Statement of Operations and Changes in Fund Balances

For the year ended August 31		2017		2016
Revenues				
Donations	$	54,918	$	112,125
Interest		14,578		17,033
		69,496		129,158
Expenses				
Bursaries, scholarships and school programs (Note 3)		81,787		233,363
Deficiency of revenues over expenses for the year	$	(12,291)	$	(104,205)
Externally restricted fund balance, beginning of year	$	794,143	$	898,348
Deficiency of revenues over expenses for the year		(12,291)		(104,205)
Externally restricted fund balance, end of year	$	781,852	$	794,143

Preventing fraud in public sector entities

Fraud is a serious problem that can affect anyone, from individuals to large companies and associations.



For public sector entities, fraud — both external and internal — can be particularly devastating. Not only can it affect your organization's ability to fulfil its financial mandate, but it can also generate a negative image of the organization in the public sphere. This could lead to a damaged reputation, loss of credibility, longer-term funding shortfalls and other associated challenges.

There are a number of ways to minimize the potential for fraud and its negative effects on your organization. Understanding the different types of fraudulent activities and educating yourself and your associates about how fraud occurs and how to identify it is a good place to start. From there, you can incorporate procedures using a system of checks and balances to help prevent fraudulent activity from occurring in the first place.

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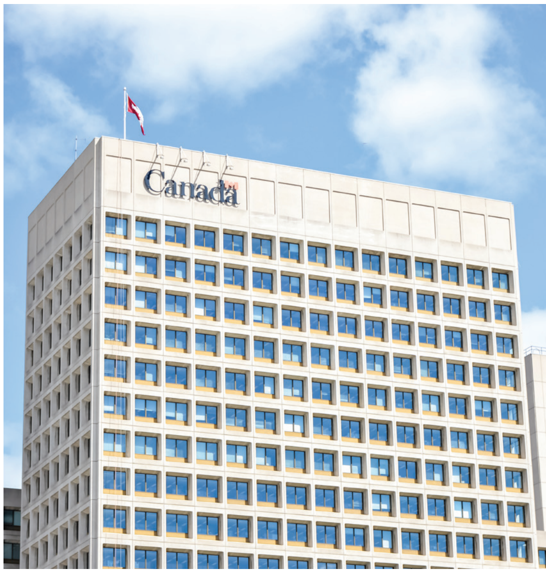
The importance of internal controls

Forensic accountants say when fraudulent incidents occur, they're typically not discovered internally — they're found through outside tips or by accident.



The Association of Certified Fraud Examiners' findings indicate fraud can occur for 18 months or more before being detected.[1]

A recent PricewaterhouseCoopers survey indicates that insufficient internal controls is one of the top three reasons for committing fraud. When an employee or volunteer realizes there are loopholes to exploit, in some cases it's an opportunity too tempting to resist. Fraud can erode up to roughly 6% of an organization's revenues. It's essential that organizations know the warning signs and establish clearly defined fraud prevention precautions and procedures — especially applicable for anyone who handles cash.

Fraud prevention measures — How to establish internal controls

Separate your payment-handling duties

- Wherever possible, ensure no single individual is responsible for handling cash, issuing cheques or reconciling bank statements.
- Having two signing authorities for issuing cheques is considered a best practice.
- If changes are made to signing authorities, ensure they are documented in bank authorization forms.

Implement rigorous cash-handling procedures

- Make bank deposits promptly by using night deposit services offering 24/7 flexibility.
- Issue individual payments for all expenses so they can be matched to a specific invoice.
- Keep chequebooks, cash and returned bank statements with cancelled cheques under lock and key.
- Consider credit cards or electronic payments to replace cheques when making payments.
- Reconcile all payments with a vendor invoice or other paper document.

Conduct background checks

- Do basic background checks on all associates — paid or unpaid:
  – Contact personal and professional references.
  – Consider conducting a check for known criminal activity.
- Require bonding of associates who handle funds.

Set up accounting policies

- If you have auditors, have them set an auditing policy to aid in detecting fraudulent accounting or bookkeeping.

Prevent cheque scams

- Refuse to accept any cheque you cannot prove is legitimate.
- Check the date and signature and look for any alterations such as changes to the dollar amount.
- Keep tight controls on your own cheques.
- Reconcile bank statements frequently — daily is the best practice.

Protect your brand from identity theft

- Always be on the lookout for identity or brand “pirates” who may assume your association’s identity, or that of other legitimate charities, for the purpose of soliciting funds.
- Encourage associates, donors and the public alike to report any suspicious communications/solicitations.

Safeguard your IT infrastructure

Your information systems contain the lifeblood of your organization: donor/member information, financial data and more. Therefore, it’s critical you implement an IT security policy specifically for governing the use of all data, servers and networks, as well as hardware such as laptops and external drives. This is especially important in instances where associates work offsite or after hours. Regular system monitoring, including email monitoring, is both a defence and a deterrent.

To avoid IT security breaches:

- Secure all computers — especially laptops
- Establish an information security protocol for CD/DVD burners and external drives
- Never respond to emails soliciting passwords (i.e. “phishing” or “spoofing”)

If you suspect fraud, immediately:

- Disconnect the source of the intrusion
- Isolate corrupted systems
- Shut down relevant servers or hubs to prevent further access to the system
- Contact the carrier or ISP to attempt to trace the attack
- For major breaches, consider contacting the police

Tips to avoid mail fraud

Incoming mail

- If you suspect mail theft, report it to your local postal station and the police.
- Retrieve mail promptly.
- Ensure your mailbox is locked (if applicable).
- Replace your wall-mounted mailbox with a mail slot.
- Appoint a responsible individual to handle all your mail duties.
- Ensure the mail repository is visible at all times.

Outgoing mail

- Never place outgoing mail in your mailbox.
- Avoid using street mailboxes.
- Send high-value cheques by registered mail or wire transfer.

Signs a cheque is “bad”

- Issuing bank’s name, address, etc. are missing.
- “Void” appears on the cheque.
- Cheque is not signed.
- MICR numbers at the bottom of the cheque are missing or don’t match the cheque’s serial number.
- Stains or discolouration indicate possible tampering.
- Cheque number is missing or did not change.
- Typeface inconsistencies (name style is different from address or amount style, etc.)

About business email compromise (BEC)

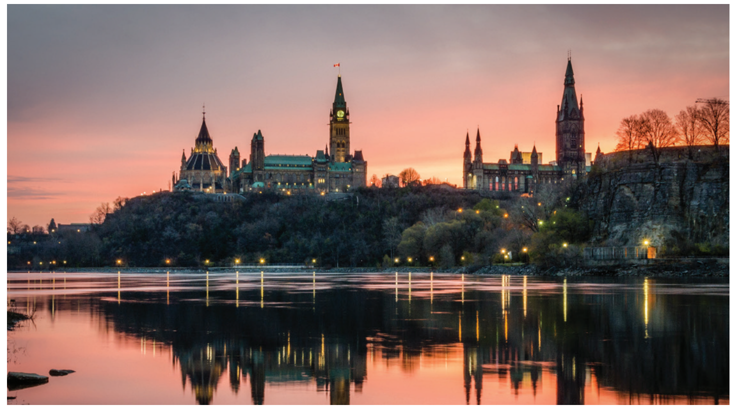
BEC scams often begin with a fraudster successfully compromising a business executive, a high-level employee related to finance or any publicly listed email account. This is usually done using key logger malware or phishing methods, where the fraudster creates a domain that's similar to the domain of the company they're targeting (or a spoofed email) to trick the target into providing account details.

Monitoring the compromised email account, the fraudster will try to determine who initiates wires and who requests them. These perpetrators often perform a fair amount of research, looking for a company that has had a change in leadership, has publicly announced a merger/acquisition or is undertaking a significant construction development or renovation project. Then they use the event as an opportunity to execute the scam.

Some common BEC scams

- **Fake invoice scam** — Fraudsters often use this tactic to target companies with foreign suppliers. The attacker pretends to be a supplier requesting payments by fund transfers to an account owned by the fraudster.
- **CEO fraud** — The attacker poses as the company CEO or an executive and sends an email to employees in the finance department requesting them to transfer money to the fraudster's account.
- **Account compromise** — An executive's or employee's email account is hacked and used to request invoice payments to vendors listed in their email contacts. Payments are then sent to fraudulent bank accounts.
- **Attorney impersonation** — The attacker pretends to be a lawyer or someone from the law firm supposedly in charge of crucial and confidential matters. Normally, such fictitious requests are done by email or phone, and at the end of the business day.
- **Data theft** — Employees in HR or bookkeeping are targeted to obtain personally identifiable information (PII) or tax statements of employees and executives. Such data can be used for future attacks.

Because these scams do not have any malicious links or attachments, they can evade traditional solutions. Employee training and awareness can help enterprises spot this type of scam.



Spotting brand phishing and spoofing

This is a scam where a fraudster sends an authentic-looking email, appearing to come from a legitimate company, to acquire personal and financial information. The email address is altered to very closely resemble a legitimate email address.

Examples:

- Legitimate: Companyname.com
  Altered to: Companyname.us (".com" changed to ".us")
- Legitimate: Companyname.com
  Altered to: Companynarne.com ("m" changed to "r" and "n")

Establish authentication protocols

The purpose of this procedure is to verify a sender's request for payment or changes to standing instructions.

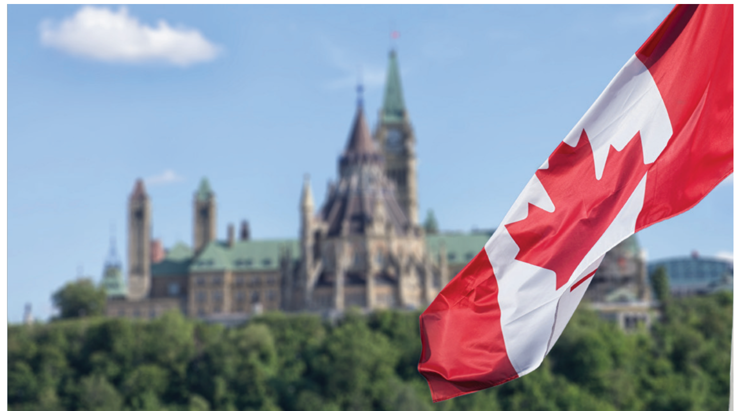
A simple call to a telephone number on file can verify whether the requested changes are legitimate and large payments have been authorized. This will go a long way to avoid unauthorized disbursements and suspicious or fraudulent activity.

Consider using authentication protocols when:

- A fax, letter or phone call seems out of character or not in line with previous transactions
- Instructions have been sent by email or a text message (even if the sender's address or cellphone number appears to be valid)
- A sense of urgency is expressed
- The amount requested is above the established internal limit

Sound business practices

- Implement a formal code of conduct.
- Develop an appropriate expense policy.
- Close the account(s) if you suspect credit card or bank statement theft occurred.
- Social Insurance Numbers (SINs) should not be used as employee numbers.
- Provide fraud prevention training for staff.
- Shred paperwork containing sensitive data.
- Secure all sensitive data (personal identifiers, account numbers, etc.).
- Implement password-protected computer access, changing passwords frequently.
- Change your personal identification number (PIN) regularly.
- Issue a unique password to each employee.
- Restrict access to data based on its relevance to the employee's position.
- Conduct random audits on business accounts.
- Never accept cheques payable to any party other than your organization.



As a trusted brand in the public sector, we're positioned to help your organization succeed at every level. Our specialized account managers see first-hand the many opportunities and obstacles faced by public sector organizations and crown corporations, and understand the need to evolve and adapt to the changing environment. We can support your RFP responses with specialized advice, and help you avoid the reputational risks that are more prominent when doing business in the public eye.

The tips and advice presented here are by no means exhaustive. There's a great deal of information available to help your organization establish fraud detection and prevention protocol.

To find out more about fraud detection and prevention, as well as a range of financial solutions for your public sector entity, please visit **www.rbcroyalbank.com/publicsector**.

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[1] Association of Certified Fraud Examiners and Dr. Dominic Peltier-Rivest, Ph.D., M.Acc., CFE of Concordia University, Montreal, "Detecting Occupational Fraud in Canada: A Study of Its Victims and Perpetrators," 2007.

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