

Development of Tire Supply Audit Procedure

Consultation Session Two

November 19, 2019

Asking Questions

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Questions and Answers

Question : test

Answer pending

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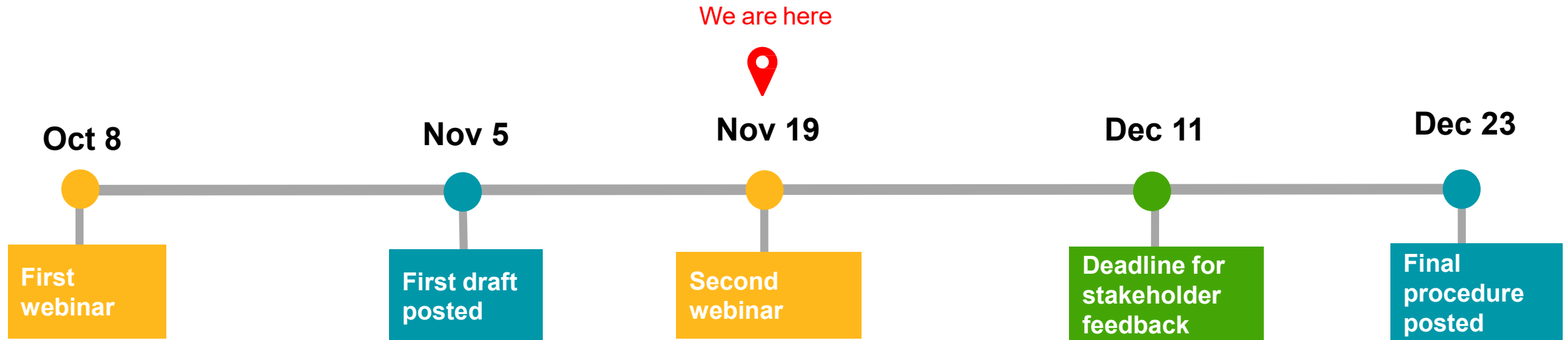
Agenda

1. Developing the Tire Supply Audit Procedure
2. Proposed categories of producers
3. Audit requirements for different categories of producers
4. Overview of audit procedures
5. Sampling methodology
6. Next steps

Developing the Tire Supply Audit Procedure



Timeline for developing the tire supply audit procedure



Components of the development process

- Proposed categories of producers
- Audit requirement for different categories of producers
- Audit procedures for different types of producers
- Sampling methodology

Key objectives of the Tire Supply Audit Procedure

1. **Provide the Authority with an appropriate level of assurance that the supply data reported by producers is reliable**
2. **Consistent verification reporting**
 - Provides sufficient direction to allow for consistent verification of the tire supply data reported annually by producers
3. **Cost effective and efficient**
 - Provide different compliance verification requirements for producers of different sizes
 - Allow producers to meet the reporting requirements with as little administrative burden as possible

Proposed categories of producers



Proposed producer categories

Taking into account the feedback we received as part of the first round of consultation, we are proposing to divide the 445 producers into large, medium and small categories as follows:

Threshold	# of producers	% of producers	% of aggregate collection target
Large producer >500,000 kg	48	11%	92.3%
Medium producer ≤500,000 kg and >100,000 kg	36	8%	5.35%
Small producer ≤100,000 kg	361	81%	2.35%
Total	445	100%	100%

Audit requirements for different categories of producers



Large producers

- There are 48 producers with individual collection targets greater than 500,000 kg
- These 48 producers represent 11% of the 445 registered producers
- Collectively, they are responsible for 92.3% of the aggregate provincial collection target

It is proposed that large producers will provide an audit report annually, prepared in accordance with the “International Standard on Assurance Engagement (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information”, published by the International Federation of Accountants

- This is the standard that was adopted in the recently completed Tire Performance Audit Procedure
- It allows for a consistent approach across large producers with clear instructions to be followed by auditors
- With large producers representing more than 90% of the tire supply into Ontario, this standard provides an appropriate level of assurance for the verification of that tire supply data

Medium producers

- There are 36 producers with individual collection targets of $\leq 500,000$ kg and $> 100,000$ kg
- These 36 producers represent 8% of the 445 registered producers
- Collectively, they are responsible for only 5.35% of the aggregate provincial collection target

It is proposed that medium producers provide a report annually, prepared in accordance with the “International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures”

- The auditor prepares a report following procedures specified by RPRA
- However, the auditor does not express an opinion – users of the report assess the procedures and findings reported by the auditor for themselves
- RPRA would carry out a review of the reports as filed and determine the need for follow up by inspectors

Small producers

- There are 361 producers with individual collection targets less than or equal to 100,000 kg
- These 361 producers represent 81% of the 445 registered producers
- Collectively, they are responsible for only 2.35% of the aggregate provincial collection target

It is proposed that a randomly selected percentage of small producers will be subject to an inspection procedure, on an annual basis

- If exceptions are identified during an inspection, a more comprehensive review would be carried out
- Small producers will not be required to submit a verification report

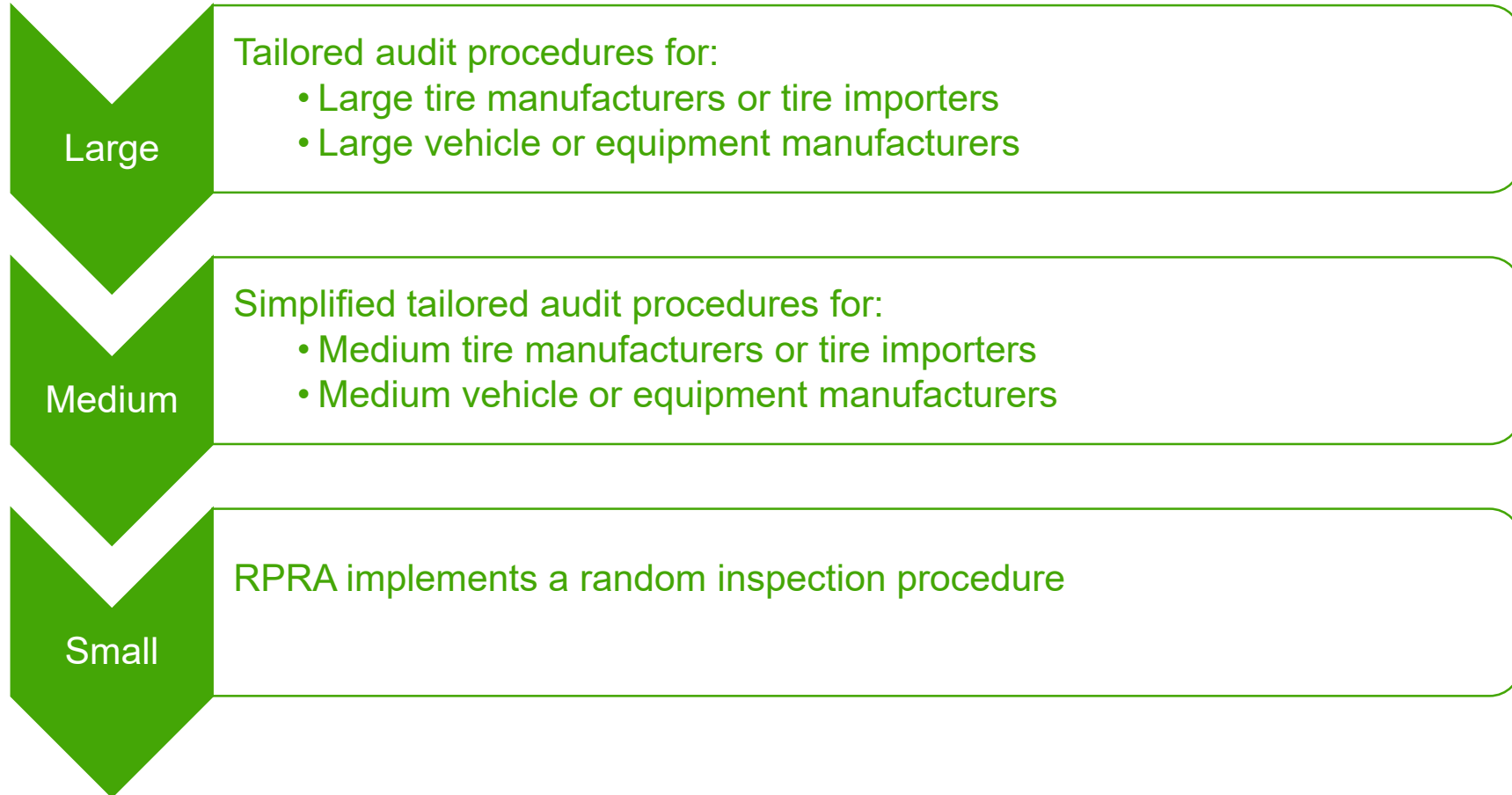
Questions?



Overview of audit procedures



Audit procedures for different types of producers



Audit procedures for large producers

There are specific procedures for:

- Large tire manufacturers or tire importers
- Large vehicle or equipment manufacturers

The main features of these procedures require an auditor to:

1. Walk through the producer's business and obtain an understanding of the business
2. Assess and document the producer's obligation based on the definition of a producer
3. Assess and document the producer's methodology to determine how the tires were supplied or marketed in Ontario
4. Inquire and document the producer's methodology to prepare the tire supply report
5. Document the producer's methodology to determine the weight of tires supplied in Ontario
6. Select samples of tire supply transactions to validate the accuracy of tire weight reported

Audit procedures for large producers (cont.)

7. Obtain a complete listing of SKUs and document how the producer determines which tires are included in the tire supply report and which ones, if any, are excluded, based on the definition of “tire” in Ontario Regulation 225/18: Tires
8. Select samples of non-obligated SKUs and assess if they are indeed not within the definition of “tire” (in accordance with the sampling methodology described on slide 23)
9. Conduct an analysis to assess the reasonableness of the selected tire supply transactions
10. Confirm the accuracy and completeness of the recording of the obligated tire supply to the Ontario market by sampling one month’s data to compare the raw sales report and the tire supply report submitted to RPRA.
11. Select samples of manual adjustments made to the tire supply report and assess if they are reasonable

Audit procedures for medium producers

- For medium producers, an auditor is required to:
 - Inquire and document the producer's methodology to prepare the tire supply report
 - Evaluate the producer's methodology to determine the weight of tires supplied in Ontario
- If the medium producer is a Tire Manufacturer or Wholesaler, the auditor shall:
 - Select ten non-obligated SKUs and assess if they are indeed not within the definition of "tire"
 - Select ten tire supply transactions to ensure the correct tire weight is reported
- If the medium producer is a vehicle manufacturer, the auditor shall:
 - Select ten vehicles from the tire supply report and validate the types and number of tires reported
 - Select ten vehicle supply transactions to ensure the correct tire weight is reported
- Finally for all medium producers, the auditor shall:
 - Confirm the accuracy and completeness of the recording of the supply to the Ontario market by sampling one month's data to compare the raw sales report and the tire supply report. If any variances are identified, investigate five and validate if they are reasonable.

Questions?



Sampling methodology



Sampling methodology

There are two types of sampling methodology:

1. Statistical sampling is an approach that involves the random selection of sample items and using the probability theory to evaluate the sample result, including the measurement of sample risk
 - Attribute sampling methodology
 - Variable sampling methodology
2. Non-statistical sampling is the selection of a test group that is based on the auditor's judgment rather than a formal statistical method that provides direction for an auditor to follow

Proposed sampling methodology

We are proposing to require statistical sampling and a 95% confidence level as a basis for providing reasonable assurance, as we have in the performance audit procedure.

Population	Sample size required
500+	60
250	50
100	40
50	30
10	10

If no more than X deviations are observed in a sample of size X, you can be at least 95% confident that the population deviation rate is not more than 5%.

Assumptions: 1% Expected Deviation Rate, 5% Tolerable Deviation Rate.



RPRA Resource Productivity
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Next steps

Next steps

- You can find all consultation information, including this presentation and a recording of today's session, at <https://rpra.ca/consultations/current-consultations/development-of-producer-tire-supply-audit-procedure/>
- Send your feedback and comments to consultations@rpra.ca by **December 11, 2019**
- We will be posting the final procedure by **December 23, 2019**
- If you have any questions not related to this consultation, you can contact our Compliance and Registry Team at registry@rpra.ca or 647-496-0530 or 1(833) 600-0530