Development of Tire Supply Audit Procedure

Consultation Session One

October 8, 2019

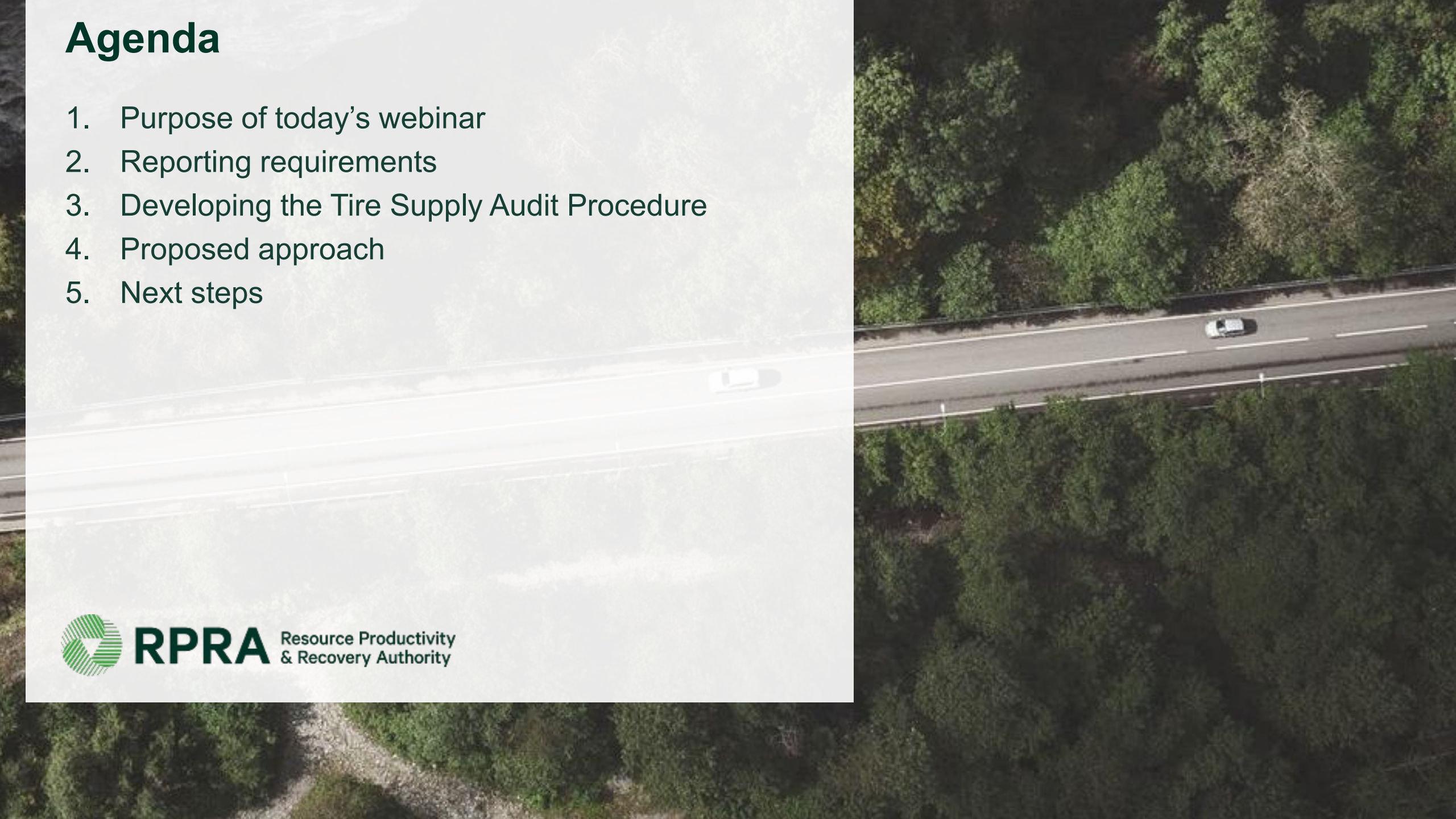
RPRA Resource Productivity & Recovery Authority

Asking Questions

To ask a question at any time during the presentation or for technical assistance, type your question in the text box and press “Enter”.

Agenda

1. Purpose of today’s webinar
2. Reporting requirements
3. Developing the Tire Supply Audit Procedure
4. Proposed approach
5. Next steps



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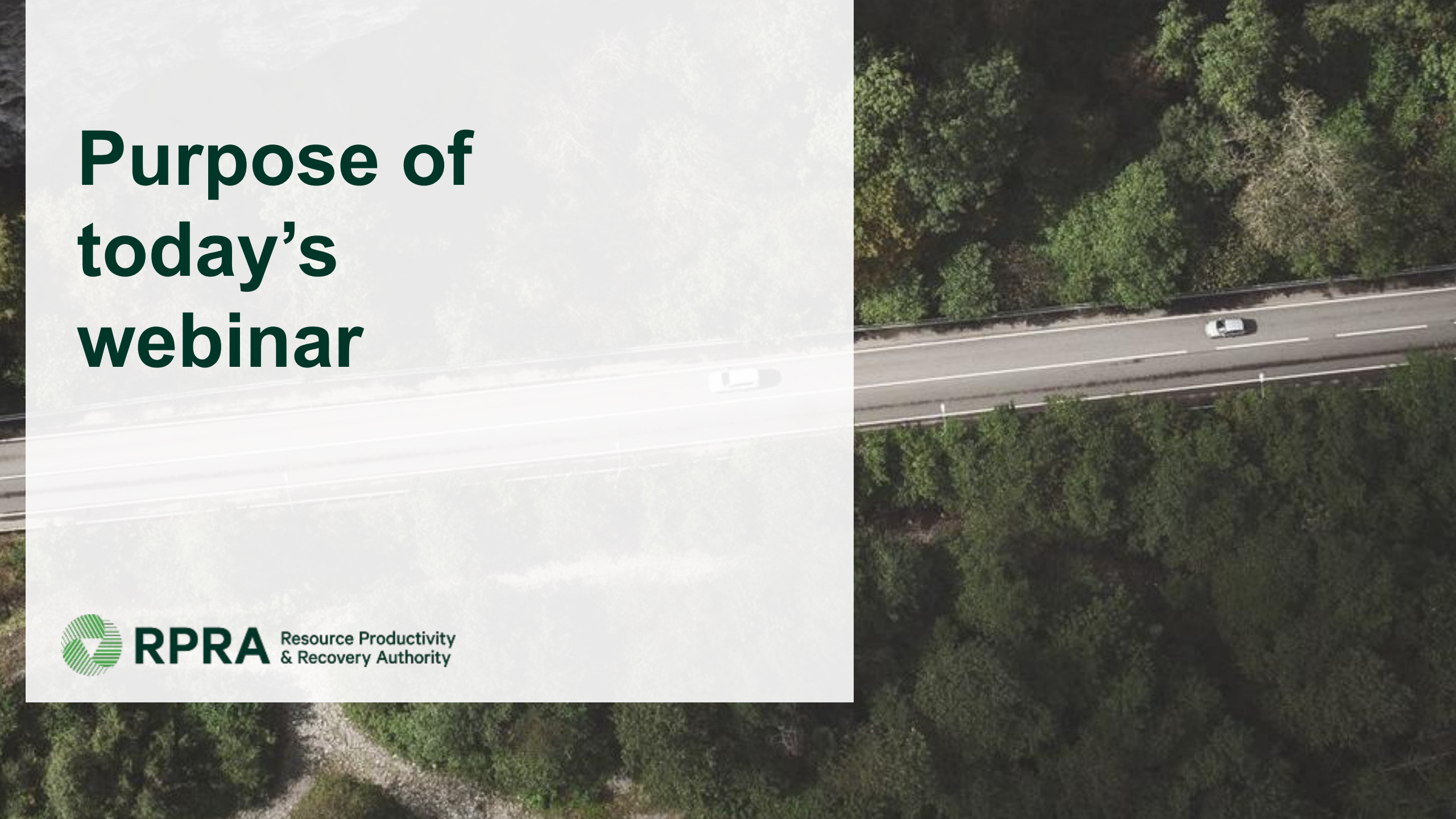
Purpose of today's webinar



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Purpose of this webinar

- Report on the conclusion of the review of weight conversion factors
- Review the tire supply audit requirements under the Tires Regulation
- Start the process to develop a tire supply audit procedure to meet those requirements

Reporting requirements

Tire supply data reporting requirements

- Producers are required to report new tire supply information each year – this is used to establish their used tire collection targets for the following year
    - For example, this year producers reported their 2017 tire supply data. The 2017 supply data, along with previously reported data from 2016 and 2015, was used to establish a collection target for next year.
    - Most producers relied on the 2017 supply data that they had previously reported to OTS and therefore an audit report was not required
    - This pattern will be repeated next year for 2018 supply data
- 2019 supply data will be the first year of supply data not previously submitted to OTS
- This data will be reported in 2021 and producers will be required to follow the audit procedure that we are now consulting on

Weight conversion factors

- When producers report supply data, each producer is required to report:
  - the number of units supplied
  - the weight supplied in kilograms
- The supply weight is then used in a formula to establish the producer's collection target in kilograms
- OTS had developed weight conversion factors to provide an alternative to reporting actual weight
- This approach was adopted in the Tires Regulation – producers can:
  - report actual weight, or
  - use the weight conversion factors to calculate weight
- We are using the same 18 tire categories that OTS used
- Only the PLT conversion factor was changed – it went from 10 kg to 12.5 kg to recognize the higher percentage of large SUV tires in that category

Weight conversion factors review

- In the first half of this year we carried out a review of the current weight conversion factors, in consultation with producers, to determine if any changes are needed
- We have concluded that there will be no changes at this time
- For tires supplied in 2019, producers can report on the:
  - actual weight of tires they supplied
  - weight calculated using the existing weight conversion factors, as set out in Registry Procedure – Weight Conversion Factors (Tires), which is posted on our website
- We will continue to work with industry next year to acquire data to allow us to continue to monitor whether changes become necessary
- For those producers for whom an existing weight conversion factor does not produce a reasonable weight for collection target purposes and who will continue to report the tire units previously reported to OTS, Compliance Bulletin No. 3 will continue to apply

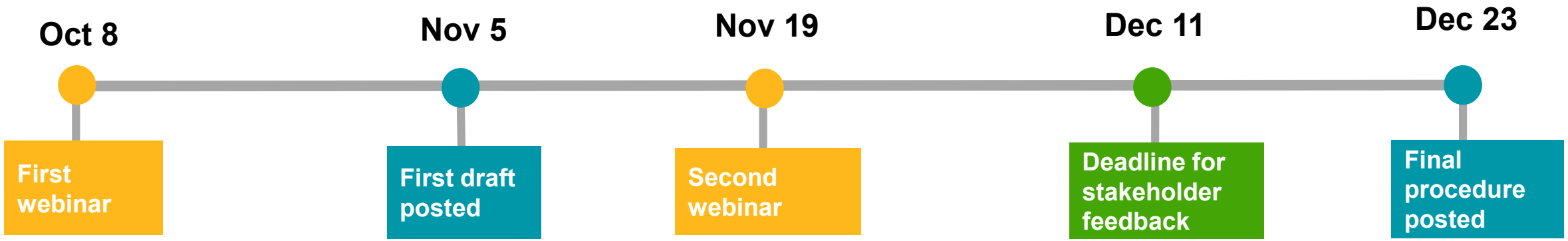
Questions?

Developing the Tire Supply Audit Procedure

Components of the development process

- Timeline and process for developing the procedure
- Proposed approach – categories of producers
- Audit procedures for different types of producers
- Appendix A: Sampling Methodology

Process for developing the tire supply audit procedure



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Proposed approach

Tire supply data audit requirements

- Registry Procedure – Audit addresses the audit requirements for reporting on:
  - resource recovery performance, and
  - tire supply
- A Tire Performance Audit Procedure that applies to resource recovery performance reporting was completed earlier this year
- We are now at the next stage – the development of a Tire Supply Audit Procedure
- Section 18 of the Tires Regulation requires every producer to conduct an audit of the number and calculated weight of tires supplied or provided on vehicles supplied in Ontario each year
- The audit must be carried out by an independent auditor that is licensed or holds a certificate of authorization under the *Public Accounting Act, 2004*
- The audit must also be conducted in accordance with Registry Procedure – Audit and Compliance Bulletin No. 3 – Supply Data Audits

Proposed approach – categories of producers

- The Authority takes a risk-based approach to compliance
- We also want to ensure that regulatory requirements are implemented in a way that:
    - meets the regulatory objective
    - maximizes compliance
    - does not impose undue regulatory burden
- There is significant diversity in the size of producers and their respective collection targets
- Currently there are 445 registered producers:
    - 33 have targets in excess of one million kilograms
    - 257 have targets that are less than 10,000 kilograms
    - 155 producers fall in between
- A one size fits all approach to an audit procedure is not appropriate
- We are proposing to divide the 445 producers into three categories, based on size of collection target:
    - large, medium and small

Large producer category – where should we draw the line?

- The 33 largest producers have 86% of the aggregate collection target
- The top 40 have 89%
- The top 48 have 92%

Threshold	No. of large producers	% of total
Target >1,000,000 kg	33	7%
Target >900,000 kg	35	8%
Target >800,000 kg	38	9%
Target >750,000 kg	40	9%
Target >700,000 kg	41	9%
Target >600,000 kg	43	10%
Target >500,000 kg	48	11%

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Small producer category – where should we draw the line?

- 10,000 kg is the equivalent of 1,000 PLT used tires
- 50,000 kg is the equivalent of 5,000 PLT used tires
- 100,000 kg is the equivalent of 10,000 PLT used tires

Threshold	No. of small producers	% of total
Target <10,000 kg	257	58%
Target <15,000 kg	280	63%
Target <20,000 kg	289	65%
Target <25,000 kg	306	69%
Target <30,000 kg	317	71%
Target <40,000 kg	330	74%
Target <50,000 kg	337	76%
Target <60,000 kg	342	77%
Target <70,000 kg	343	77%
Target <100,000 kg	361	81%

Medium producer category

- Based on where the line is drawn to delineate large and small producers, the remaining producers would fall into the medium category
- For example, assuming large producers are producers with collection targets greater than one million kg, and small producers are producers with collection targets less than 10,000 kg, there would be:
    - 33 large producers
    - 155 medium producers
    - 257 small producers
- Assuming large producers are producers with collection targets greater than 500,000 kg, and small producers are producers with collection targets less than 100,000 kg, there would be:
    - 48 large producers
    - 36 medium producers
    - 361 small producers

Questions?

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**
   - Provide sufficient direction to allow for consistent verification of the tire supply data reported annually by producers

3. **Cost effective and efficient**
   - Provide different audit compliance options for producers of different sizes
   - Allow producers to fully meet the reporting requirements with as little administrative burden as possible

Proposed approach – large producers

It is proposed that large producers will provide an audit report 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 80% of the tire supply into Ontario, this standard provides an appropriate level of assurance for the verification of that tire supply data

Proposed approach – medium producers

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

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

Proposed approach – small producers

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

Audit procedures for different types of producers

Large

Tailored audit procedures for:
- tire manufacturers or tire importers
- vehicle or equipment manufacturers

Medium

Simplified procedure for all types of medium producers

Small

RPRA implements a random inspection procedure

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Appendix A: Sampling Methodology

There are two types of sampling methodology:

- 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
- Non-statistical sampling is the selection of a test group that is based on the auditor's judgment rather than a formal statistical method which provides direction for an auditor to follow
- We are proposing to require statistical sampling and a 95% confidence level as a basis for providing reasonable assurance

Example of statistical sample size ranges – option 1

99% Confidence Level

Population	Sample size required	Deviations
10,000	164	2
5000	163	2
1000	152	2
500	141	2
250	125	2
100	70	1
50	47	1
10	10	1

If no more than X deviations are observed in a sample of size X, you can be at least 99% confident that the population deviation rate is not more than 5%.

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

Example of statistical sample size ranges – option 2

95% Confidence Level

Population	Sample size required	Deviations
10,000	93	1
5000	92	1
1000	88	1
500	84	1
250	78	1
100	58	1
50	43	1
10	10	0

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.

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Example of statistical sample size ranges – option 3

90% Confidence Level

Population	Sample size required	Deviations
10,000	76	1
5000	76	1
1000	73	1
500	70	1
250	66	1
100	51	1
50	40	1
10	10	1

If no more than X deviations are observed in a sample of size X, you can be at least 90% confident that the population deviation rate is not more than 5%.

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

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Example of non-statistical sample size ranges

Selection of samples must be random. Higher sample sizes required for most integral processes, permitted to use lower sample sizes for less critical areas.

Population	Sample size required
250+	25-60
50 - 200	5-25
12-50	5-9
4-12	2-4
4	2

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Questions?

Next steps

Next steps

- You can find all consultation information, including this presentation, at https://rpra.ca/consultations/current-consultations/development-of-producer-tire-supply-audit-procedure/
- We will be posting the draft procedure on **November 5, 2019**
- We will be hosting a second consultation session on **November 19, 2019** to walk through the draft procedure. You can register on our website following this webinar.
- Send your feedback and comments to consultations@rpra.ca by **December 11, 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

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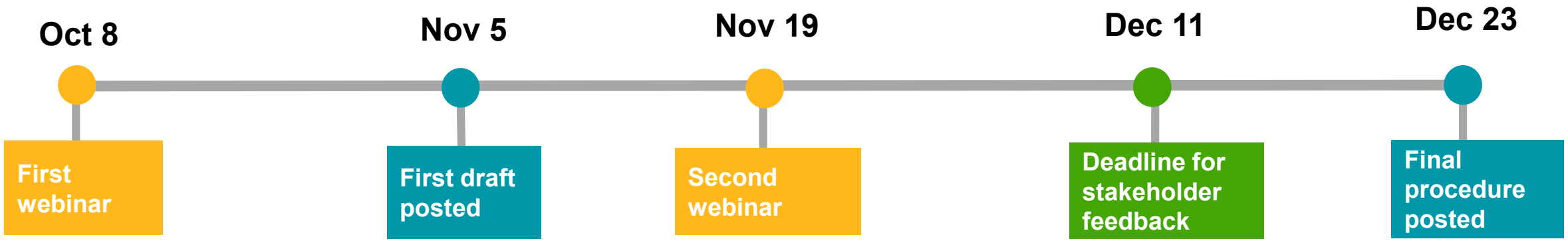
Process for developing the tire supply audit procedure



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