ATTACHMENT 3

KPMG

The Corporation of the City of Vaughan

Audit Findings Report
for the year ended December 31, 2022

KPMG LLP

Licensed Public Accountants

Prepared on: May 4, 2023

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kpmg.ca/audit

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements as at and for the year ended December 31, 2022. This report builds on the Audit Plan we presented to the Audit Committee. This report is intended solely for the information and use of Management, the Audit Committee, and City Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

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

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

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

Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements ("financial statements") of the City of Vaughan (the City), with the exception of certain remaining outstanding procedures, which are highlighted on slide 5 of this report.

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Audit risks and results – significant risks

No matters to report.

Audit risks and results – going concern assessment

No matters to report.

Uncorrected audit misstatements

No matters to report.

Corrected audit misstatements

No matters to report.

Significant unusual transactions

No matters to report.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Accounting policies and practices

No matters to report.

Other financial reporting matters

No matters to report.

Status of the audit

As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of a final signed lease agreement
- Completing subsequent events procedures, including receipt of the final legal enquiry letter, up to the date of approval of the financial statements
- Receipt of the signed management representation letter (dated upon City Council approval of the financial statements)
- Completing our discussions with the Audit Committee
- Obtaining evidence of City Council's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report will be dated upon the completion of <u>any</u> remaining procedures.

KPMG Clara for Clients (KCfc)

Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with your team and provide visual insights into the status of the audit!

On your audit we used KCfc to coordinate requests from City employees.

Learn more

Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Presumption of the risk of fraud involving improper revenue recognition

Significant risk	Estimate?
The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business, specifically related to management's calculation of deferred revenue – obligatory reserve funds.	No

Our response and findings

- Our audit methodology incorporated the required procedures in professional standards to address this risk.
- Our audit approach consisted of evaluating the design and implementation of selected relevant controls. We tested journal entries that meet specific criteria. This criteria was designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end). We obtained and inspected the continuity for deferred revenue prepared by management. We selected a sample of the increases (cash receipts) and decreases (revenue recognition) for deferred revenue during the current year.
- In testing recognition of revenue, we assessed if development charges received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation. Based on our procedures, we conclude that the development charges and other restricted grants recorded as revenue in fiscal 2022 were used to fund eligible capital projects
- We also incorporated an element of unpredictability into the journal entries and revenue testing.
- We did not identify any issues related to fraud risk associated with revenue recognition.

Significant risks and results

Management Override of Controls

Significant risk	Estimate?
Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities	No

Our response and findings

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included the testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.
- We also incorporated an element of unpredictability into our testing of journal entries.
- We did not identify any issues or concerns regarding management override of controls.

Other significant findings and results

We highlight **other significant findings** including such findings in other areas of focus as identified in the Audit Plan as follows:

Revenue Earned and Deferred Revenues

Other significant finding	Estimate?
The City recognizes revenue from different streams including taxation, user charges, water and sewer billings, funding transfers and government grants, investment income, contributions from developers, contributed assets, and other. Management follows the revenue recognition policies reported in note 1 to the financial statements to recognize revenue in accordance with PSAS, which includes deferring receipts and contributions if performance obligations are not met.	No

Our response and significant findings

- We substantively tested revenues recognized and amounts held as deferred at year end using sampling techniques and direct confirmation of certain revenues with third parties, including other governments and agencies.
- We inspected the calculation of the deferred revenue continuity prepared by management and ensured the cash receipts and revenue recognized ties to our audited work.
- We tested a sample of cash receipts to supporting agreements and bank records and found no issues in the deferral of these receipts.
- We tested a sample of expended funds to supporting records of the underlying expenditures, noting that the expenditures were related to the purpose for which the contributions were recorded, and found no issues in the recognition of funds as revenue.

Our findings

- Based on the audit work performed, we did not identify any issues with amounts reported for revenue and deferred revenue - obligatory reserve funds as at year end.
- The note disclosures related to revenue and deferred revenue - obligatory reserves funds are in accordance with PSAS.

Other findings and results

Employee future benefits liability

Other significant finding	Estimate?
Employee future benefits represent a liability computed by management's actuarial experts. As the employee future benefits liabilities are significant estimates, KPMG actuarial specialists were involved in completing the audit procedures.	Yes, there is estimation uncertainty due to assumptions used by the actuary to calculate the liability for the Employee Future Benefits

Our response

- We assessed the participant data supplied by management to the actuary for completeness and accuracy.
- We obtained the actuarial valuation report and engaged our KPMG actuarial specialist team to audit the method and assumptions applied in the valuation.
- We evaluated the discount rate in comparison with rates issued by the Canadian Institute of Actuaries ("CIA") and KPMG LLP.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PSAS.

Our findings

- Based on our assessment of the report prepared by the actuary, we noted that the method applied for the estimate is acceptable per the Canadian Institute of Actuaries and Public Sector Accounting Standards (PSAS) 3250 Retirement Benefits.
- We assessed the key assumptions used by the actuary in light of the City's financial results.
- We note that the discount rate used by the actuary is a key assumption. Discount rates of 3.00% (2021 – 3.0%) were used for the determination of the liability. We evaluated the discount rates against the discount rate curve issued by different reliable sources including CIA, FIERA and KPMG LLP. Our actuarial specialists assessed the discount rate and other assumptions using actuarial techniques and market data. Based on this evaluation, we concluded that the discount rates used are reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of the public sector accounting standards.
- Based on the audit work performed, we did not note any issues related to the calculation of the City's non-pension retirement benefits and WSIB liability as at December 31, 2022.
- The employee future benefit liability as at December 31, 2022 are outlined in note 5 to the financial statements.

Other findings and results

YMCA Facility

Other significant finding	Estimate?
In 2017, the City entered into an arrangement with YMCA of Greater Toronto Area ("YMCA") and Penguin Calloway Vaughan Partnership for the construction of a YMCA and City Facility (the "facility") that is within a mixed use building being developed in the Vaughan Metropolitan Centre. In July 2022, construction was completed and currently, both YMCA and the City occupy the building under a lease agreement, which required a one-time nominal rent payment from the City.	No

Our response

- We obtained and inspected relevant agreements related to the facility between the City and other parties. Upon completion of construction, the City and YMCA entered into agreements that govern each party's respective benefits and duties associated with occupancy and obligations of the shared-use facility.
- We inspected the detail of costs related to this facility that were incurred during 2022 and we evaluated the accounting treatment upon completion of construction.
- We obtained direct confirmation from YMCA of the long-term debt and repayment schedule owing to them, including confirmation that YMCA has not defaulted on their loan with Ontario Infrastructure and Lands Corporation (OILC) as at December 31, 2022, and confirmed with management subsequently up to the date of this report.

Our findings

- The facility is shared between the City and YMCA for occupancy whereby the City uses 30% of the facility and YMCA will use the remaining 70%.
- The City is funding its 30% share of the facility and 2/3 of YMCA's 70% share of the facility. We evaluated management's analysis of the risks and rewards associated with the facility as provided under the various agreements with YMCA, most notably the master agreement and the lease agreement. We evaluated the inputs to management's assessment against the PSAS standards for accounting for leased tangible capital assets. We found management's treatment of the costs as leased tangible capital assets to be appropriate based on the terms of the arrangement.
- YMCA's previous financing agreement with OILC was a construction loan of up to $66M, which the City has guaranteed. Upon completion of the building, the construction loan converted to a term loan, bearing interest at a fixed rate of 4.15%, repayable over 20 years ending July 2042. In the event of default by YMCA, the City is required to assume all liabilities and may take first right to ownership of all assets related to the facility.
- As at December 31, 2022, the City incurred a cumulative $72.0M (2021 - $69.9M) on the project, which was capitalized into its component tangible capital asset categories.
- These transactions are described in notes 7 and 9(d) to the financial statements, including the repayment schedule of debt payments owing to YMCA and capitalization to leased tangible capital asset.
- We did not note any issues with management's accounting for the transaction and its related disclosures.

Other findings and results

Tangible capital assets

Other significant finding	Estimate?
Tangible capital assets represent the largest non-financial asset of the City. There is a risk of material misstatement related to the existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets.	Yes; related to the fair value of contributed assets

Our response and findings

- We tested, on a sample basis, the additions to tangible capital assets and noted that management has appropriately capitalized the additions, including transfers from assets under construction to tangible capital assets. We obtained assurance related to the accuracy and existence of these additions and also assessed if these additions met the criteria for capitalization.
- We tested, on a sample basis, assets under construction to ensure amounts are properly transferred to the correct asset classes and that amortization commenced on a timely basis.
- We tested, on a sample basis, contributed and assumed assets to assess if these assets had been recognized at fair market value at the date of contribution. We performed the required procedures for evaluating estimates over the valuation of contributed assets, in order to address the requirements of CAS540, Auditing Accounting Estimates.
- We obtained the City's amortization policy and assessed reasonableness of estimated useful lives applied in calculating amortization expense.
- We assessed financial statement note disclosures in accordance with PSAS.
- There were no other significant findings as a result of our audit procedures for tangible capital assets.

Other findings and results

Acquisition of Sports Village

Other significant finding

During the year, the City entered into an asset purchase agreement with a third party to acquire a sports facility operation, known as the Sports Village. The acquisition included its building and certain assets, and to assume certain liabilities associated with the operations. The amount paid by the City was $9.4M.

Estimate?

Estimation uncertainty exists related to the fair value of the building, however, this estimation uncertainty does not result in a risk of material misstatement.

Our response and findings

- We obtained and inspected the purchase agreement between the City and the vendor, which included cash consideration as well as the full repayment of long-term debt. We verified the cash payments made by the City to execute the purchase.
- We inspected the details of assets acquired and liabilities assumed as of the closing date of November 30, 2022.
- In accordance with PS 2510 *Additional Areas of Consolidation*, the City has recorded the assets acquired and liabilities assumed at their estimated fair value at the closing date. We inspected the details of assets and liabilities and note that, other than the building acquired, all items are immaterial to the City's financial statements. Based on a third party assessment of the building, the City's estimated fair value of the building exceeds the purchase price paid. Accordingly, the City has appropriately allocated the purchase price to record the building, other assets, and liabilities.
- The acquisition is described in note 18 to the financial statements.
- We did not note any issues with management's accounting for the acquisition and its related disclosures.

Other findings and results

Contingencies

Other significant finding	Estimate?
PSAS 3300 *Contingent Liabilities* requires that the City recognize a liability when "it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated." At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, etc.	Estimation uncertainty exists related to the likelihood and measurement of the contingent liability. However, this estimation uncertainty does not result in a risk of material misstatement.

Our response

- We obtained and evaluated the City's assessments and claims listing that are used to develop and record these estimated liabilities.
- We obtained a legal confirmation from internal legal counsel and evaluated the assessments made by internal legal counsel on the pending legal matters in terms of determination of likelihood and measurability.
- We inspected Council and committee meeting minutes to determine the completeness of contingencies and held discussions thereon with senior management, including internal legal representatives.

Our findings

- We inspected the listing of active litigation and potential claims provided by internal legal counsel and inspected assessments of each matter and the process employed to develop and record the related estimated liabilities. Management has recorded an accrual based on the likely amounts of loss after accounting for insurance coverage.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.
- Based on the work performed, we did not note any issues with contingent liabilities recorded by the City.

Other findings and results

Vaughan Holdings Inc.

Other significant finding	Estimate?
The City recognizes its investment in Vaughan Holdings Inc. ("VHI") using the modified equity method, which we find appropriate in accordance with our evaluation of the criteria in PS 3070 *Investment in Government Business Enterprises*. VHI, together with its holdings in Alectra Inc. ("Alectra") and other entities, is referred to as Hydro Vaughan Corporations. This equity investment is not considered a significant component due to the fact that the year-over-year change in the investment is not significant or material to the City's financial statements.	No

Our response and findings

- We verified the transactions between each of the City, VHI, and Alectra and performed a reconciliation of the amounts reported in the financial statements of the respective entities as at December 31, 2022.
- We vouched dividends received from Alectra to VHI, and from VHI to the City, to supporting documentation and cash receipts.
- We obtained Alectra's financial statements for the year ended December 31, 2022 and agreed the City's share of income, which increases the investment under equity account.
- These transactions are disclosed in note 4 to the financial statements.
- We did not note any issues during our testing.

Other findings and results

Consolidation

Other significant finding	Estimate?
The City consolidates the following entities in the consolidated financial statements for the City: • City of Vaughan Public Library Board • Kleinburg Business Improvement Area • Tourism Vaughan Corporation Inter-departmental and inter-organizational transactions and balances are between these entities are eliminated.	No

Our response and findings

- Each of the entities noted above are considered non-significant components to the City's financial statements. For each of these entities, there is a required statutory audit performed. These individual audits are performed by the same audit team as for the City.
- We obtained an understanding of the consolidation process applied by management, including review procedures and authorization controls, checks and balances, and information systems utilized for the financial reporting process and the consolidation process.
- We obtained the consolidation workbook from management and completed our audit procedures related to consolidation, including elimination of inter-departmental and inter-organizational transactions, pick-up of government business enterprises, and any other transactions that are relevant for consolidation.
- Based on our work performed, we did not identify any issues or errors.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

None in 2022.

Description of new or revised significant accounting policies and practices

None in 2022.

Significant qualitative aspects of the Company's accounting policies and practices

Significant accounting policies are disclosed in Note 1 to the consolidated financial statements

Estimates and assumptions are disclosed in Note 1(s).

Audit quality: How do we deliver audit quality?

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

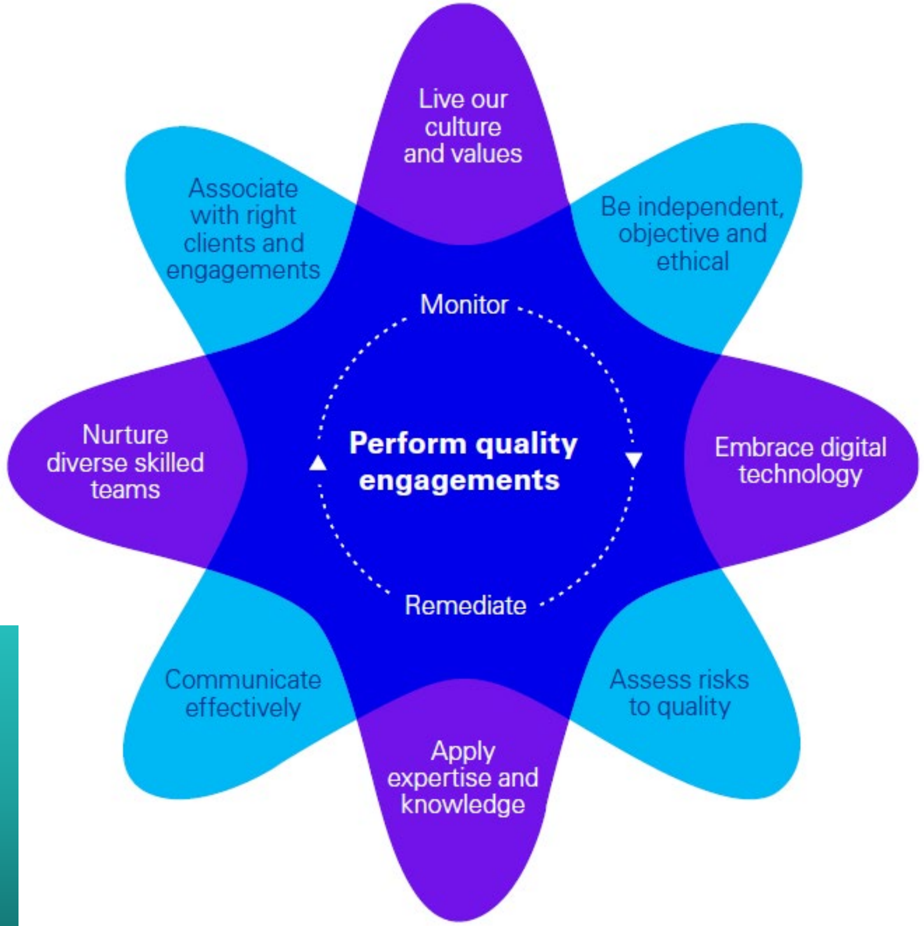
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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

KPMG 2022 Audit Quality and Transparency Report

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

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



Appendices

A — Other required communications

B — Newly effective auditing standards

C — Changes in accounting standards

D — Environmental, social and governance (ESG)

E — Audit and assurance insights

Appendix A: Other required communications

Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to the Audit Committee.

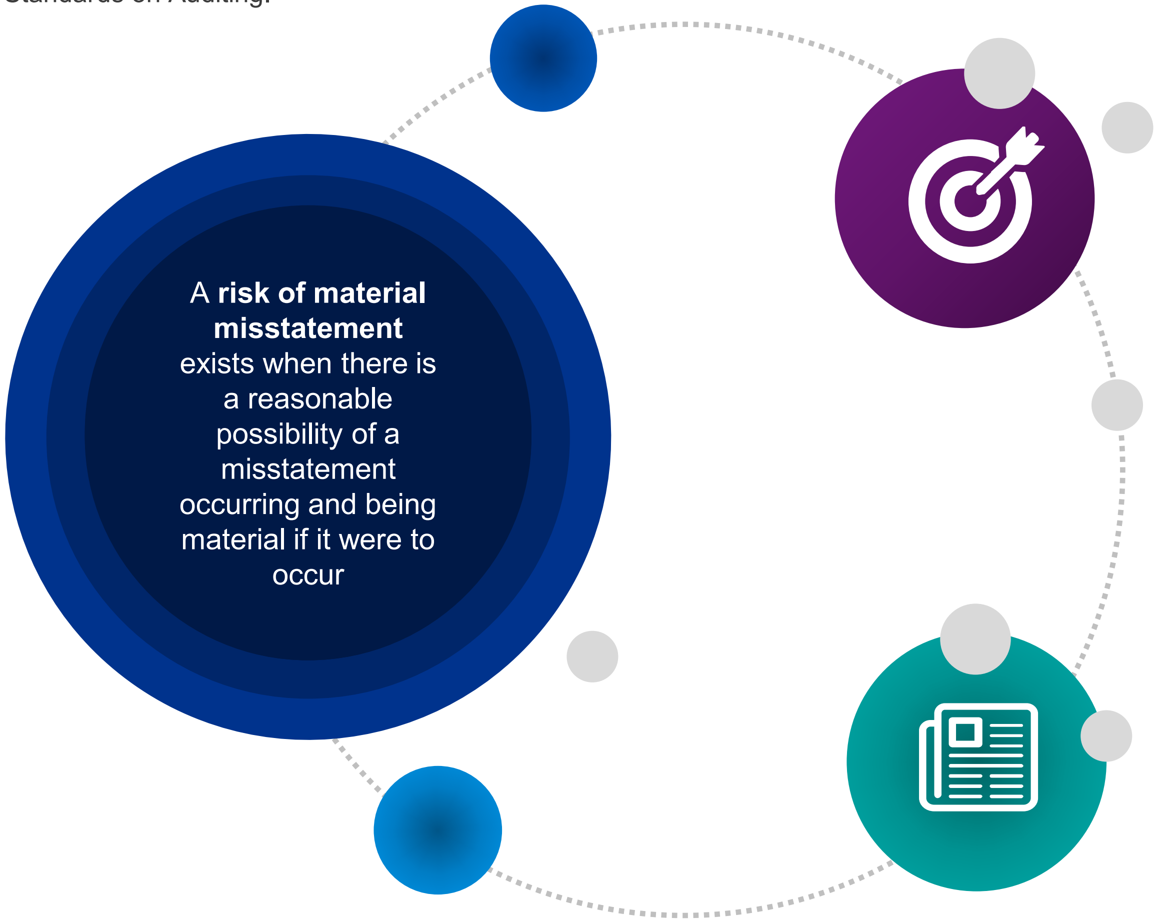
CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results

Appendix B: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada

We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

Appendix B: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including: • New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement • New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement • New requirement to separately assess inherent risk and control risk for each risk of material misstatement • Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk	When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement. We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement. If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.	If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk. We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.

Appendix B: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement	When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a ‘stand back’ at the end of the risk assessment process	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.

Appendix B: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Modernized to recognize the evolving environment, including in relation to IT	New requirement to understand the extent to which the business model integrates the use of IT. When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit. Based on the identified controls we plan to evaluate, we are required to identify the: • IT applications and other aspects of the IT environment relevant to those controls • related risks arising from the use of IT and the entity's general IT controls that address them. Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.	We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals. Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response. Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.
Enhanced requirements relating to exercising professional skepticism	New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.	We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.

Appendix B: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control	We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows: • Controls that address a significant risk. • Controls over journal entries, including non-standard journal entries. • Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures	We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them. We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.

Appendix C: Changes in accounting standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022.
	• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
	• The asset retirement obligations ("ARO") standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
	• As a result of the new standard, the public sector entity will:
	  • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
	  • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;
	  • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	• The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. • PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix D: Environmental, Social and Governance (ESG)

The Importance of Sustainability Reporting

Sustainability Reporting – Who is impacted?

- **Lenders and underwriters –** increased focus on ESG considerations when making access to capital decisions
- **Investors –** ESG integration has become an investment norm
- **Employees –** ESG has become a key factor in attracting and retaining top talent
- **Consumers –** stakeholders increasingly scrutinize companies' ESG performance and transparency affecting brand acceptance and consumer demand

Importance to the Audit Committee

- **Regulatory developments –** ESG-related compliance costs and disclosure requirements continue to evolve as rules are finalized
- **Material ESG issues –** Audit Committees should understand stakeholder priorities and the company's material ESG risks and opportunities
- **Value creation –** developing a clear ESG strategy, along with a standardized reporting process can set a company apart from its competitors

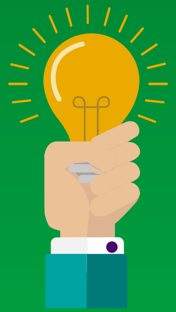
Governance on ESG Data and Sustainability Reporting

- **Data collecting and reporting –** understand the ESG frameworks and reporting standards most commonly adopted in the industry and jurisdiction (benchmark to others in the industry)
- **ESG assurance –** Audit Committees are best positioned to understand which ESG metrics merit assurance. An assurance readiness assessment on Carbon is a common and often recommended first place to start

Appendix D: Environmental, Social and Governance (ESG)

All companies are facing climate-related risks and opportunities – and are making strategic decisions in response. The impacts of climate-related risks in the financial statements are broad, potentially complex and will depend on the industry-specific risks.

How might climate-related risks impact the financial statements?



01

Assets

Consider the useful lives and residual values of PP&E and intangible assets, cash flow projections used for impairment testing of non-financial assets, and the potential impacts on inventories.

02

Liabilities

Consider the recognition of environmental and decommissioning obligations, accounting for emissions or 'green' schemes, impact on employee-benefit arrangements, and restructuring provisions.

03

Borrowers

Consider the accounting for different forms of government assistance, potential for embedded derivatives in green bonds, lease of green technology, impacts of leasing polluting assets.

04

Lenders

Consider how climate-related risks impact operating and financing leases, the potential impact on expected credit losses, and whether green loans meet the SPPI criterion.

05

Disclosures

Consider the impact on the going concern assessment and related disclosures and whether the impacts of climate-related matters have been disclosed clearly.

See here for more information

Appendix D: Environmental, Social and Governance (ESG)

The Sustainability reporting journey: Regulatory update

Recent Activity[1]

International (ISSB)

- Proposals published in March 2022 include **IFRS S1** – general requirements for disclosure of sustainability-related financial information and **IFRS S2** – climate-related disclosures, which would require investor-focused information on all sustainability-related risks and opportunities that the company is exposed to
- Applicability will be determined by national jurisdictions
- The ISSB has been actively redeliberating its two proposals with goal of finalizing as early as possible in 2023
- Some of the key items discussed at recent meetings include: keeping Scope 3 emissions disclosures in the final standards, requirement to report at the same time as financial statements, and maintaining the concept of investor materiality

EU (EFRAG)

- Proposals published in April 2022 would require companies to report information to meet the needs of all stakeholders across a range of sustainability topics specified in the CSRD
- In November, the European Parliament and European Council approved and adopted the CSRD, which amends and significantly expands the existing EU requirements for sustainability reporting
- In December, the CSRD was published in the Office Journal of the EU and will enter into force in early 2023. Member states will then have 18 months to transpose it into national law, and may make revisions as part of that process
- Notwithstanding that the CSRD is an EU Directive, there are considerable ESG reporting implications for non-EU based companies[2]

US (SEC)

- Proposal published in March 2022 would require investor-focused climate disclosures
- Due to a technological error, the SEC reopened the comment period through November 1 for its proposed climate rules and its proposed ESG rules for investment companies and advisers (along with other proposed rules)
- The SEC expects to release its final climate rules in April 2023
- The SEC's recent agenda also includes looking at disclosure rules on human capital management, with a proposal-expected to be released in April 2023

Canada (CSA)

- Proposal published in October 2021 would require investor-focused climate disclosures
- In October 2022, the CSA stated that it continues to actively consider international developments and how they may impact or inform its proposed climate-related disclosure rule

What about the CSSB?

- The Canadian Sustainability Standards Board (CSSB) is in the early stages of development and aims to be operational by April 2023
- In December, the CSSB was appointed an inaugural member of the SSAF, which will work with the ISSB towards a comprehensive global baseline of sustainability-related disclosure for capital markets

1. Refer to our *Q4 2022 Current Developments – Spotlight on IFRS*, *Q4 2022 Current Developments – Canadian Securities* and *Q4 2022 US Quarterly Outlook* publications for more details
2. Refer to our publication *ESG in Europe – Requirements covering non-EU companies formally adopted*

Appendix E: Audit and assurance insights

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

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

Current Developments

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

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

Accelerate 2023

The key issues driving the audit committee agenda in 2023.

Momentum

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre

Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News

A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

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