



The Corporation of the City of Vaughan

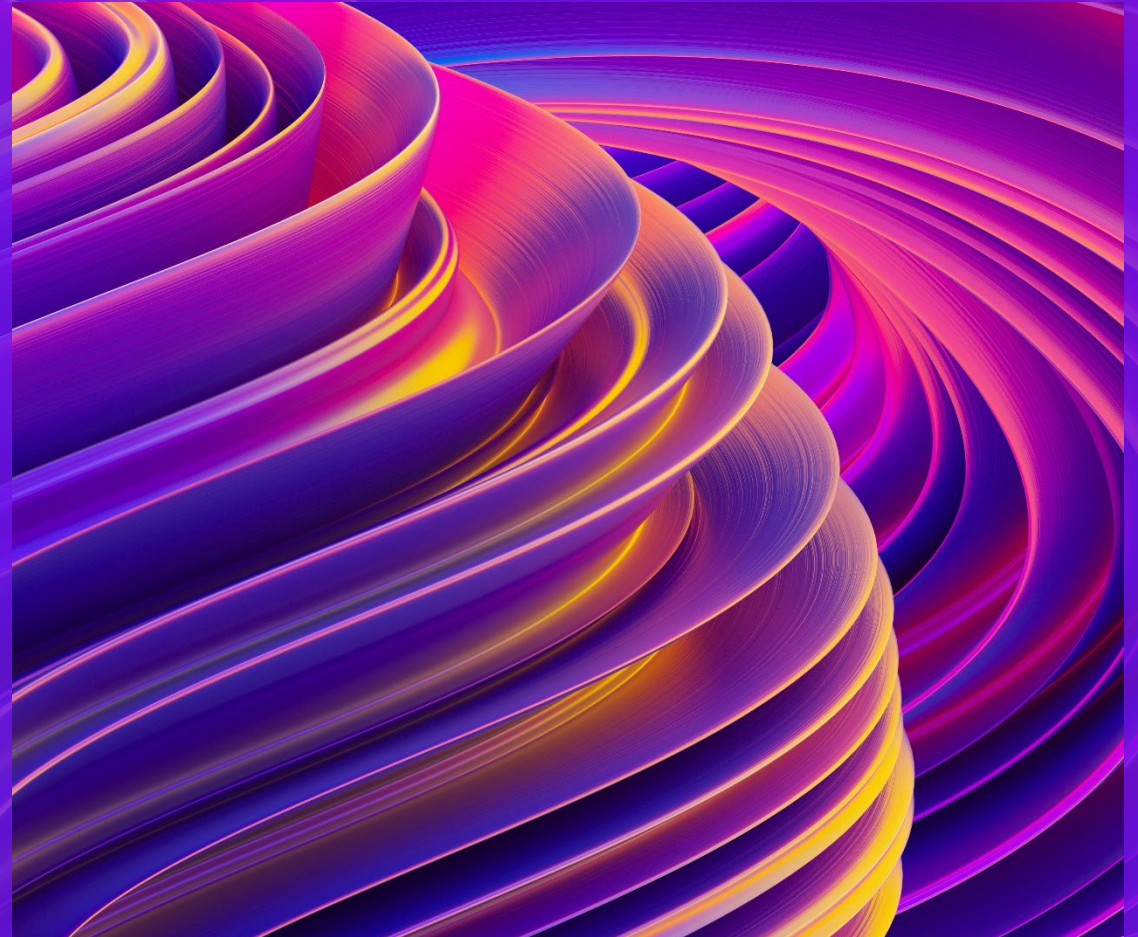
Audit Findings Report
for the year ended
December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of May 10, 2024 for presentation to the Audit Committee
on May 28, 2024

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. 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



No matters to report



Matters to report – see link for details

Status

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 the ‘Status’ slide of this report.



Significant changes

- ☐ Significant changes since our audit plan
- In the area of Asset Retirement Obligations, our ongoing risk assessment procedures resulted in an increase to the risk due to error from base to elevated.
 - There were no other significant changes to our audit strategy assessment.

Risks and results

- ☒ Presumption of the risk of fraud involving improper revenue recognition
- ☒ Management Override of Controls
- ☒ Other significant findings and results

Uncorrected misstatements

- ☒ Uncorrected misstatements
- Professional standards require that we request of management and the Audit Committee that all identified audit misstatements be corrected. We have already made this request of management.
 - A summary of the impact of the uncorrected audit misstatement is on slide 17 of this report.

Corrected misstatements

- ☒ Corrected misstatements
- A summary of the impact of the corrected audit misstatements is on slide 18 of this report.
 - These adjustments were corrected by management in the consolidated financial statements of the City for the year ended December 31, 2023.

Control deficiencies

- ☐ Significant deficiencies

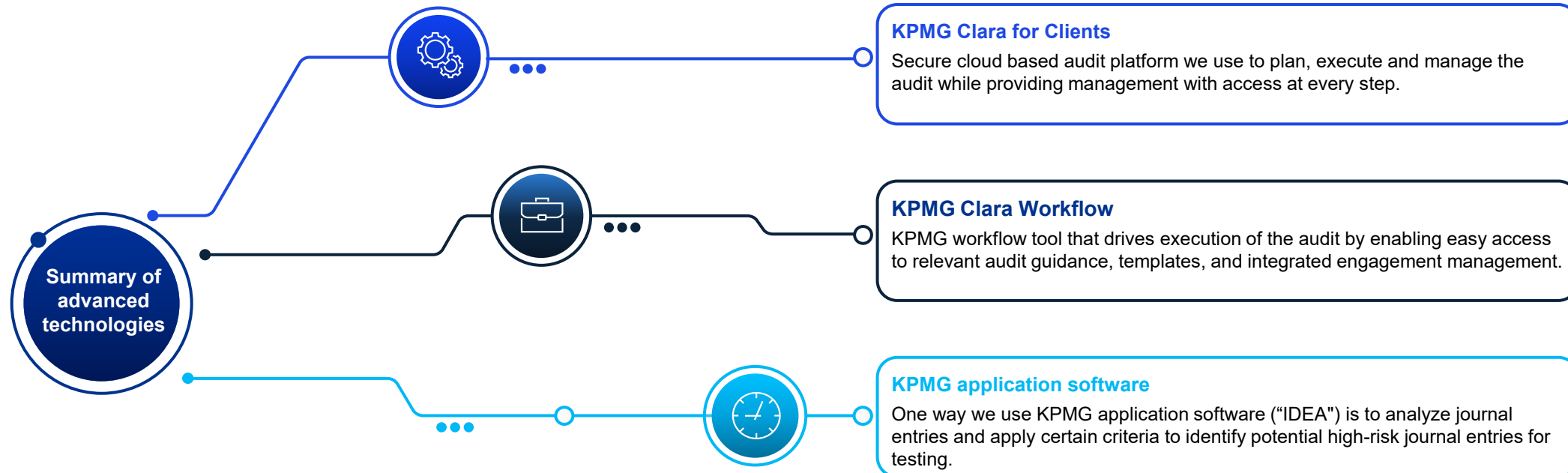
Policies and practices

- ☒ Accounting policies and practices



Technology highlights

As previously communicated in our audit planning report, we have utilized technology to enhance the quality and effectiveness of the audit.



KPMG's software audit tools are intended to be used as internal enablement tools in conjunction with the performance of audit services. Information resulting from use of software audit tools may not be used as a basis for management's conclusions as to the fairness of presentation of its financial statements or form a part of the internal control.



Status

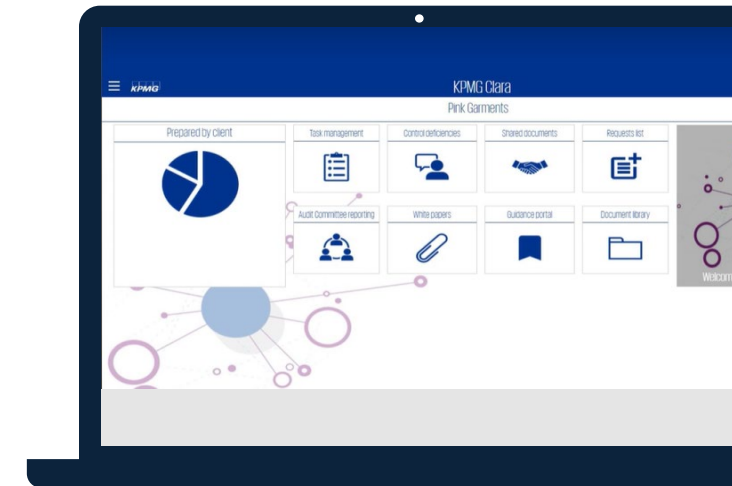
As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

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

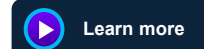
Our auditor's report will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)



Real-time collaboration and transparency

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





Significant risks and results

We highlight our significant findings in respect of **significant risk**.



Presumption of the risk of fraud involving improper revenue recognition

RISK OF



FRAUD

Other significant findings

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 the deferred revenue – obligatory reserve funds.

No

Our response

- 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, City's internal borrowing) for deferred revenue during the current year.
- We tested controls implemented pertaining to revenue recognition and performed walkthroughs of key controls surrounding the revenue process.
- In testing recognition of revenue, we assessed if development charges and other restricted grants received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation or restrictions. Based on our procedures, we conclude that the development charges and other restricted grants recorded as revenue in fiscal 2023 were used to fund eligible capital projects.
- We also incorporated an element of unpredictability into the journal entries and revenue testing.

Significant findings

- We did not identify any issues related to fraud risk associated with revenue recognition.



Significant risks and results



Management Override of Controls

RISK OF



FRAUD

Other significant findings

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 is nevertheless present in all entities.

No

Our response

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- We performed procedures consistent with professional standards to address this risk. These procedures include the following:
 - testing of journal entries and other adjustments;
 - performing retrospective review of estimates;
 - evaluating the business rationale of significant unusual transactions.
- We also incorporated an element of unpredictability into our testing of journal entries.

Significant findings

- 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:



Asset retirement obligations

Other significant findings	Estimate?
<p>The new standard PS 3280 <i>Asset Retirement Obligations</i> ("ARO") came into effect for the City's 2023 year-end. The new ARO standard requires the City to record a liability representing future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The assessment of these legal obligations and future costs requires management to perform a comprehensive analysis of controlled assets, along with the development of estimates to establish an estimated liability at the financial reporting dates of January 1, 2023, the date of adoption, and December 31, 2023, the date of the financial statements.</p> <p>The City has adopted the prospective approach, which entails a recognition of the ARO liability as at January 1, 2023. See note 1(z)(i) to the financial statements for details of the adoption of the new accounting standard.</p>	<p>Yes; involving costs and timing of retirement</p>

Our response and significant findings
<ul style="list-style-type: none"> We obtained the City's updated draft TCA policy, including ARO matters, and management's corresponding ARO implementation memo. We assessed the reasonableness of the City's scoping analysis for completeness of controlled TCA and management's rationale for excluding certain TCA items. We evaluated the City's implementation methods against the requirements of the PS 3280 standard and ensured the City's implementation was in compliance with standard guidelines and general practice across the sector. We obtained the City's ARO model assessment and performed the following procedures: <ul style="list-style-type: none"> We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness. We verified the mathematical accuracy, including inflation and discount rate adjustments, and related calculations of ARO liability at the asset category level. We inspected the cost per square foot analysis for asbestos and other contaminants, and annual monitoring costs required for the landfill post-closure activities, as developed by management. We verified all inputs against supporting documentation to ensure reasonable and accurate cost was applied to all in-scope assets in the ARO model. For any inputs that incorporated significant assumptions, we evaluated the reasonableness of these assumptions and compared them to external sources or general industry practice. We selected samples of out-of-scope assets where measurement of ARO was determined to be nil and we evaluated the rationale for that determination. We conducted meetings with key internal subject matter experts involved in the ARO model development to evaluate their extent of involvement, area of expertise and relevant skills and capabilities. We assessed the qualifications, competence and objectivity of these internal experts as required by the Canadian auditing standards. We assessed the disclosures in the financial statements against the requirements of the standard to ensure disclosures are in accordance with PS 3280. We did not note any issues in the City's adoption process of the new ARO accounting standard.



Other significant findings and results



Financial instruments

Other significant findings	Estimate?
<p>The new standard PS 3450 <i>Financial instruments</i> came into effect for the City's 2023 year-end, and is required to be prospectively applied from January 1, 2023. This standard sets forth the guidelines for accounting for financial instrument assets and liabilities, including derivative financial instruments. For items that are reported at fair value, the unrealized gains and losses are required to be reported on a new statement called the Statement of Remeasurement Gains and Losses.</p> <p>Other new standards also came into effect in 2023, including PS 2601 <i>Foreign Currency Translation</i>, PS 1201 <i>Financial Statement Presentation</i>, and PS 3041 <i>Portfolio Investments</i>. These standards are required to be adopted concurrently with PS 3450 <i>Financial Instruments</i>.</p> <p>Upon evaluation, the City identified that the new 2023 investment in a principal protected note (PPN) encompasses an embedded derivative, being the variable return of interest, and therefore, falls under the requirements of PS 3450 to report at fair value. In accordance with the standard, the City has the choice to either bifurcate the embedded derivative from the host contract, being the guaranteed principal, or carry the entire contract at its fair value. The City has elected to designate the entire instrument at fair value. The City recognized \$251,250 (2022 – nil) as unrealized gain attributable to the revaluation of the PPN, as reflected in the Statement of Remeasurement Gains and Losses.</p> <p>There are no other financial instruments that meet the requirements of mandatory fair value reporting for the City. The City has not elected to report any other financial instrument at fair value.</p>	No
Our response and significant findings	
<ul style="list-style-type: none"> • We obtained and examined management's support for fair value reported by the City for the PPN, including direct confirmation with the investment manager to examine accuracy and existence of fair value. • We performed additional procedures to gain comfort over the valuation of the PPN by using the market data information from the issuer's website. • We examined the newly introduced Statement of Remeasurement Gains and Losses, and assessed the accuracy of the presentation of unrealized gains incurred on the fair value of financial instruments, as well as other items required to be reported on this statement. • The City has added additional disclosures related to the financial risks associated with their financial instruments as required by PS 3450 Financial Instruments. • We assessed the disclosures and found no issues. • Management has assessed the impact of the 'other standards' noted above to be insignificant and immaterial. We agree with management's assessment. 	



Other significant findings and results



Revenue and Deferred Revenues

Other significant findings

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 agrees to audited results.
- We tested a sample of cash receipts to supporting agreements and bank records.
- 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.

Significant findings

- In our testing of cash receipts and adjustments recorded to deferred revenue - obligatory reserve funds, and in our testing of other fees and services, we found that management recorded \$13.4M of revenue resulting from an internal borrowing from the Development Charges Act deferred revenue - obligatory reserve fund (the obligatory reserve fund) and \$1.2M of expense when the City made an internal payment to return \$580K principal and pay \$619K interest. Recognition of revenue and expense for the principal component of the loan is not in accordance with PSAS when recognized in the consolidated financial statements for the City. Management has recorded correcting entries to eliminate the \$13.4M of revenue and \$580K of expense upon repayment.
- We note that the City has a net borrowing balance of \$12.8M that is an internal inter-fund transaction. Upon consolidation in the consolidated financial statements, the balance of debt owing by the City to the obligatory reserve fund are presented on a net basis and are effectively eliminated as an inter-organizational transaction. Note 6(b) to the financial statements describes this internal transaction and its accounting treatment.
- We did not identify any other issues with amounts reported for revenue and deferred revenue - obligatory reserve funds as at year end, and disclosures thereof.



Other significant findings and results



Employee future benefits liability

Other significant findings

Estimate?

Employee future benefits represent a liability computed by management's actuarial experts. As the employee future benefits liabilities are significant and complex estimates, KPMG actuarial specialists were involved in completing the audit procedures.

Yes; due to assumptions used to calculate the liability

In 2023, it was identified that the City's non-vested sick leave benefit plan was previously omitted from recognition as an employee future benefit liability. This plan was recorded by the City as an expense and liability in order to account for the liability as at December 31, 2023.

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 PSAS.

Significant findings

- In order to account for the sick leave plan, management engaged its actuaries to perform a full valuation as at December 31, 2023, 2022, and 2021. The purpose for the valuations performed for multiple prior years is to determine whether the prior year omission of liability is material to the City's 2022 consolidated financial statements. In both the current year of 2023 and the comparative year of 2022, the actuarially determined sick leave liability is not material to the City. Accordingly, the financial statements were not restated for 2022, but rather the full liability was recorded as an expense in 2023.
- Given that the 2022 liability is greater than our audit misstatement posting threshold, we have reported a 2022 uncorrected difference for the understatement of sick leave liability and expense, and overstatement of opening accumulated surplus for the net amount of \$12.6M. As the prior year financial statements were not restated, this difference remains uncorrected.
- The sick leave plan is also recognized by the City of Vaughan Public Library Board for employees of the library. For both of 2023 and 2022, the liability is material to the Library's standalone financial statements, which are subject to statutory audit. Accordingly, the 2022 comparative year has been restated in 2023 in the Library's financial statements.



Other significant findings and results



Employee future benefits liability (continued)

Significant findings (continued)

- Based on our assessment of the reports prepared by the actuary, we note that the method applied for the estimates is acceptable per the Canadian Institute of Actuaries and PS 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 rates used by the actuary is a key assumption. A discount rate of 4.25% (2022 – 3.0%) was used for the determination of the 2023 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 rates 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 PSAS.
- Other than as noted for the sick leave plan, and based on the audit work performed, we did not note any issues related to the calculation of the City's non-pension retirement benefits, WSIB, and sick leave liability as at December 31, 2023.
- The employee future benefit liability as at December 31, 2023 are outlined in note 5 to the financial statements.



Other significant findings and results



Tangible capital assets

Other significant findings

Estimate?

Tangible capital assets represent the largest non-financial asset for 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; due to the fair value of contributed assets

Our response and significant findings

- We tested, on a sample basis, the additions to tangible capital assets and found that management has appropriately capitalized 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 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.

Significant findings

- There were no issues as a result of our audit procedures for tangible capital assets.



Other significant findings and results



Contingencies

Other significant findings

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.

At year end, no significant provision has been made in the consolidated statements for any liability that may result.

Estimate?

No; estimation uncertainty exists regarding likelihood and measurement of contingent liability, however, this does not result in a risk of material misstatement.

Our response and significant findings

- We obtained and evaluated the City’s assessments and claims listing that are used to develop and record these estimated liabilities.
- We tested legal expenses and inspected correspondence with external law firms to identify potential legal matters.
- 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 we held discussions thereon with senior management, including internal legal representatives.
- 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.

Significant findings

- Based on the work performed, we did not note any issues with contingent liabilities recorded by the City.



Other topics

We have highlighted the following that we would like to bring to your attention:

Matter	Finding
Contaminated sites liability	<ul style="list-style-type: none">• In 2023, contamination was identified upon land that was newly acquired. The contamination meets the recognition criteria for recording a liability under the standards of PS 3260 Liability for contaminated sites. Accordingly, an amount of \$1,584,000 is recorded as a liability and recreation and cultural services expense.• We examined correspondence with both internal and external environmental specialists and did not find any issues with the amount recorded and disclosed.• Note 11 to the financial statements provides details of the liability.
Consolidation	<ul style="list-style-type: none">• Each of the entities, reported in note 1(a)(i) to the financial statements, are consolidated in the City's financial statements and are considered non-significant components.• We obtained an understanding of the consolidation process applied by management, and we completed our audit procedures related to consolidation workbook, including elimination of inter-departmental and inter-organizational transactions, pick-up of government business enterprises, and any other transactions that are relevant for consolidation.• We did not identify any issues or errors.



Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.



Impact of uncorrected misstatements – Not material to the financial statements

- The management representation letter includes the Summary of Uncorrected Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial
 - There is an uncorrected misstatement to record the impact of recognizing the 2022 \$12.6M sick leave liability in 2023, as discussed on slide 12
- Based on both qualitative and quantitative considerations, management has decided not to correct certain misstatements and represented to us that the misstatements—individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.
- We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.



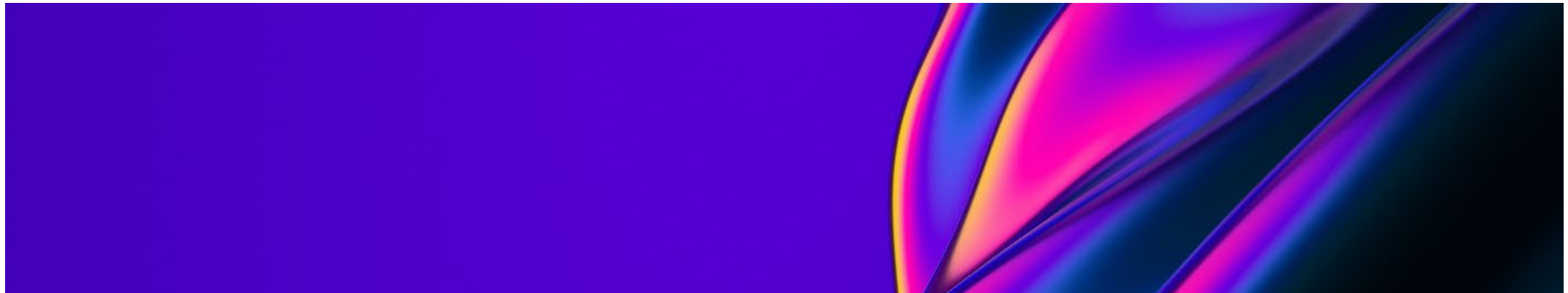
Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.



Impact of corrected misstatements

- A correction was made to reverse the recognition of revenue of \$13.4M and expense of \$580K upon the City making an internal borrowing from the Development Charges Act deferred revenue - obligatory reserve fund, as discussed on slide 11.
- Recognition of the full sick leave liability and expense of \$12.4M in 2023, as discussed on slide 12.





Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.



Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting



A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting



A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

No significant deficiencies in internal control were noted during the audit.



Accounting policies and practices



Initial selection

The following new accounting standards came into effect for the year ended December 31, 2023 and were implemented by the City:

- PS 3450 *Financial Instruments*, PS 2601 *Foreign Currency Translation*, PS 1201 *Financial Statement Presentation*, PS 3041 *Portfolio Investments*
- PS 3280 *Asset Retirement Obligations*

Impact on adoption of new accounting policies are disclosed in Note 1(z) to the consolidated financial statements.

Accounting standards effective for the year ending December 31, 2024 include Revenue, Purchased intangibles, and Public Private Partnerships. These standards are summarized in Appendix C on slide 24 and 25.



Revised

None in 2023.



Significant qualitative aspects

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

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



Appendices

A

Other required communications

B

Audit quality

C

Changes in accounting standards

D

Newly effective and upcoming changes to auditing standards

E

Audit and Assurance Insights

F

Environmental, social and governance (ESG)

G

Climate risk in the financial statements





Appendix A: Other required communications



Engagement terms

A copy of the engagement letter and any subsequent amendments have 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](#)
- [CPAB Audit Quality Insights Report: 2023 Interim Inspections Results](#)



Appendix B: Audit quality - How do we deliver audit quality?

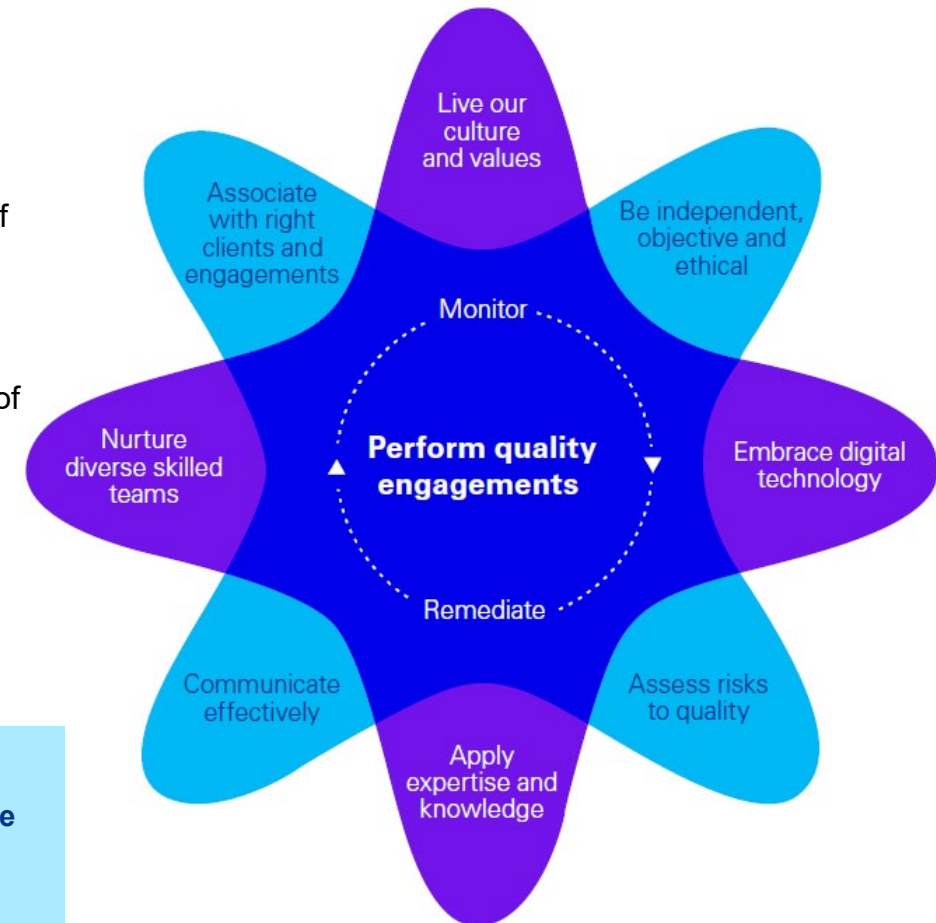
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

 [KPMG 2023 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 management**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.



Doing the right thing. Always.



Appendix C: Changes in accounting standards

Standard	Summary and implications
Revenue	<ul style="list-style-type: none">• The new standard PS 3400 <i>Revenue</i> 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.
Purchased Intangibles	<ul style="list-style-type: none">• The new Public Sector Guideline 8 <i>Purchased intangibles</i> 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 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized.• The guideline can be applied retroactively or prospectively.



Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	<ul style="list-style-type: none"> • The new standard PS 3160 <i>Public private partnerships</i> 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.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> • 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.



Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Financial Statement Presentation	<ul style="list-style-type: none"> • The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> 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: <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. • The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> 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 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. 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: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards – see Current Developments



Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

.....
(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

.....
Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

.....
Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

.....
Revised special considerations – Audits of group financial statements



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

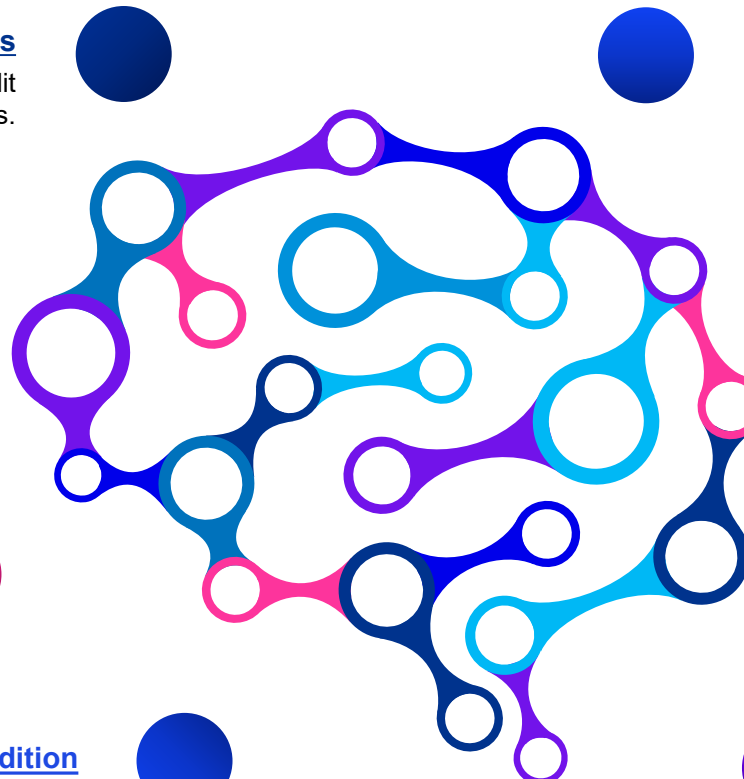
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre

Our climate change resource center 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.





Appendix F: ESG - Global regulatory reporting standards

Global regulatory reporting standards

Recent Activity

ISSB¹ and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

US (SEC^{2,3} and California⁴)

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

EU^{5,6}

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies.
- There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our [ISSB Resource Centre](#) for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our [Defining Issues](#) publication for more information on the SEC's final climate rule
3. Refer to our [Defining Issues](#) publication for more information on the SEC's cybersecurity rules
4. Refer to our [publication](#) on California's introduction of climate disclosures and assurance requirements
5. Refer to our [ESRS Resource Centre](#) for resources on implementing the ESRSs
6. Refer to our [publication](#) on the impact of EU ESG reporting on non-EU companies



Appendix F: Environmental, social and governance (ESG)

How we can help along your ESG reporting journey

Preparing for ESG reporting in accordance with regulatory standards will take substantial time and resources – it is a journey. The end goal is implementing and sustaining ESG external reporting in compliance with the applicable reporting frameworks in such a way that the ESG information and metrics reported can be verified and assured.

As your financial statement auditor, we are able to support you across a number of activities throughout your ESG reporting journey, prior to undertaking assurance readiness or formal assurance on your reported ESG information and metrics.



Establish

- Findings and observations with respect to **materiality assessment**, governance structure, reporting strategy
- **Gap assessment** to global reporting standards (e.g., IFRS S1 and S2)
- **Peer benchmarking and insights** on industry best practices



Implement / Report

- ESG reporting **training** to Board and Management



Assess

- Feedback on **current state operating model**, including processes, people, technology, service delivery model and data
- Review existing **data and estimation methodologies**



Design

- Provide management with feedback on the **reporting roadmap**
- Findings and observations on draft **external disclosures** based on leading practice





Appendix F: Environmental, social and governance (ESG)

Why your auditors should be engaged in the reporting journey

We are one-team at KPMG.

With KPMG's one-team approach, you will benefit from the efficiencies gained by having members of your financial statement audit team engaged in your ESG reporting journey along with our ESG subject matter experts.



We know you

It is important to have a general understanding of the entity and its control environment (e.g., IT systems and underlying processes) to best support you in your ESG reporting journey



Coordinated approach

Management meetings are carried out once and leveraged across your financial statement and ESG journey process, wherever possible



Synergies gained

Key messages and reports to management and the audit committee will be consistent and include both financial and ESG information



Connected to financial statements

Increased demand for consistency between ESG reporting and financial reporting puts us in the best position to support you



Single point of contact

Having KPMG as your ESG service provider – your key audit points of contacts will enable you to get clear perspectives on all your reporting needs when you need them



Future efficiencies

Engaging us in the reporting process today will be an investment that will lead to efficiencies when undergoing limited assurance in the future



Appendix G: Climate risk in the financial statements

All entities 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 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 solely payments of principal and interest (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](#)



<https://kpmg.com/ca/en/home.html>

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