KPMG

The Regional Municipality of York

Audit Findings Report for the year ended December 31, 2023

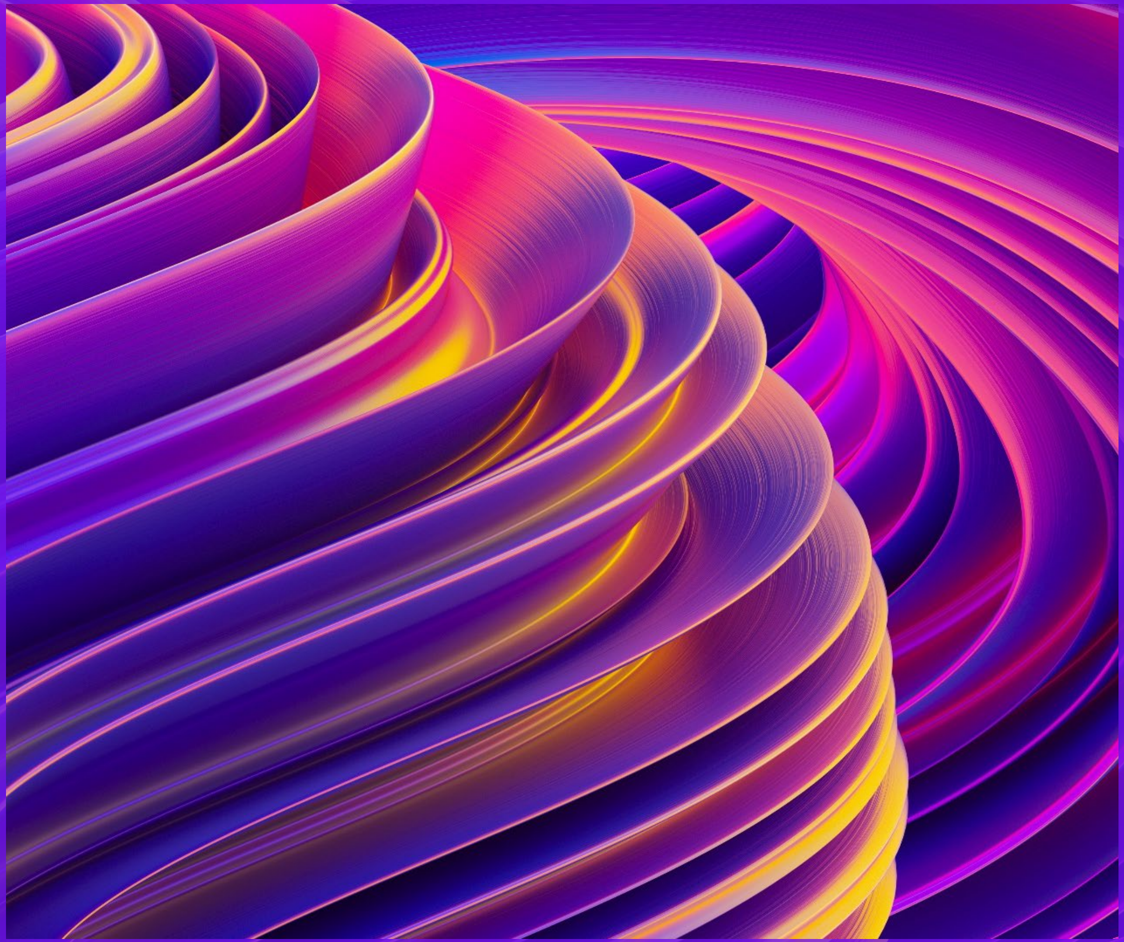
KPMG LLP

Licensed Public Accountants

Prepared as of April 5, 2024

Presented on April 26, 2024

kpmg.ca/audit



KPMG contacts

Key contacts in connection with this engagement

Maria Khoushnood
Lead Audit Engagement Partner

416-228-7082

mkhoushnood@kpmg.ca

Katie DenBok
Engagement Quality Control Review Partner

519-660-2115

kdenbok@kpmg.ca

Robert Masters
Audit Senior Manager

416-228-7296

rmasters@kpmg.com

KPMG

Table of contents

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 financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and 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 of The Regional Municipality of York ("financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on the 'Status' slide of this report.

Risks and results

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

- Tangible capital assets
- Revenue and deferred revenue earned
- Employee future benefits liabilities
- Contingencies
- Consolidation
- Asset retirement obligation
- Financial instruments

Policies and practices & Specific topics

- Accounting policies and practices
- Other matters – Cyber risk discussion

Control deficiencies

- Significant deficiencies

Technology highlights

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

Summary of advanced technologies

KPMG Clara for Clients

Secure cloud based audit platform we use to plan, execute and manage the audit while providing management with access at every step.

KPMG Clara Workflow

KPMG workflow tool that drives execution of the audit by enabling easy access to relevant audit guidance, templates, and integrated engagement management

KPMG application software

One way we use KPMG application software ("IDEA") is to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for testing.

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

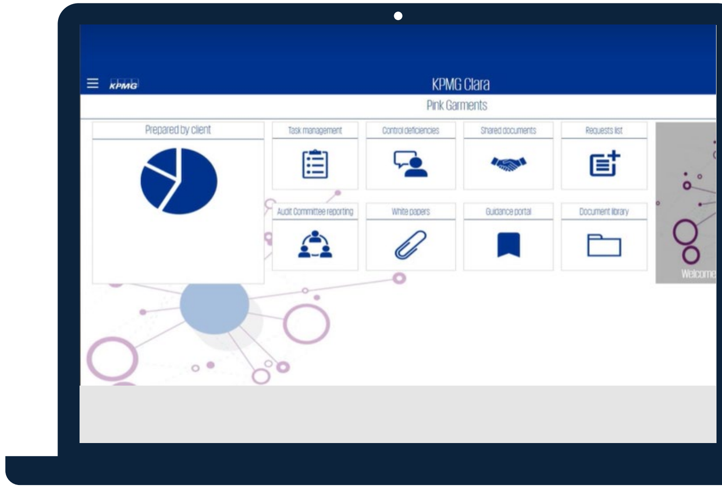
As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Commissioner
- Obtaining evidence of Management's approval of the financial statements
- Completion of subsequent event review procedures
- Receipt of signed management representation letter (to be signed upon approval of the financial statements)

We will update the Commissioner, Finance and Regional Treasurer, 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!

Learn more

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
ERROR FRAUD

Other significant findings	Estimate?
This is a presumed risk of material misstatement due to fraud. This risk has not been rebutted. Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition. 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.
- 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 also incorporated an element of unpredictability into the journal entries and revenue testing.
- We reviewed controls implemented pertaining to revenue recognition and performed walkthroughs of key controls surrounding the revenue process.

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 nevertheless is 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.

Significant findings

- We did not identify any issues or concerns regarding management override of controls.

Other findings and results

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

Tangible capital assets

Other findings	Estimate?
Tangible capital assets present the biggest non-financial asset for the Region. 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, no risk of material misstatement

Our response and findings

- We reviewed on a sample basis the additions to tangible capital assets and noted that management has appropriately capitalized the additions including transfers from work in progress 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 reviewed work in progress to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis.
- We reviewed financial statement note disclosure in line with the PSAS.
- We obtained amortization policy and assessed reasonableness of estimated useful lives in use.
- There were no other significant findings as a result of our audit procedures for tangible capital assets. The amounts reported for tangible capital assets are reasonable and disclosures in the financial statements are in accordance with the Public Sector Accounting Standards.

Other findings and results

Revenue and deferred revenue earned

Other findings	Estimate?
The Region recognizes revenue from different streams including net taxation, user charges, government transfers, development charges, investment income, fees and services, 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 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 obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to.
- We recalculated management's calculation of deferred revenue – obligatory reserve funds as at year-end.
- We also selected a sample of the increases (cash receipts) and decreases (revenue recognized) for deferred revenue during the current year to ensure appropriate revenue recognition.
- No exceptions were noted during testing.

Other findings and results

Employee future benefits liabilities

Other 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 – Employee future benefits obligation

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.

Findings

- Based on our review of the memo prepared by the Actuary, we noted that method applied for the estimate is acceptable per CIA and PSAS 3250 Retirement Benefits.
- We assessed the key assumptions used by the actuary in light of the Region's financial results. We also performed a sideways glance to compare the assumptions used by the actuary for the Region with other Ontario municipalities and we did not note any significant differences.
- We noted that the discount rate used by the Actuary is a key assumption. We evaluated the discount rate used by the actuary against the discount rate curve issued by different reliable sources. Based on this evaluation, we concluded that the discount rate used is reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of the PSAS.
- Based on the audit work performed, we did not note any issues related to the calculation of the Region's Employee Benefits Liabilities as at December 31, 2023.

Other findings and results

Contingencies

Other findings	Estimate?
PSAS 3300 Contingent Liabilities requires that the Region 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 Region 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. The Region has disclosed the legal liability in note 12 of the financial statements.	Yes

Our response and findings

- We held discussions with the Legal & Court Services Department of the Region to understand the process employed to determine the estimates for the liabilities related to legal matters.
- We obtained an understanding of the methodologies applied to compute the estimate, data involved, and assumptions applied.
- We obtained and evaluated the Region’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 did not note any issues in the Region’s assessment of contingent liabilities and amount of related liabilities for the year-ended December 31, 2023.

Other findings and results

Consolidation

Other findings	Estimate?
The Region consolidates the following entities and organizations in the consolidated financial statements for the Region: • Housing York Inc. • York Region Rapid Transit Corporation • YTN Telecom Network Inc. Inter-departmental and inter-organizational transactions and balances are between these entities and organizations are eliminated.	No

Our response and findings

- Each of the entities and organizations noted above are considered non-significant components to the Region's financial statements. For each of these entities and organizations, there is a required statutory audit performed. These individual audits are performed by the same audit team as for the main Region.
- We obtained an understanding the consolidation process in place by management including the review and approval controls, checks and balances, and information system being utilized for the consolidation process and financial reporting 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 the audit work performed, we did not identify any issues or errors.

Other findings and results

Asset retirement obligations

Other findings	Estimate?
The new standard PS 3280 Asset retirement obligations (“ARO”) came into effect for fiscal year ended on December 31, 2023. The new ARO standard requires 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 assessment of these future legal obligations requires management to perform a comprehensive analysis of controlled assets, along with the development of estimates to evaluate an estimated liability at the financial reporting dates of December 31, 2023 and December 31, 2022. The Region has adopted the modified retroactive approach, which entails a recognition of the ARO liability as at January 1, 2022. Using the modified retroactive method, the Region has recognized ARO as at January 1, 2022 with a restatement of the opening accumulated surplus as at January 1, 2022. See note 1(c) in the financial statements for the change in accounting policy note.	Yes

Our response and findings

- We obtained the Region’s ARO policy and the corresponding ARO implementation memo and performed a review to ascertain their alignment with the requirements of the PS 3280. We performed an assessment of the reasonableness of the Region’s scoping decisions and the rationale for excluding certain TCA items to determine whether they are in compliance with standard guidelines and general practice across industry.
- We obtained Region’s ARO model assessment and performed the following procedures:
  - We reviewed the Region’s ARO model and performed an assessment of the mathematical accuracy and related calculations of ARO liability at asset category level.
  - We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness.
  - We reviewed the cost per square foot analysis for asbestos, as developed by management, and 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 to the external sources or general industry practice.
  - We selected samples of in-scope assets where measurement of ARO has been calculated and agreed to relevant inputs to supporting documentation.
- We conducted meetings with significant 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 PS 3280 to ensure disclosures are in accordance with PS 3280..
- We did not note any issues in the Region’s adoption process of new ARO accounting standard. The measurement and recognition of ARO obligation is reasonable.

Other findings and results

Financial instruments

Other findings	Estimate?
The new standard PS 3450 Financial instruments came into effect for the fiscal year ended on December 31, 2023, and is to be prospectively applied from January 1, 2023. This standard sets forth the guidelines for accounting for financial assets and liabilities, including derivative financial instruments. Under PS 3450, all financial instruments are included on the Statement of Financial Position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the organization's accounting policy choices. PS 3450 requires mandatory fair value reporting for equities and derivatives whereas for all other investments, an election is available for entities to choose between amortized cost and fair value. For items that are reported at fair value, the unrealized gains and losses are required to be reported on a new statement called Statement of Remeasurement Gains and Losses. Other new standards coming into effect starting fiscal 2023 include PS2601 *Foreign Currency Translation*, PS *1201 Financial Statement* Presentation, PS 3041 *Portfolio Investments*. These other standards are required to be adopted concurrently with PS 3450 *Financial Instruments*.	No

Our response and findings

- We obtained the Region's financial instruments policy along with the implementation memo for the adoption of these new accounting standards. We conducted a review to ascertain the alignment of Region's policy and implementation with the requirements of the PS 3450 standard.
- We noted that all financial instruments for the Region are recorded at amortized cost in 2023. We did not identify any financial instruments that require mandatory fair value reporting as per PS 3450 Financial Instruments. The Region has not elected to report any financial instruments at fair value.
- A statement of remeasurement gains and losses has not been added to the financial statements due to no material balances flowing through this statement.
- We did not identify any significant issues or misstatements in the Region's adoption process of new financial instruments accounting standard.
- The Region has added additional disclosures related to the financial risks associated with their financial instruments as required by PS 3450 Financial Instruments.
- Management has assessed the impact of the 'other standards' noted above to be insignificant and immaterial. We agree with management's assessment.
- The measurement, recognition and presentation of balances impacted by this new standard are in accordance with the requirement of PS 3450 Financial Instruments.

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 Region:

- 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(c) to the consolidated financial statements.

Revised

None in 2023. See appendix C for new accounting standards for next fiscal year (year beginning on January 1, 2024).

Significant qualitative aspects

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

Estimates and assumptions are disclosed in Note 1(b)(xx).

Other matters

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

Matter	Finding
Cyber risk discussion	In response to the recent surge of cyber-attacks targeting Canadian municipalities, we held a preliminary discussion with management related to cybersecurity measures to assess readiness to deal with a cyber incident. This was not an in-depth assessment. The purpose of our assessment was to gain an understanding of the overall control environment at the Region. We did not note any issues with the Region's overall control environment related to cybersecurity.

Appendices

- **A** Other required communications
- **B** Audit quality
- **C** Changes in accounting standards
- **D** Audit and Assurance Insights
- **E** Environmental, social and governance (ESG)
- **F** Climate risk in the financial statements

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
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

Appendix A: Other required communications

A copy of the management representation letter has been provided to management.

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

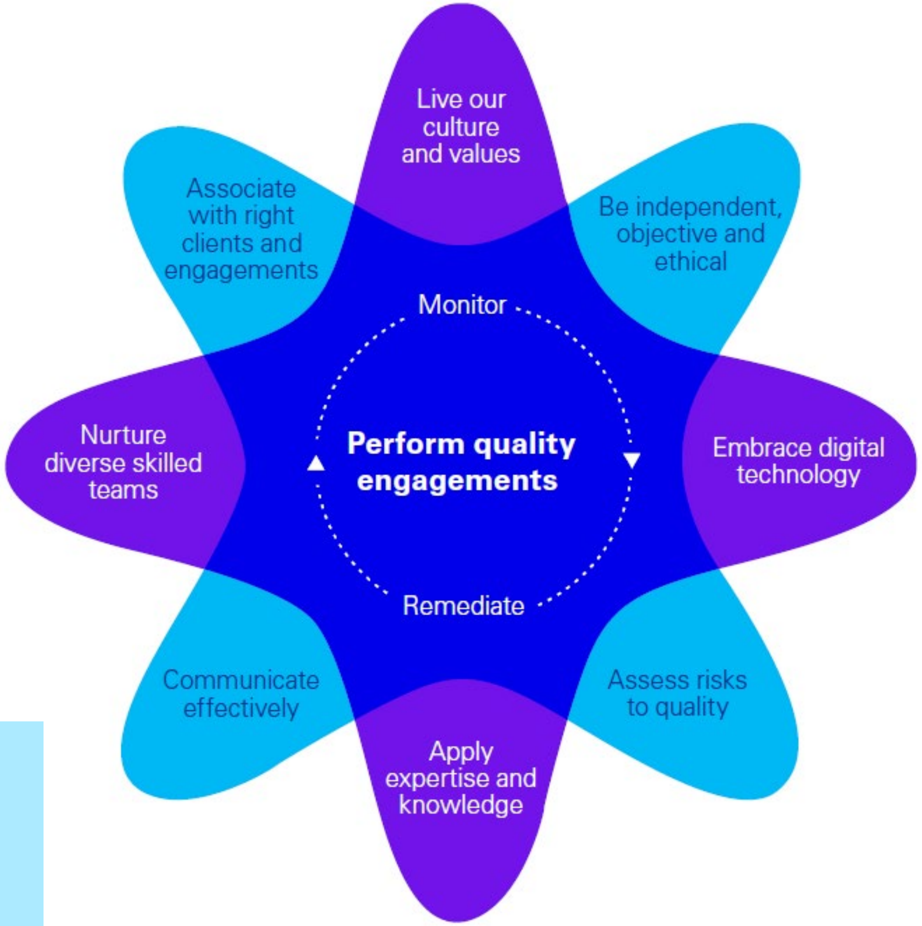
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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	• 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.
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.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
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.
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.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications

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: Audit and assurance insights

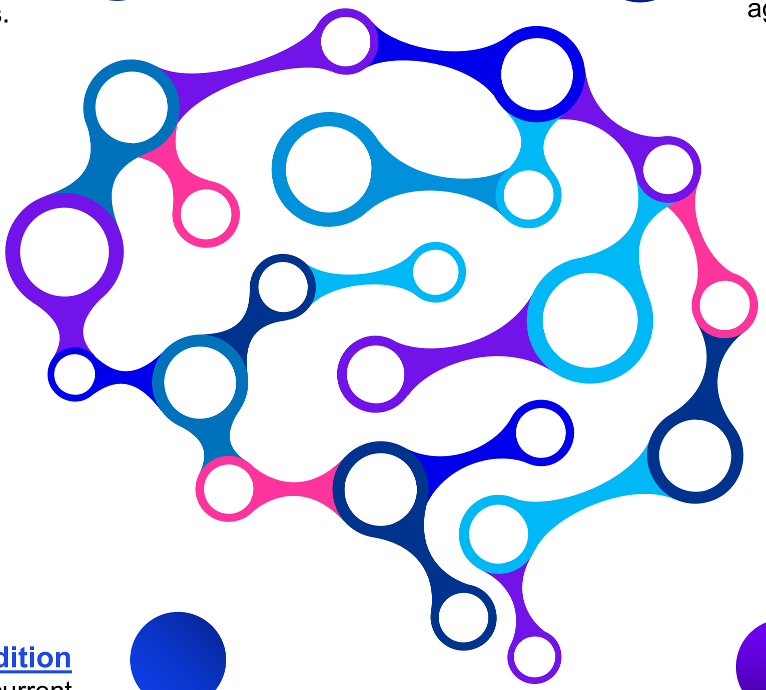
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

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 E: ESG - Global regulatory reporting standards

Global regulatory reporting standards

Recent Activity

ISSB[1] 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 California[4])

- 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 E: 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 E: 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 F: 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