Appendix C

KPMG

Board of Governors of Exhibition Place

(A Board controlled by the City of Toronto)

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Licensed Public Accountants

Prepared on April 13, 2023

kpmg.ca/audit

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The purpose of this report is to assist you, as a member of the Board of Governors, in your review of the results of our audit of the financial statements as at and for the year ended December 31, 2022. This report is intended solely for the information and use of Management and the Board of Governors 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

Group Reporting

The Board of Governors of Exhibition Place ("Exhibition Place") is controlled by the City of Toronto (the "City") and thus Exhibition Place's financial results are consolidated into the City's consolidated financial statements. The audit engagement team for the City (the "Group auditor") has noted that they will use the work of our audit and the auditor's report related to Exhibition Place's financial statements ("financial statements"). Exhibition Place is considered a non-significant component for the audit of the City, i.e. the group audit.

In accordance with Canadian auditing standards, we will be communicating matters of significance to the group auditor throughout the audit including planning and risk assessment, execution and reporting.

Status of the audit

We have completed the audit of the financial statements, with the exception of certain remaining outstanding procedures, which are highlighted on page 5 of this report.

Audit risks and results – significant risks

Significant findings related to significant risks are discussed on page 8.

Rebuttable significant risks

The presumed fraud risk involving improper revenue recognition has been rebutted by us.

Audit risks and results – other significant findings

Other significant findings are discussed on pages 9 to 11.

Corrected audit misstatements

The management representation letter includes all misstatements identified as a result of the audit, communicated to management, and subsequently corrected in the audited financial statements.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Audit risks and results – going concern assessment

No matters to report.

Accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

See Appendix C: Changes in accounting standards effective for future periods.

Significant unusual transactions

No matters to report.

Required communications

See Appendix A: Other required communications.

Auditing standards

See Appendix B: Newly effective auditing standards.

Status of the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Board of Governors
- Completing subsequent events procedures, including legal updates, up to the date of approval of the financial statements
- Receipt of the signed management representation letter (dated upon Board approval of the financial statements)
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Board, 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, a draft of which is provided in the financial statements, will be dated upon the completion of <u>any</u> remaining procedures.

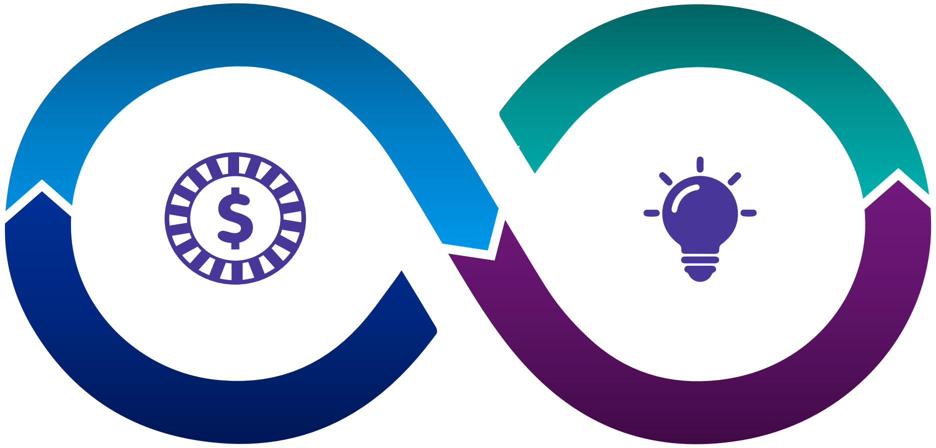
KPMG Clara for Clients (KCfc)

Real time collaboration and transparency

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

Learn more

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

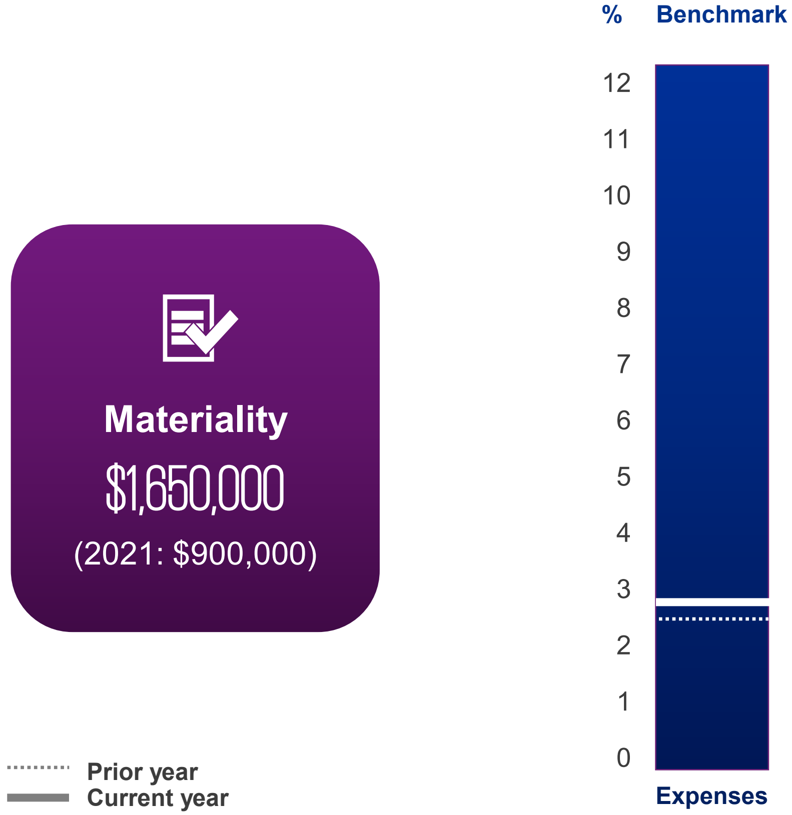
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality

Materiality

$1,650,000

(2021: $900,000)



Total Preliminary Expenses

$55,562,000

(2021 actual: $38,600,000)

Benchmarks are based on preliminary year-end balances for the fiscal 2022 year end.

Significant risks and results

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

Management Override of Controls

Significant risk	Estimate?
Presumption of the risk of fraud resulting from management override of controls. 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 presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk:
  - We have utilized data and analytics (D&A) in order to enhance the quality and effectiveness of our testing of journal entries. Using extractions of all journal entries recorded during the year, we selected samples and verified if they were supported by proper documentation and followed the journal entry initiation and approval controls and processes in place.
  - We also evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is adequate.
  - We evaluated the business rationale of significant unusual transactions.
  - Additionally, we incorporated an element of unpredictability whereby we performed an unpredictable procedure to address the potential risk of fraud and management override.

Significant findings

- We did not note any significant control deficiencies in our evaluation of the design and implementation and test of operating effectiveness of selected relevant controls over financial reporting.
- We tested journal entries and other adjustments by using D&A routines.
- We did not identify any issues or concerns after performing our review of estimates. See pages 9 and 10 for further details in this area.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.
- We carried out an element of unpredictability in the area of access rights within the Great Plains general ledger system. We did not identify any issues after completing our procedures.

Other significant findings and results

We highlight **other significant findings** as follows:

Valuation of Accounts Receivable

Other significant finding	Estimate?
Accounts receivable are required to be recorded at their expected realizable value in accordance with Public Sector Accounting Standards (PSAS).	Yes, there is estimation uncertainty regarding collectability of receivable balances.

Our response

- Our procedures included:
  - Obtaining management's analysis of collectability of receivable balances and obtaining corroborative evidence of collectability for amounts not provided for.
  - Performing a retrospective review of the estimate for doubtful accounts.
  - Direct confirmation with a sample of tenants and debtors.
  - Subsequent receipts testing.

Significant findings

- Trade receivables at the end of 2022 are $9.5M (2021 - $10.6M).
- The allowance for doubtful accounts decreased by $638K from 2021 (2021 – increase by $174K from 2020).
- Management completed a detailed assessment by customer, with consideration of the age of the receivable and whether the customer was approved by the City for the rent deferral or abatement programs, amongst other factors.
- As this is an area of estimate, we evaluated management's analysis and concur with management's assessment. Trade accounts receivable is fairly stated as at December 31, 2022.

Other significant findings and results

Employee future benefits (EFB)

Other significant finding	Estimate?
Management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year.	Yes, there is estimation uncertainty due to assumptions used by the actuary to calculate the liability for employee future benefits.

Our response

- Our procedures included:
  - Reliance on actuaries (management specialist) engaged by the City; obtaining an understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.
  - Assessing the method, data, and assumptions used by the actuary and management in the calculation of the EFB liability for reasonableness.
  - Communicating with actuaries and testing the HR data provided to the actuaries.
  - Utilizing KPMG specialists (KPMG Life & Pensions Actuarial Practice), we reviewed and evaluated the assumptions used in the actuarial reports.
  - Assessing the disclosures in the financial statements in accordance with the requirements of PSAS.

Significant findings

- On behalf of Exhibition Place, the City engaged an external actuarial consultant (the “Actuary”) to undertake a valuation of the City’s non-pension retirement benefits and accumulated sick leave liability as at December 31, 2022. A valuation was performed to determine the liability as reported in the 2022 financial statements. Discount rates ranging from 3.8% to 4.6% (2021 – 1.6% to 2.6%) were used for the determination of the liability.
- The employee future benefits liability as at December 31, 2022 is described in note 6 to the financial statements.
- Based on our review of the Actuary’s report, we noted that the method applied for the estimate is acceptable per CIA and PSAS 3250 Retirement Benefits.
- We engaged KPMG Actuarial Specialists to assess the reasonableness of the key assumptions used in the valuation.
- We note that the discount rate used by the Actuary is a key assumption. We evaluated the discount rate used against the discount rate curve issued by different reliable sources including CIA, FIERA and KPMG LLP. Based on this evaluation, we conclude that the discount rate used is reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of PSAS.
- We did not note any issues related to the calculation of Exhibition Place’s non-pension retirement benefits and accumulated sick leave liability as at December 31, 2022.

Other significant findings and results

Contingent liabilities

Other significant finding

PSAS 3300 Contingent Liabilities requires that Exhibition Place 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.

Estimate?

Estimation uncertainty exists related to the likelihood and measurement of the contingent liability.

However, this estimation uncertainty does not result in a risk of material misstatement.

Our response

- We obtained a listing of active litigation and potential claims from management and reviewed management's assessments of each matter and the process employed to develop and record the related estimated liabilities.
- We obtained legal confirmations from City legal and external counsel and evaluated the assessments made by management on the advice of legal counsel on the pending legal matters in terms of determination of likelihood and measurability.
- We reviewed Board meeting minutes to determine the completeness of contingencies and held discussions thereon with management.

Significant findings

- At any point in time, Exhibition Place is subject to a number of employment grievances and other 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.
- Based on the audit work performed, we are satisfied that the method, data, and assumptions used by management are reasonable and consistent with industry norms, and there are no issues to report.

Specific topics

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

Matter	Finding
Related parties	As part of our audit procedures, we assess related party transactions and balances, and verify appropriate note disclosure in the financial statements. We did not identify significant related party transactions that have not been appropriately authorized and approved. Material transactions with related parties, all of which are in the normal course of operations, are adequately disclosed in the notes to the financial statements. Other than $3M cash equivalents held on deposit with the City (2021 – nil), there are no new significant related party transactions. There are no significant unusual transactions.
Asset retirement obligations (ARO)	This is a future accounting pronouncement that will be effective for Exhibition Place's fiscal 2023 year-end. See also the new accounting standards in current developments in Appendix C on page 21. We understand that the City has requested Exhibition Place management to assess the guidance in this accounting standard and determine the impact that it will have on Exhibition Place's financial statements. The next step would be to put a plan in place to gather any required information and compile relevant site data such as a complete inventory of owned and leased assets, determining legal obligations for asset retirement, determining the likelihood of an ARO liability by asset, and quantifying the liabilities.

Audit quality: How do we deliver audit quality?

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

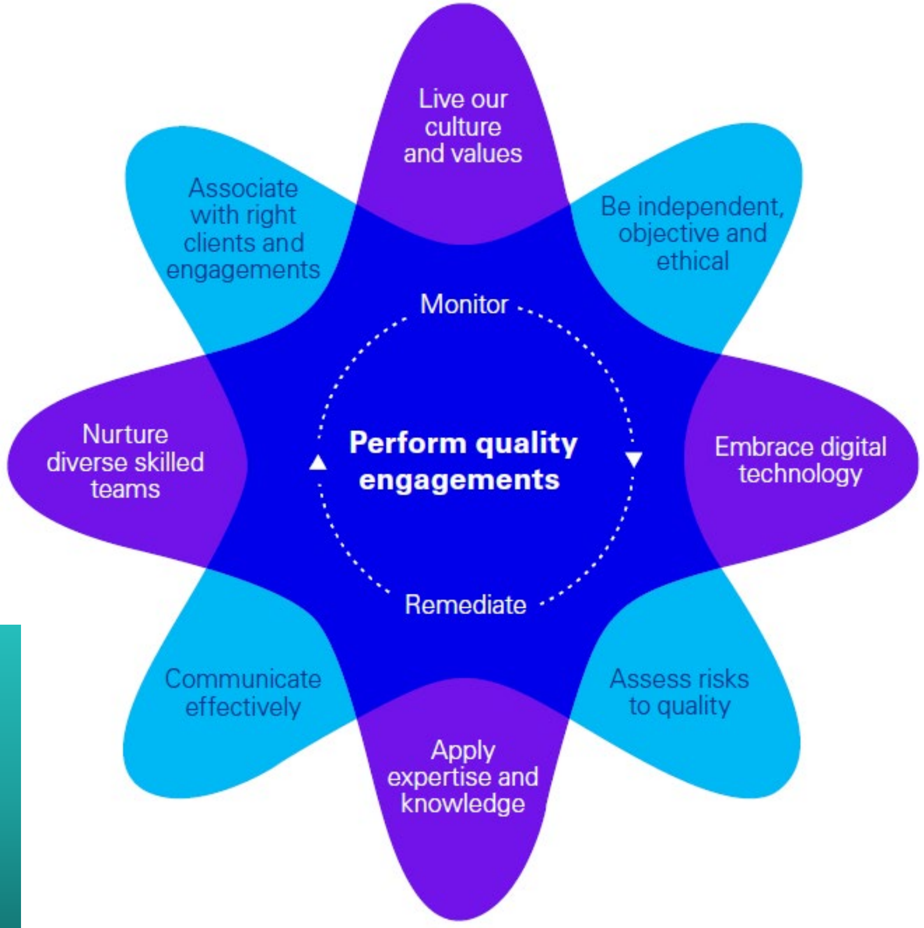
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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

KPMG 2022 Audit Quality and Transparency Report

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

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



Appendices

A — Other required communications

B — Newly effective auditing standards

C — Changes in accounting standards

D — Environmental, social and governance (ESG)

E — Audit and assurance insights

Appendix A: Other required communications

Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to City management.

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Boards and 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 Annual Inspections Results

Required inquiries

Professional standards require that during the planning of our audit, we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period. Please refer to the following inquiries:

- How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?
- What are your views about fraud risks, including management override of controls, at the entity and whether you have taken any actions to respond to these risks?
- Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- Are you aware of or have you received tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?
- What is the Board of Governors' understanding of the entity's relationships and transactions with related parties that are significant to the entity?
- Does any member of the Board of Governors have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?
- Has the entity entered into any significant unusual transactions?

Appendix B: Newly effective auditing standards

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

A **risk of material misstatement** exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

Affects both preparers of financial statements and auditors

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

See here for more information from CPA Canada

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

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

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

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

Appendix B: Newly effective auditing standards

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

Appendix B: Newly effective auditing standards

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

Appendix B: Newly effective auditing standards

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

Appendix B: Newly effective auditing standards

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

Appendix C: Changes in accounting standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022 (Exhibition Place's December 31, 2023 year-end).
	• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
	• The asset retirement obligations ("ARO") standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
	• As a result of the new standard, the public sector entity will:
	    • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
	    • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;
	    • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.

Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Appendix C: Changes in accounting standards (continued)

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

Appendix C: Changes in accounting standards (continued)

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

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

Appendix C: Changes in accounting standards (continued)

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

Appendix D: Environmental, Social and Governance (ESG)

The Importance of Sustainability Reporting

Sustainability Reporting – Who is impacted?

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

Importance to the Audit Committee

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

Governance on ESG Data and Sustainability Reporting

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

Appendix D: Environmental, Social and Governance (ESG)

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

How might climate-related risks impact the financial statements?

01

Assets

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

02

Liabilities

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

03

Borrowers

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

04

Lenders

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

05

Disclosures

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

See here for more information

Appendix D: Environmental, Social and Governance (ESG)

The Sustainability reporting journey: Regulatory update

Recent Activity[1]

International (ISSB)

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

EU (EFRAG)

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

US (SEC)

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

Canada (CSA)

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

What about the CSSB?

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

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

Appendix E: Audit and assurance insights

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

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

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

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

Accelerate 2023
The key issues driving the audit committee agenda in 2023.

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

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

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

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