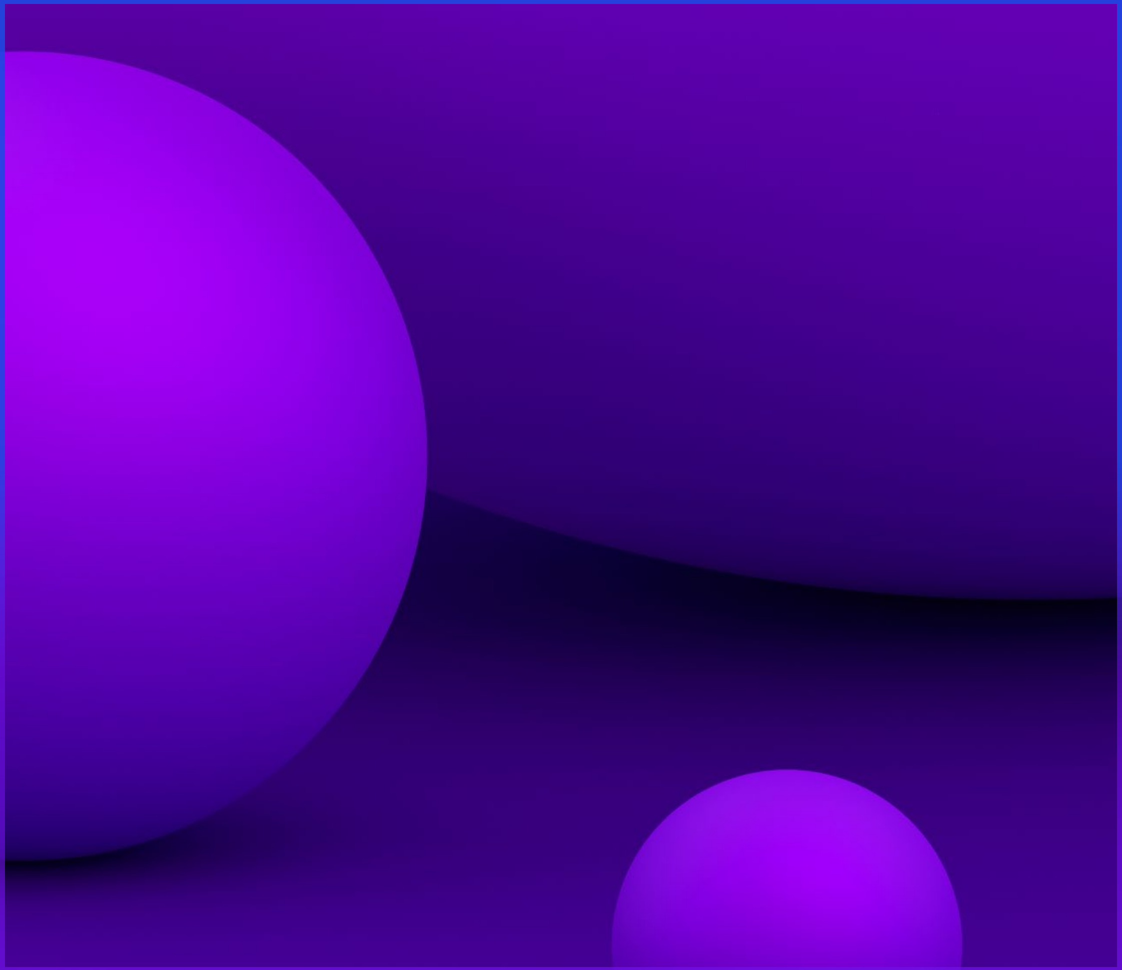
The City of Toronto



Audit Planning Report for the year ending December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of November 1, 2023 for presentation to the Audit Committee on February 23, 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 plan for our audit of the 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 to the Audit Committee 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 Planning 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

Scope

Our audit of the consolidated financial statements ("financial statements") of The City of Toronto ("the City") as of and for the year, ending December 31, 2023, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

Audit strategy

Materiality
Group: $314M
City: $301M

Involvement of others

Updates to our prior year audit plan

Audit strategy - group audit

Total	Total assets	Total revenue
Total work performed	90%	95%

Involvement of other KPMG member firms

Involvement of non-KPMG firms

Independence

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we will fulfill our other ethical responsibilities in accordance with these requirements.

Risk assessment

Presumed Risk of management override of controls

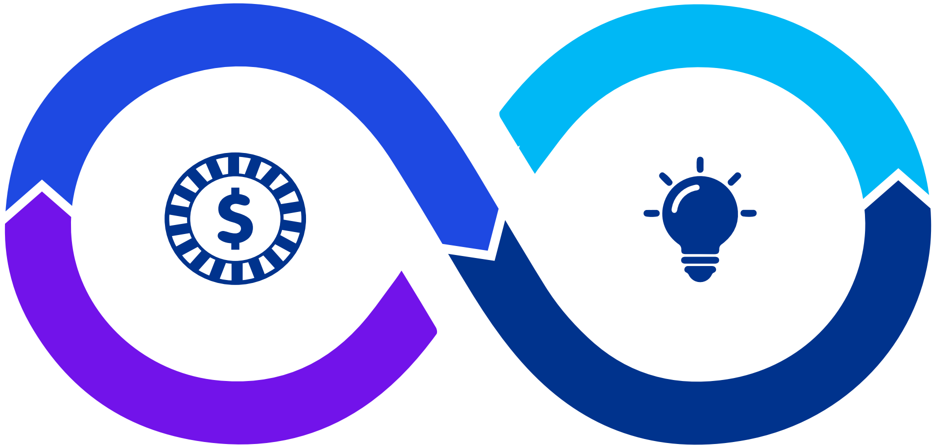
Consolidation process

Presumed risk of fraudulent revenue recognition

Other areas of focus

- Cash and Investments
- Other revenue sources
- Tangible capital assets
- Investments in Government Business Enterprises (GBEs)
- Expenses- salaries and benefits
- Employee benefit liabilities
- Accounts payable, accrued liabilities and expenses
- Commitments and Contingencies
- Long-term debt
- Trust funds (stand alone financial statement audit)
- Sinking fund debt (stand alone financial statement audit)
- Asset retirement obligations

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:

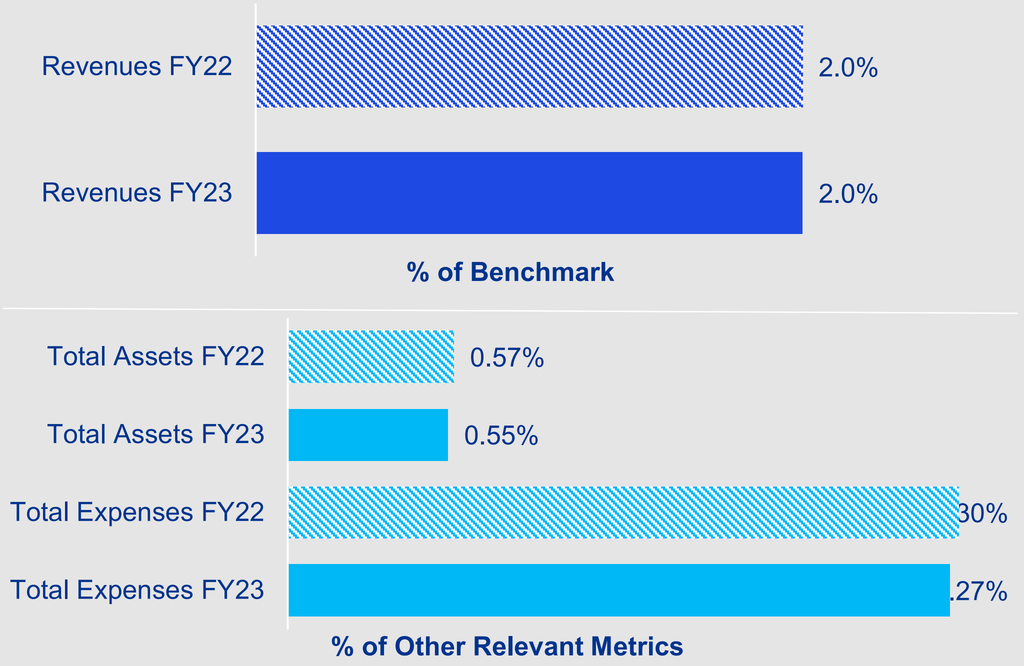
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Initial Group Materiality

Group Materiality

$314M

(2022: $305M)



Prior Year Actual Revenues

$15.68B

(2022: $15.24B)

Prior Year Total assets

$57.51B

(2022: $53.74B)

Prior Year Total expenses

$13.85B

(2022: $13.24B)

Involvement of others

The following parties are involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
Management's specialists	**Employee Future Benefits Actuarial Firm, engaged by the City** Actuary provides the valuation for the employee future benefits obligation. **Liability Claims Actuarial Firm, engaged by the City** Actuary provides the analysis of general and auto liability claim liabilities as of year end.
KPMG professionals with specialized skill or knowledge	**IT Audit Team** KPMG specialists to evaluate the City's IT environment and IT application controls in place. **Life and Pension Actuarial Specialist** KPMG actuarial specialists to evaluate the reasonability of assumptions used by management's actuarial specialists to derive the valuations of the City's employee future benefits, WSIB, and retirement and sick leave benefits obligations and related amortization amounts. **Actuarial Specialist – Insurance** KPMG actuarial specialists to evaluate the reasonability of assumptions used by management's actuarial specialists to derive the valuations of the City's unpaid claim liabilities.

Updates to our prior year audit plan

New significant risks

No new significant financial reporting risks identified

Other significant changes

Changes in Accounting standards

- PS 3280 Asset Retirement Obligations
- PS 3450 Financial Instruments
- Refer to appendix E for further explanation and appendix F for future changes in accounting standards.

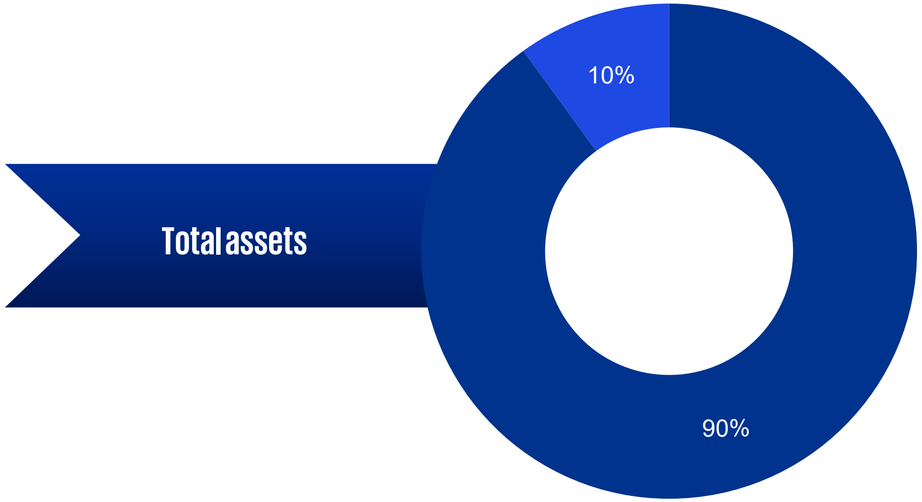
Change in accounting standards

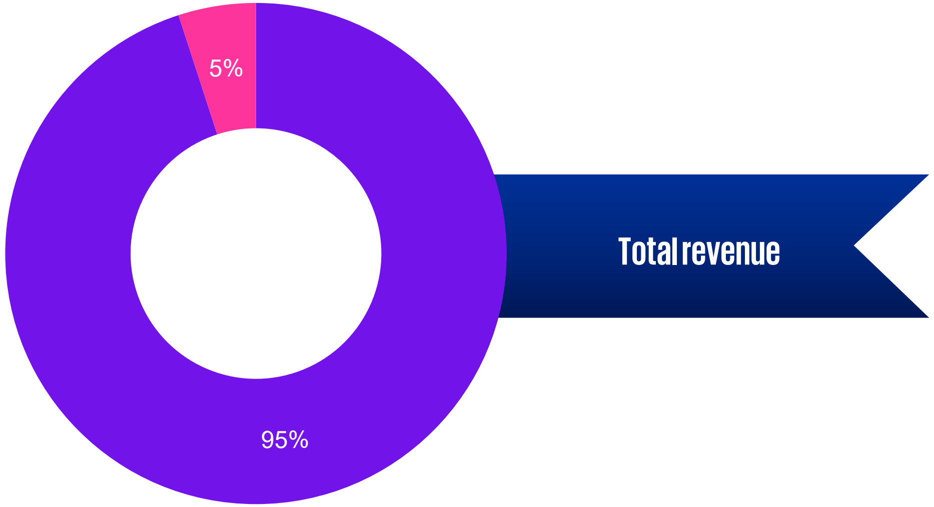
Group audit - Scoping

Breakdown by audit participants

Type of work performed	Total assets	Total revenue
Total full-scope audits	90%	95%
Excluded from direct testing	10%	5%
Total consolidated	**100%**	**100%**

The threshold for individually financially significant component is 10% of total assets or total revenue. The City of Toronto Agencies that have not met the threshold for significant components but are audited for statutory requirement are not included in this assessment.





Group audit – Significant components

Nature of the planned involvement in the work of component auditors of significant components:

	Individually financially significant components		
	City of Toronto non consolidated	Toronto Hydro Corporation ("THC")	Toronto Transit Commission ("TTC")
Discuss component's business activities and component's susceptibility to material misstatement	✓✓	✓✓	✓✓
Review of reporting including planning and completion highlights memorandums	✓✓	✓✓	✓✓
Evaluate the planned procedures to respond to significant risks	✓✓	N/A	N/A
Involvement in performing tests of controls or substantive tests	✓✓	✓✓	✓✓
Review of working papers – on location or remotely	✓✓	✓✓	✓✓

✓ PY Involvement ✓ CY Planned Involvement

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

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.

Our planned 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. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

Significant risks

Consolidation process

RISK OF ERROR

Significant risk	Estimate?	New or changed?
Risk of material misstatement related to the consolidation process due to complex organizational structure and the manual process (in excel spreadsheets) followed by the City.	No	No

Relevant inherent risk factors affecting our risk assessment

Complexity and volume of transactions within the consolidation process

Our audit approach

- We will evaluate the design and implementation of selected relevant controls in place over the consolidation and financial reporting process.
- We will perform substantive procedures over the consolidation workbooks including material adjustments booked as part of the consolidation process.
- We will involve our IT Audit specialists to gain an understanding of the automated inputs into the consolidation process, as relevant.
- We will gain an understanding of the consolidation process at the City and various elements and inputs for the consolidation. We will obtain supporting schedules to understand the inputs into the consolidation workbook and perform further audit procedures related to these supporting schedules.
- We will perform procedures on the completeness of reporting the City's interest in all entities under its control including those that qualify as Government Business Entities which are accounted for using the modified equity basis (Toronto Hydro Corporation and Toronto Parking Authority) and entities subject to joint control, which are accounted for using the proportionate consolidation method (Toronto Waterfront Revitalization Corporation and Toronto Pan Am Sports Centre Inc.)
- We will audit the consolidation workbook for accuracy through recalculation and reperformance of the key aspects of consolidation exercise.
- We will test significant manual journal entries by obtaining supporting documentation for the amounts calculated for these manual journal entries.
- We will test consolidation information related to the significant components to source records for these respective significant components. We will obtain financial information of these significant components from the respective component audit teams to ensure we are using the audited information for the purposes of the consolidation.

Advanced technologies

Our **KPMG Clara DataSnipper** is an automated vouching tool uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts with a click of a button! This tool will be used throughout the audit allowing our teams to focus more attention on areas of higher risk.

Click to learn more

Significant risks

Presumption of the risk of fraud involving improper revenue recognition

RISK OF FRAUD

Significant risk	Estimate?	New or changed?
This is a presumed risk of material misstatement due to fraud. We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (including obligatory) and government transfers.	No	No

Relevant inherent risk factors affecting our risk assessment

Complexity and magnitude of obligatory deferred revenue calculations and government transfers

Our audit approach

- Our audit approach consists of evaluating the design and implementation of selected relevant controls over the manual journal entries and other adjustments.
- We will be performing substantive procedures on manual journal entries and other adjustments associated with deferred revenue(including obligatory) and government transfers.
- We have a comprehensive audit approach related to revenue:
  - Deferred Revenue (including obligatory):
    - Update our understanding of the activities over the initiation, authorization, processing, recording and reporting related to deferred revenue (including obligatory reserves).
    - Obtain detailed continuity for deferred revenue (including obligatory reserves). Test a sample of cash receipts and revenue recognized using representative sampling techniques.
    - Obtain the supporting documentation related to the samples tested for the cash receipts and revenue recognized and assess the support to ensure that recognition for revenue is in accordance with the PSAS.
  - Government Transfers:
    - Obtain a listing of government transfer revenue reported by the City and perform test of details including a combined approach of substantive analytical and representative sampling methods.
    - Obtain supporting documentation for the eligibility criteria for the sample selected to determine if the government transfers reported in the financial statements meet the criteria outlined in the PSAS.

Advanced technologies

Our **KPMG Clara DataSnipper** is an automated vouching tool uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts with a click of a button! This tool will be used throughout the audit allowing our teams to focus more attention on areas of higher risk.

Click to learn more

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Cash and Investments	Base	• Perform testing over manual and automated controls related to bank and investment reconciliation process. • Perform test of details over significant reconciling items for cash and investments. • Perform substantive test of details over additions and disposals of investments and for any derivative financial instruments included in City's financial statements. • Perform substantive test of details over financial reporting transition to PS 3450 • Obtain supporting documentation regarding the investment income earned on deferred revenue to ensure appropriate revenue recognition. • Obtain confirmations from third parties. • Review of financial statement note disclosure in line with the Public Sector Accounting Standards (PSAS).
Other revenue sources	Base	• Update our understanding of the activities over the initiation, authorization, processing, recording and reporting of other revenue. • Obtain the City-prepared calculation of other revenue balances and perform test of details using a combination of substantive analytical and representative sampling approaches.
Expenses – salaries and benefits	Base	• Perform testing over manual and automated controls related to payroll process. • Vouch a sample of employees' salary and benefit expense to payroll information.

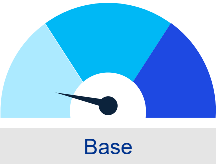
Other risks of material misstatement

Areas | **Level of risk due to error** | **Our planned response**

Tangible capital assets

- Perform testing over manual and automated controls related to recording costs to the relevant capital projects.
- Perform substantive test of details over additions and disposals using a representative sample.
- Obtain the amortization policy, verify the mathematical accuracy of amortization and assess reasonableness of the estimated useful lives in use to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives.
- Review assets under construction to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis.
- Obtain an understanding of asset write-downs during the year and the rationale behind these write-downs.
- Review of financial statement note disclosure in line with the PSAS.

Investments in Government Business Enterprises (GBEs)

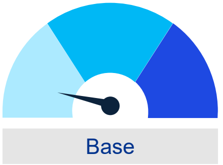


- Obtain a listing and assessment of the GBEs as prepared by management of the City including any changes from prior year, including impairment assessment.
- Obtain support for adjustments made to the investments in GBEs including income from operations, dividends received, distributions to City and any other adjustments.
- Review financial statement disclosures in accordance with PSAS.

Other risks of material misstatement

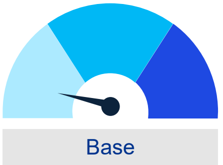
Areas | **Level of risk due to error** | **Our planned response**

Employee benefit liabilities



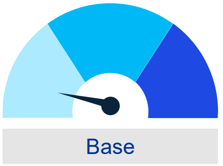
- Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuaries engaged by the City (preparer of the estimate), and the historical accuracy of the estimates.
- Obtain an update on the actuarial valuation prepared by management's expert (actuaries engaged by the City) for the year ended December 31, 2023.
- Perform audit procedures on method, data and, assumptions used by actuary and management to address the CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to employment benefit liabilities.
- Engage KPMG actuarial specialists to complete audit procedures related to assumptions used by management and management's expert
- Review financial statement disclosures in accordance with PSAS.

Accounts payable, accrued liabilities and expenses



- Perform search for unrecorded liabilities.
- Examine significant accrued liabilities for existence, accuracy and completeness and to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure requirements related to accrued liabilities.
- Perform substantive test of details on selected non-payroll expenditures.

Commitments and contingencies



- Perform a detailed review of Council Meeting minutes.
- Directly communicate with the internal legal counsel (and external as necessary) to ensure significant contingent liabilities are appropriately disclosed and/or recorded.
- Significant findings review with management during planning and completion stage of the audit engagement.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Asset retirement obligations	 Base	• Obtain management's final assessment of ARO, including support for the calculation of any recorded liability related to future costs associated with legal obligations that will be incurred upon retirement of a controlled tangible asset. • Obtain an understanding of the activities performed by management to identify the legal obligations associated with retirement of tangible capital assets. Ensure that all of the recognition criteria have been met to recognize an ARO in the financial statements. • Assess the costs that have been included in ARO liability based on information available to management and provided by any external experts. • Assess the presentation of ARO in the financial statements and ensure that the financial statements include appropriate note disclosure related to the adoption of the new standard.
Sinking fund debt (stand alone financial statement audit)	 Base	• Obtain and review any amendments to the agreement for the sinking fund debt issued by the City and obtain confirmation of the sinking fund debt as at year-end. • Perform audit procedures on the actuarial requirement to achieve planned growth to pay the debt. • Review the accounting treatment and the related disclosures in accordance with PSAS.
Trust funds (stand alone financial statement audit)	 Base	• Direct confirmation of cash and investment year-end balances with relevant third parties. • Vouching of selected revenue and expense transactions to source documents. • Review the accounting treatment and the related disclosures in accordance with PSAS.

Key milestones and deliverables

Oct – Nov 2023
Planning & Risk Assessment

- Audit planning discussion timing:
  - October 16, 2023

Nov 2023
Interim work

- Interim fieldwork timing:
  - October 30 – November 17, 2023
- Testing over transition to new PSAS standards (PS 3280 and PS 3450)
  - October 30 – November 17, 2023 [1]

April - June 2024
Final Fieldwork & Reporting

- Final Fieldwork
  - April 1 – May 31, 2024
- Testing over transition to new PSAS standards (PS 3280 and PS 3450)
  - April 1 – May 31, 2024 [1]
- Closing meetings: June 2024
- Approval of financial statements: June 2024

July 2024
Debrief

- Debrief meeting: July 2024

1 This timing is tentative. Final timing is being discussed with management.

Appendices

A Required communications

B Use of technology

C Audit Quality

D New auditing standards

E Newly effective accounting standards

F Future changes in accounting standards

G Insights

H ESG

Appendix A: Other required communications

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: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim 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:

- What are your views about fraud risk at the entity?
- How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the Entity and internal controls management has established to mitigate these fraud risks?
- Are you aware of, or have you identified any, instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- Is the entity in compliance with laws and regulations?
- Has the entity entered into any significant unusual transactions?

Appendix B: KPMG Clara

Streamlined client experience

And deeper insights into your business, translating to a better audit experience.

Secure

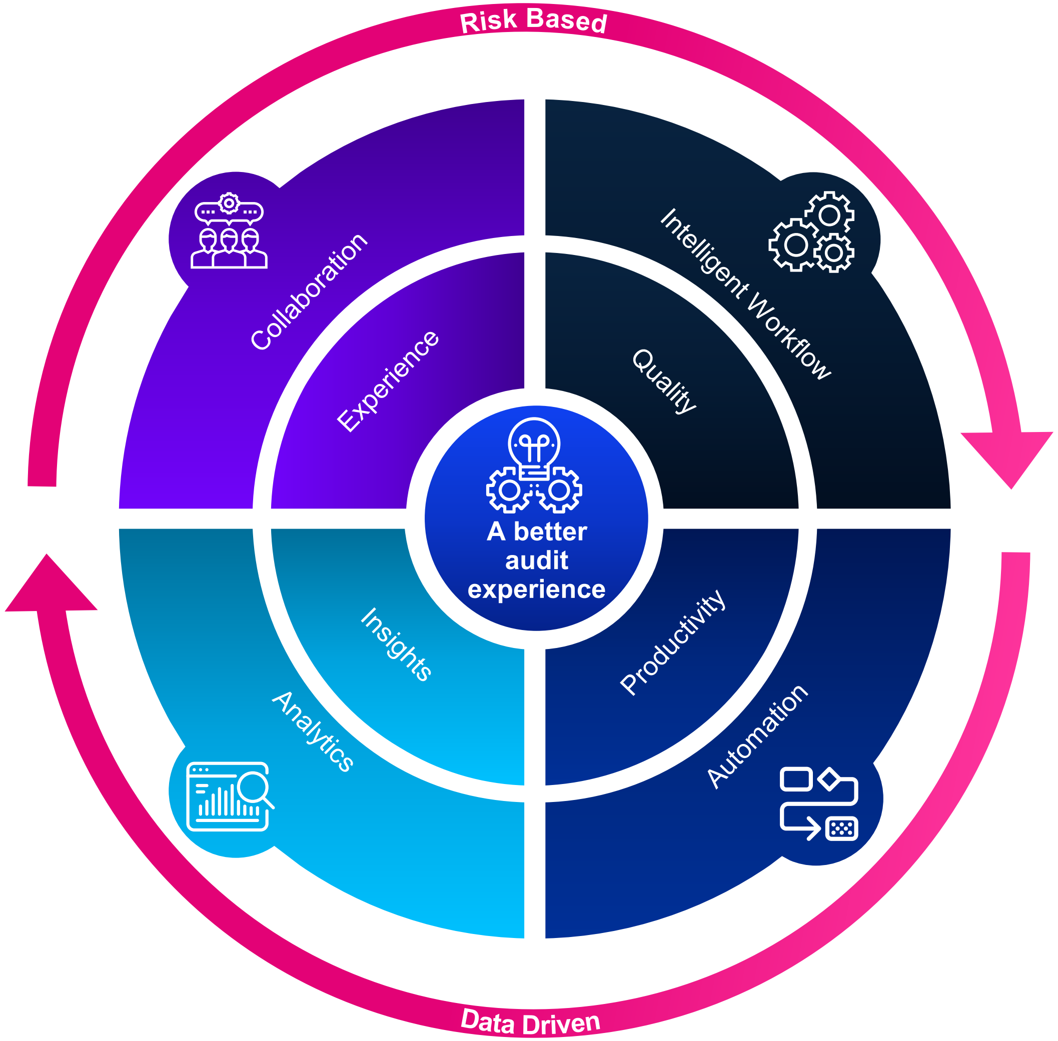
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix C: 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.

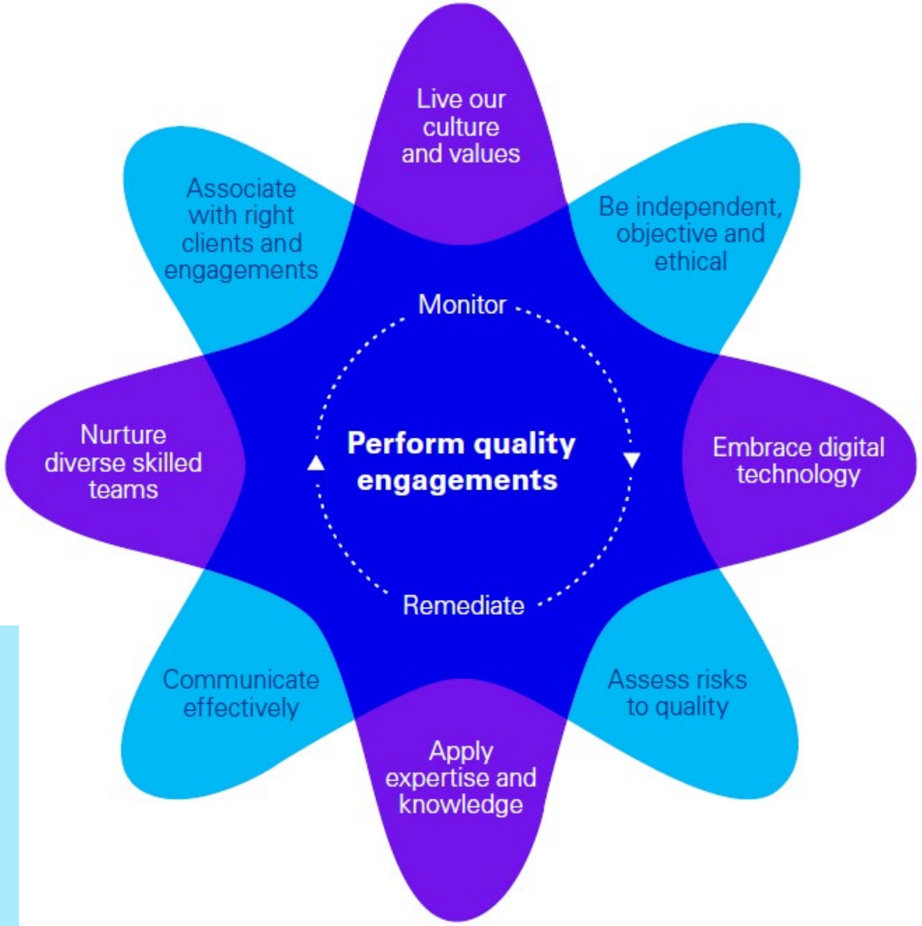
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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



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: Newly Effective 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 *(City's Current year end of December 31, 2023)*.
	• 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.

Appendix E: Newly Effective Accounting Standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	• The new standards PS 3450 Financial instruments, PS 2601 Foreign currency translation, PS 1201 Financial statement presentation and PS 3041 Portfolio investments are effective for fiscal years beginning on or after April 1, 2022 (City's current year end of December 31, 2023). The City has made the decision to report all investments at fair value in accordance with PS 3450. In accordance with the accounting standard, the decision to report at fair value is made at initial recognition and cannot be changed in future years. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. • PS 3450 Financial instruments was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Appendix F: Future 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 *(City's December 31, 2024 year-end).* • 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 *(City's December 31, 2024 year-end).* • 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 F: Future 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 *(City's December 31, 2024 year-end).* • 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 F: Future 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 F: Future 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 G: Audit and assurance insights

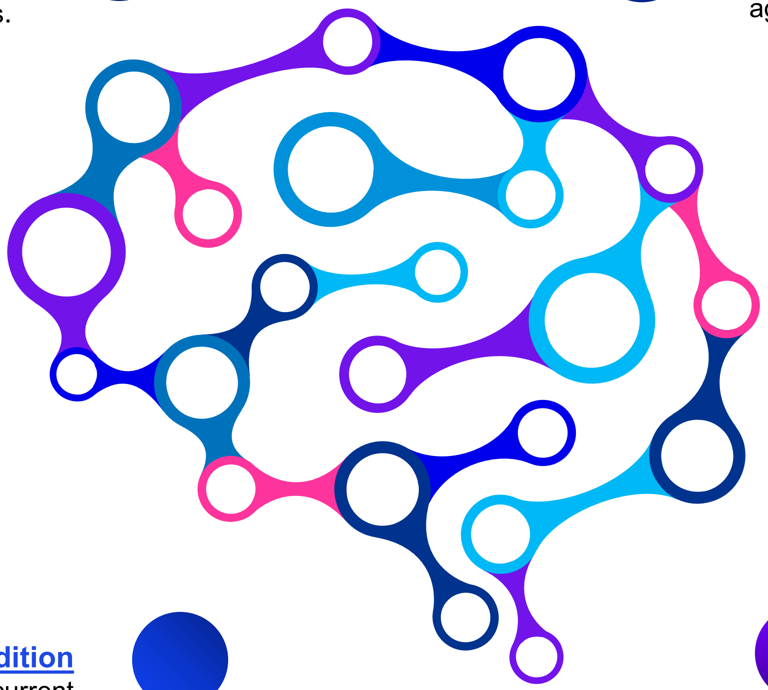
Our latest thinking on the issues that matter most to Audit Committees, City Council and management.

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.

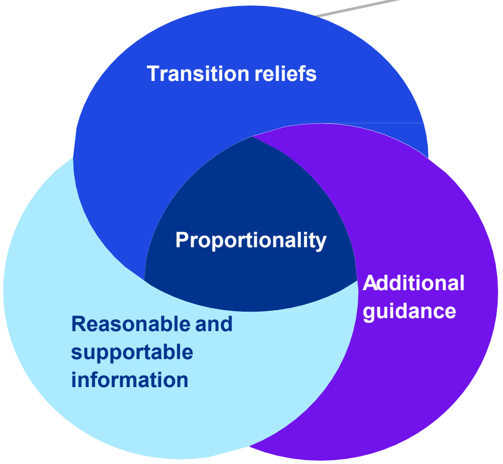
Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

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 H: Suite of optional transition reliefs

In response to practical concerns, the standards allow for transition reliefs, applicable only in the first year of application



Climate-first option

Allows entities to report only on climate-related risks and opportunities

Timing of sustainability reporting

Allows entities to report sustainability-related financial disclosures after their financial statements, but by Q2 interim reporting

Disclosing scope 3 GHG emissions

Relief from disclosing scope 3 greenhouse gas (GHG) emissions

Presenting comparative information

Allows entities an additional year to report comparative information

If climate-first option is elected, only climate-related comparative information is required in the second year of application

Using the GHG Protocol

Relief from using the GHG Protocol Standards to measure greenhouse gas emissions for entities that currently use a different methodology

Appendix H: Questions to start getting ready

01

When could they affect you?

- Effective for annual reporting periods beginning on or after January 1, 2024 (pending adoption decisions in Canada)
- If not adopted, entities may still choose to adopt the standards voluntarily

02

Where will the information be disclosed?

- It depends – the standards currently do not specify a single location
- The ISSB is committed to focus on integration in reporting

03

What if you've already adopted other frameworks?

- Map how the standards differ from current frameworks used (i.e., conduct a reporting gap assessment)
- Focus on matters that affect your entity's prospects and consider what will impact an investor's assessment of those prospects
- Consider where additional data is needed

04

Will they require scenario analysis?

- Entities will need to use scenario analysis when describing their assessment of climate resilience (i.e., analyze the impact of different climate-related risks and assumptions)
- The ISSB will provide guidance on the analysis that will be appropriate for different types of entities

05

Will your reporting need assurance?

- Assurance requirements are not within the remit of the ISSB
- In Canada, regulators may choose to require assurance – similar to what has been directed in the EU and proposed by the SEC
- Regardless of regulatory assurance requirements, entities will need to ensure they have processes and controls in place to produce robust and timely information

06

What do they mean for broader sustainability reporting?

- The standards are part of an evolution from fragmented, voluntary frameworks to authoritative standard setting
- Reporting to meet public policy and other needs is likely to continue as a separate strand of reporting

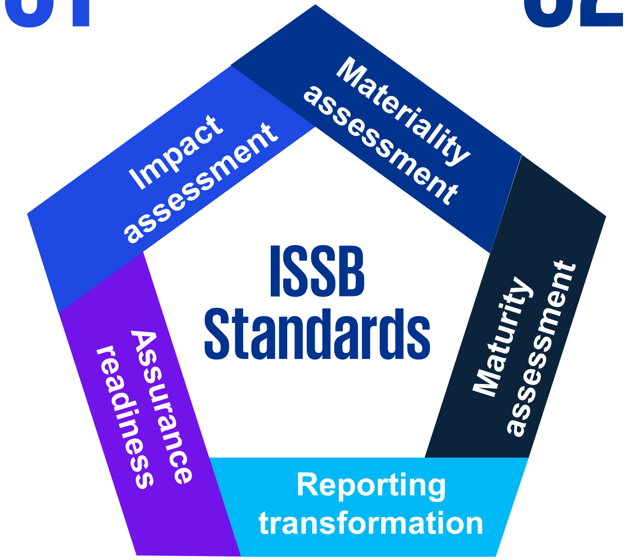
Appendix H: What do you need to do now?

01 Understand the Impact

- Research and understand current and emerging requirements
- Understand when, where and how this will impact your company

02 Determine what is material

- Determine which topics are relevant to report on
- Decide what information is material about those topics



03 Assess maturity

- Assess maturity of processes, the control environment, data model and policies related to ESG
- Understand the current distribution of roles and available knowledge and capacity

04 Transform reporting

- Design the future state of your sustainability reporting
- Deploy your target operating model, including training as well as support for change management

05 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation
- Undergo an assurance readiness assessment with your auditor
- Rectify issues ahead of the formal assurance process (when and if mandated in Canada).

Appendix H: Regulatory updates

Recent Activity[1,2,3]

EU (EFRAG)

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop draft European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the CSRD
- There are considerable ESG reporting implications for non-EU based entities - scope includes non-EU entities or groups with significant operations in the EU
- In June 2023, the European Commission released a series of proposed changes to the draft ESRSs. The most significant amendments to the proposals are:
  - General disclosures under the ESRS will remain mandatory. Other ESRS disclosures will be subject to a materiality assessment;
  - Additional phase-in relief for all entities; and
  - Amendments aiming to improve interoperability with international standards and to align with other European legislation
- The EU is expected to adopt the final standards in August 2023

SEC

- Proposal published in March 2022 would require investor-focused climate disclosures
- In June 2023, the SEC released its updated regulatory agenda, which listed a final climate rule to be issued in October 2023
- The SEC's updated regulatory agenda also included various other ESG-related items, including a final rule on cybersecurity risk governance and proposals on corporate board diversity and human capital disclosures

OSFI B-15

- In March 2023, OSFI published its final guideline *B-15 Climate Risk Management*. The requirements will be effective fiscal year-end 2024 for Domestic Systemically Important Banks and Internationally Active Insurance Groups headquartered in Canada, and fiscal year-end 2025 for all other in-scope federally regulated financial institutions (FRFIs)
- FRFIs will be required to report climate-related financial disclosures no later than 180 days after fiscal year-end
- Final disclosure expectation and/or timing of implementation of OSFI-specified prudential cross-industry and industry-specific metrics to be determined at a later date
- Assurance not required at this time, but FRFIs should work towards a future state in which external assurance is expected

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 CSSB's mandate is to develop and support the adoption of international sustainability standards in Canada
- In April 2023, the CSSB's first-ever chair and initial members were appointed

1. Refer to our *US Quarterly Outlook* publication for regulatory updates on the proposed SEC climate rules
2. Refer to our publication *ESRS resource centre* for developments on the proposed ESRSs
3. Refer to our *guide* which compares the sustainability proposals issued by the ISSB, SEC and EFRAG

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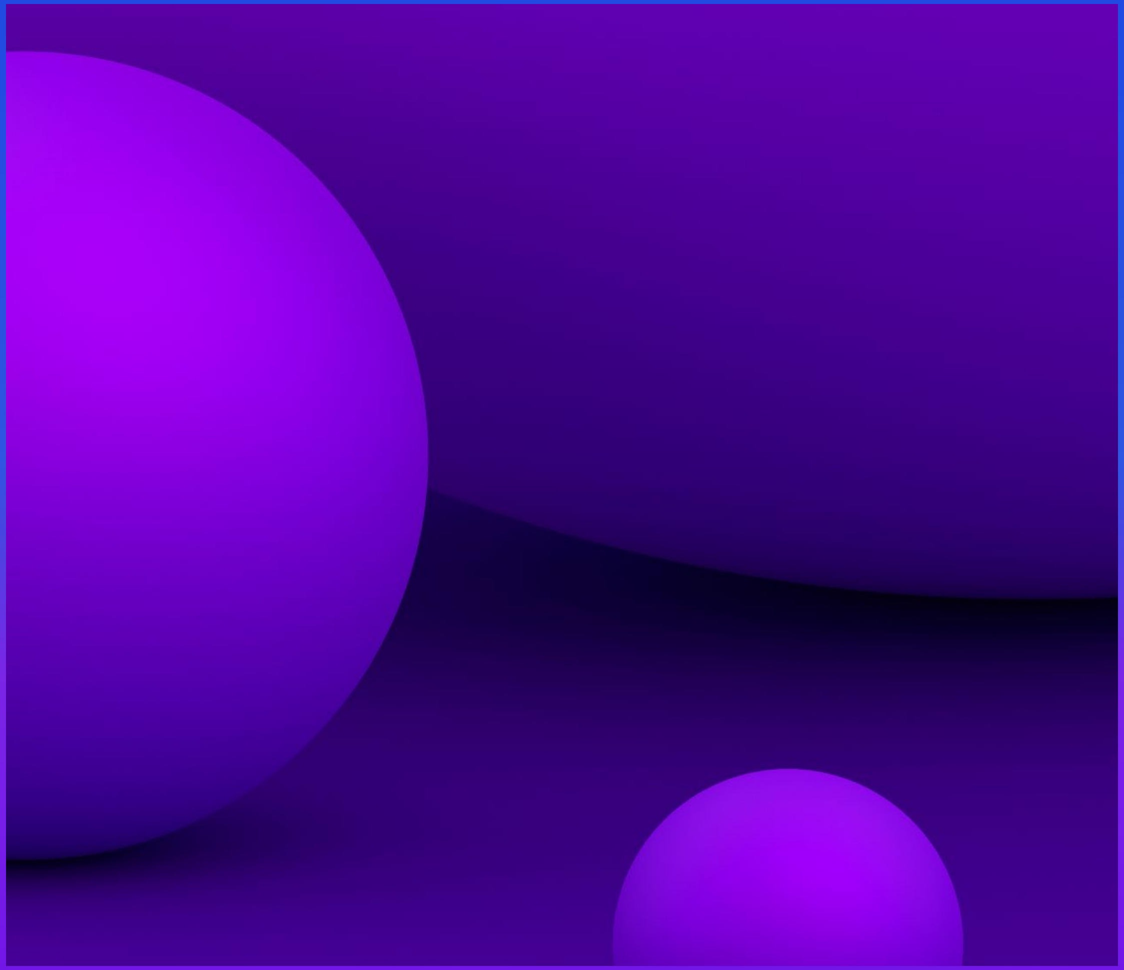

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