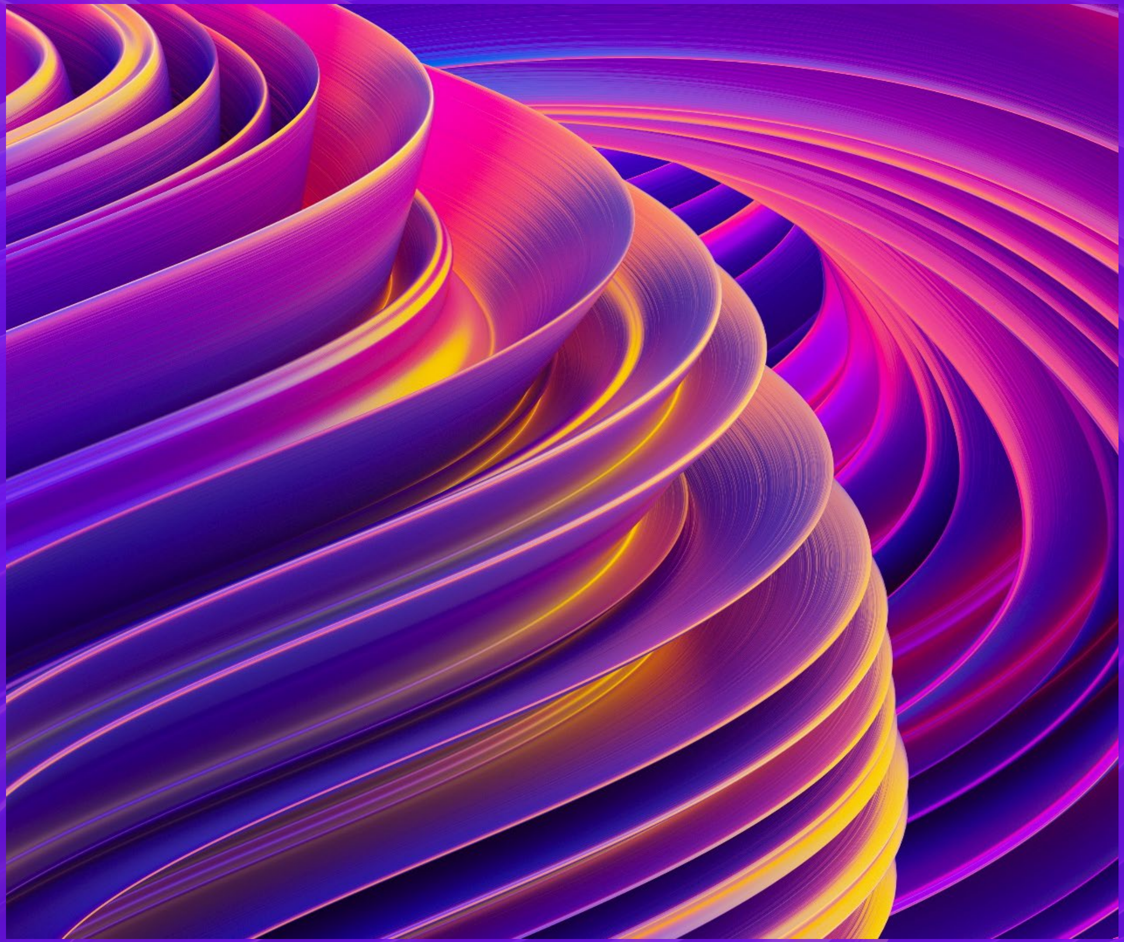
Board of Management of the Toronto Zoo

(A Board controlled by the City of Toronto)



Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of May 21, 2024 for presentation to the Policy and Finance Committee on May 27, 2024

kpmg.ca/audit

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The purpose of this report is to assist you, as a member of the Policy and Finance 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 Policy and Finance Committee, and the Board of Management 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

Group Reporting

Board of Management of the Toronto Zoo (the "Zoo") is controlled by the City of Toronto (the "City") and thus the Zoo's financial results are consolidated into the City's consolidated financial statements. The audit team for the City (the "Group auditor") has noted that they will use the work of our audit and the auditor's report for the Zoo's financial statements. The Zoo 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

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

Risks and results

- Significant risks — Matters to report
- Other risks of material misstatement — Matters to report
- Going concern matters — No matters to report

Policies and practices & Specific topics

- Significant unusual transactions — No matters to report
- Accounting policies and practices — No matters to report
- Other financial reporting matters — No matters to report
- Specific topics — Matters to report

Uncorrected misstatements

- Uncorrected misstatements — Matters to report
- See management representation letter for details

Corrected misstatements

- Corrected misstatements — Matters to report
- See management representation letter for details

Control deficiencies

- Significant deficiencies — Matters to report

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

Microsoft Teams

We used Microsoft Teams to perform certain testing and walkthroughs that required audit evidence gathered through screen-sharing capabilities, and to correspond with management.

Monetary Unit Sampling (MUS)

We used our Clara software to import GL transaction details for selected revenue and expense accounts. Based on performance materiality and the level of risk in each area, the MUS routine selected samples for testing to source documentation.

Sample selection is a systematic method and results in a lower sample size compared to a haphazard or random sample selection made manually. We were able to achieve efficiencies in our audit by using this tool.

Data Snipper

Data Snipper uses optical character recognition and robotic process automation to automate vouching procedures.

We imported your documents into the tool, which automatically matched specified excel data to the corresponding documents, leaving an audit trail behind for review by our audit team members.

KPMG Clara for clients (KCfc)

This web-based tool is a secure portal used to organize and receive all audit requests from management and allows the finance team to upload responses to our specific requests via secure link on the web portal.

Computer Assisted Audit Techniques (CAATs)

We utilized CAATs to verify completeness of GL data, analyze journal entries, and apply pre-determined criteria to identify potential high-risk journal entries for further testing. Refer to slide 7 for details.

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

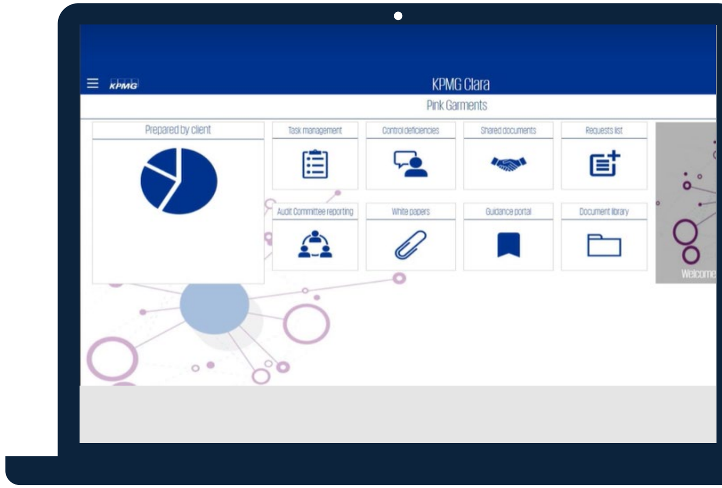
As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Policy and Finance Committee
- 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 Policy and Finance Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

A draft of our auditor's report is provided in Appendix: Draft Auditor's Report.

KPMG Clara for Clients (KCfc)



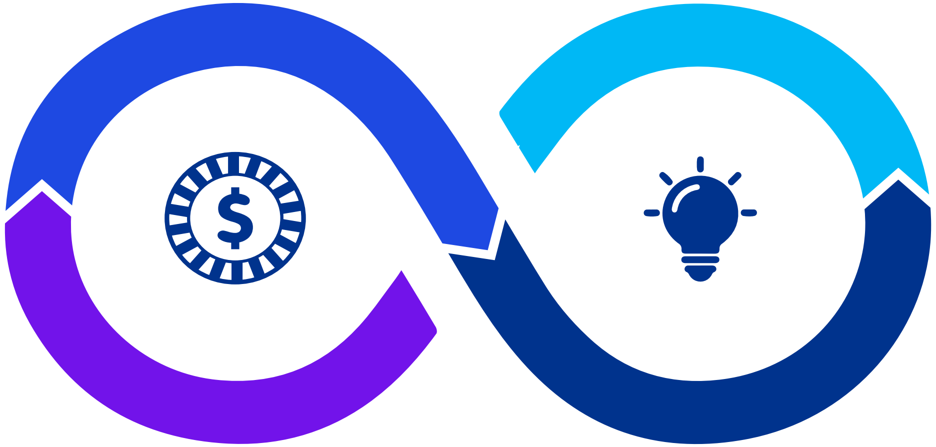
Real-time collaboration and transparency

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

On our audit we used KCfc to coordinate <X> requests from management.

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:

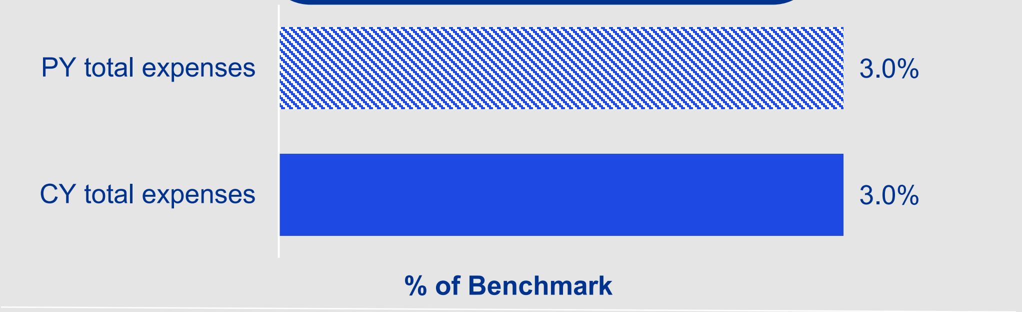
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality

Materiality

$1,870K

(2022: $1,700K)



Total expenses

$62,481K

(2022: $58,000K)

Audit misstatement posting threshold

$93K

(2022: $85K)

Involvement of others

The following party is involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures – Actuary specialist	Involved in: assessing the reasonableness of the assumptions used in the valuation of the employee future benefit liability. The employee future benefits liability is a significant accounting estimate and management relies on an actuary for the valuation of its employee future benefits. We will use an employed KPMG specialist throughout the audit cycle in assessing the assumptions and estimates used in the accounting valuation at year end.

Updates to our prior year audit plan

Other significant changes

Newly effective accounting standards	We have not identified any significant changes to accounting standards which will impact the Entity in the current year. See Appendix E for newly effective accounting standards.
Newly effective auditing standards	CSQM1 and CSQM 2, relating to audit quality, are effective for periods beginning on or after December 15, 2022. These new auditing standards increase our audit quality requirements at both an engagement-specific level and at a general level, with enhancements to audit firms' systems of quality control.

Newly effective accounting standards
Newly effective auditing standards

Significant risks and results

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

Management Override of Controls

RISK OF FRAUD

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 considered adequate.
  - We evaluated the business rationale of significant unusual transactions.
  - 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 page 16 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 this element of unpredictability.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Revenue and Deferred Revenue

Other risk of material misstatement	Estimate?
The majority of the Zoo's revenues, such as admission, membership, and food services, are financially significant. Management follows the revenue recognition policies reported in note 2 to the financial statements to recognize revenue in accordance with PSAS.	No

Our response

Our procedures included:

- Reviewing the Zoo-prepared calculation of deferred revenue balances and vouching receipts and expenditures on a sample basis. As part of our testing, we ensured recognition of revenue is based on whether the Zoo has fulfilled its obligations relating to the contribution.
- Reviewing sources of other revenue, and testing revenue items to source documentation on a sample basis.
- Evaluating revenue recognition, revenue restrictions, deferral and presentation.
- Reviewing the application of accrual accounting and performing cut off testing for significant revenue streams.
- Reviewing the continuity/tracking schedule for prepaid memberships and testing revenue recognized based on periods of benefits to members.

Other risks of material misstatement and results

Revenue and Deferred Revenue (Continued)

Significant findings

Memberships:
- There were numerous late reclassification adjustments between membership and parking revenues that were provided during the audit.
- Membership deferrals are tracked via a manual excel worksheet that is populated by finance based on information provided by the membership department. Management inputs daily memberships sold and prepares a manual deferred revenue schedule based on these inputs every month As part of our audit we recalculated deferred membership revenue. Given the manual nature of this worksheet, we identified a factual misstatement of $24,611 and extrapolated misstatement of $296,211 regarding an overstatement of membership revenue, which remains uncorrected by management in the financial statements. In addition, there was a prepaid (balance sheet debit) membership balance of $522K that should have been cleared to net off against revenue. This was corrected in the financial statements.

Gross revenue presentation:
- Consistent with previous years, in our testing of food services revenue, we found an amount of $100,000 was recorded as food services but represented a contribution. The reclassification correction is reflected in the financial statements.
- During our testing of deferred revenue we noted there is also a common practice where expenses are netted off against the deferred revenue with no gross up of the revenues and expenses in the statement of operations. There were additional adjustments proposed in this regard.

Other:
- During our review of deferred revenue we did identify numerous deferred revenue accounts with no YoY change.

Recommendation

- We recommend that management consider a month end review process by agreeing daily memberships sold as per revenue processing system with manual deferred membership revenue schedule.
- We recommend that management consider a year end checklist that includes review of deferred revenue accounts for related restrictions and whether spending during the year qualifies for revenue recognition.
- Current practice applies spending on restricted revenue (deferred revenue) against the deferred revenue directly however the related revenue and expenses should be reported gross on the statement of operations. There were audit differences resulting from this practice. Refer to management representation letter for the corrected and uncorrected misstatements.

Other risks of material misstatement and results

Capital assets

Other risk of material misstatement	Estimate?
There is a risk that additions to capital assets are recorded inappropriately when the expenditure is not eligible for capitalization or the assets are not accurately recorded.	No

Our response

- Our procedures included:
  - Selecting a sample of additions and vouching to supporting invoices

Significant qualitative aspects of the Organization's accounting practices

The current practice is to expense all capital expenditures initially, revisit what is capital in nature at the year end and capitalize the identified assets. We understand that the full balance of capital asset additions is reversed against the Operations and administration vs. reversing against the originating financial statement caption. We understand this facilitates the tracking of spending by budget owners however it results in an understatement of Operations and administration expenses and overstatement in other areas. This is a comparative issue. In addition, the Zoo does not have a documented capital asset policy that includes criteria for capitalization and amortization policies.

Significant findings

During our testing of capital asset additions we identified several additions that did not meet criteria for capitalization. As a result of this control deficiency, we updated our risk assessment to significant, requesting management to review their additions and adjust for additions not meeting capitalization criteria. We sampled the new population.

We identified $335,746 of additions which management corrected and expensed (including adjusting the related amortization). In addition we identified additional items totaling $44,303 (factual), $114,288 (extrapolated) which remain uncorrected.

Recommendation

We recommend that the Zoo formalize a capital asset policy that includes categories, thresholds and types of costs.

We would also suggest management consider a process whereby purchases are assessed at the purchase stage whether they meet criteria for capitalization. With the implementation of the new system, management should consider how best to enable the system to allow for tracking of capital costs and providing budget owners reporting on their spending. The expense classification should be updated comparatively to ensure proper presentation of the expenses. Refer to Uncorrected misstatement schedule attached with representation letter.

Other risks of material misstatement and results

Related party transactions and balances

Other risk of material misstatement	Estimate?
There is a risk that related party relationships and transactions are not completely identified.	No

Our response

- Our procedures included confirmation with the City of Toronto (the "City")

Significant qualitative aspects of the Organization's accounting practices

There are various related party transactions with the City, which includes a long term loan, appropriation funding, capital funding for City owned capital assets (project administered by the Zoo) and a year end funding reconciliation whereby the City may fund operating deficits (or the Zoo repays the City).

Significant findings

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.

Management works with the City to reconcile the year end funding reconciliation, however this was completed prior to finalization of the balances (audit completion). We discussed this with management and they reviewed uncorrected adjustments with the City and proceeded to adjust certain and items and update the City's final funding. We recommend that the Zoo management work with the City throughout the year to develop a process to track and reconcile the ongoing transactions between themselves to ensure proper and timely accounting.

Other risks of material misstatement and results

Employee future benefits (EFB)

Other risk of material misstatement	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 the 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 public sector accounting standards (“PSAS”).

Significant findings

- On behalf of the Zoo, 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, 2023. A valuation was performed to determine the liability as reported in the 2023 financial statements. Discount rates ranging from 3.8% to 4.2% (2022 – 4.1% to 4.7%) were used for the determination of the liability.
- The employee future benefits liability as at December 31, 2023 is described in note 6 to the financial statements.
- Based on our review of the Actuary’s report, we note that the method applied for the estimate is acceptable per CIA and PSAS 3250 Retirement Benefits.
- We engaged KPMG Actuary 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 the Zoo’s non-pension retirement benefits and accumulated sick leave liability as at December 31, 2023.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Contingent liabilities

Other risk of material misstatement	Estimate?
PSAS 3300 Contingent Liabilities requires that the Zoo 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.	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 a legal confirmation 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 and committee meeting minutes to determine the completeness of contingencies and held discussions thereon with management.

Significant findings

- At the end of 2023, the Zoo has no accrued liability regarding any legal claims.
- In order to evaluate management's assessment of the claims, and to confirm completeness, we circulated legal letters and obtained a response from the City legal counsel who is overseeing the matters discussed above. Based on the above information provided by City legal, and in reviewing settlement documents, we conclude that contingent liabilities are appropriately recorded as at December 31, 2023.
- At any point in time, the Zoo is subject to a number of employment grievances and other matters which could potentially result in a contingent liability as defined above, including, but not limited to, matters such as legal claims, etc. We circulated a legal letter to an external law firm who handles these matters. There are no accruals recorded in respect of grievances.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

- The management representation letter includes the Summary of Uncorrected Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial
- Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.
- We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Below is a summary of the impact of the factual uncorrected misstatement:

Surplus (deficit)	**(in $'000s)**
As currently presented	$785K
Uncorrected factual misstatements	($70K)
As a % of the balance	9%

Below is a summary of the impact of the projected uncorrected misstatement:

Surplus (deficit)	**(in $'000s)**
As currently presented	$785K
Uncorrected projected misstatements	($532K)
As a % of the balance	68%

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.

Deficiencies are discussed on previous slides.

Specific topics

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

Matter	Finding
Cyber incident	On January 5, 2024, the Zoo was hit by a cyberattack involving ransomware. We held numerous discussions with management over the ensuing time period to discuss the incident and related implications. We do not rely upon these financial systems or controls and were able to obtain all supporting information and complete a journal entry reconciliation/roll for the 2023 calendar year without issue.
Asset retirement obligations (ARO)	On January 1, 2023, the Board adopted Canadian public sector accounting standard PS 3280 Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in retired buildings by public sector entities. The standard was adopted on the modified retroactive basis at the date of adoption. Based on management's assessment of their tangible capital assets, they are of the opinion that the impact would not be material to these financial statements. There are no significant asset retirement transactions.
Finance roles – update from prior year	During fiscal 2023, a key member of the Finance team departed the Zoo, leaving a vacancy in their respective role. We note that the Zoo is a small organization with a lean finance function, and as such, this departure, coupled with a previous vacancy that was not filled, meant that there was a period of time during 2023 wherein the optimal level of segregation of duties was not present. We note that there were recent additions to the finance team in order to increase financial reporting skills and capacity, however, given they joined just prior to the start of the audit, their ability to support the audit process was limited. We also note that a Director of Finance and Technology was hired during fiscal 2023 and Controller was recently hired after year-end to provide oversight to the finance team. It is expected that the full complement of resources will improve the overall finance function in fiscal 2024.

Appendices

A Required communications

B Audit quality

C New accounting standards

D New auditing standards

E Audit and assurance Insights

Appendix A: Draft auditor's report

Refer to draft auditor's report attached to the draft financial statements.

Appendix A: Other required communications

Required Inquiries

Professional standards require that during the 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 behavior, 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 Audit & Finance Committee's understanding of the entity's relationships and transactions with related parties that are significant to the entity?
- Does any member of the Audit & Finance Committee 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?

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: Management representation letter

A copy of the management representation letter has been provided to management and should be available in your package.

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

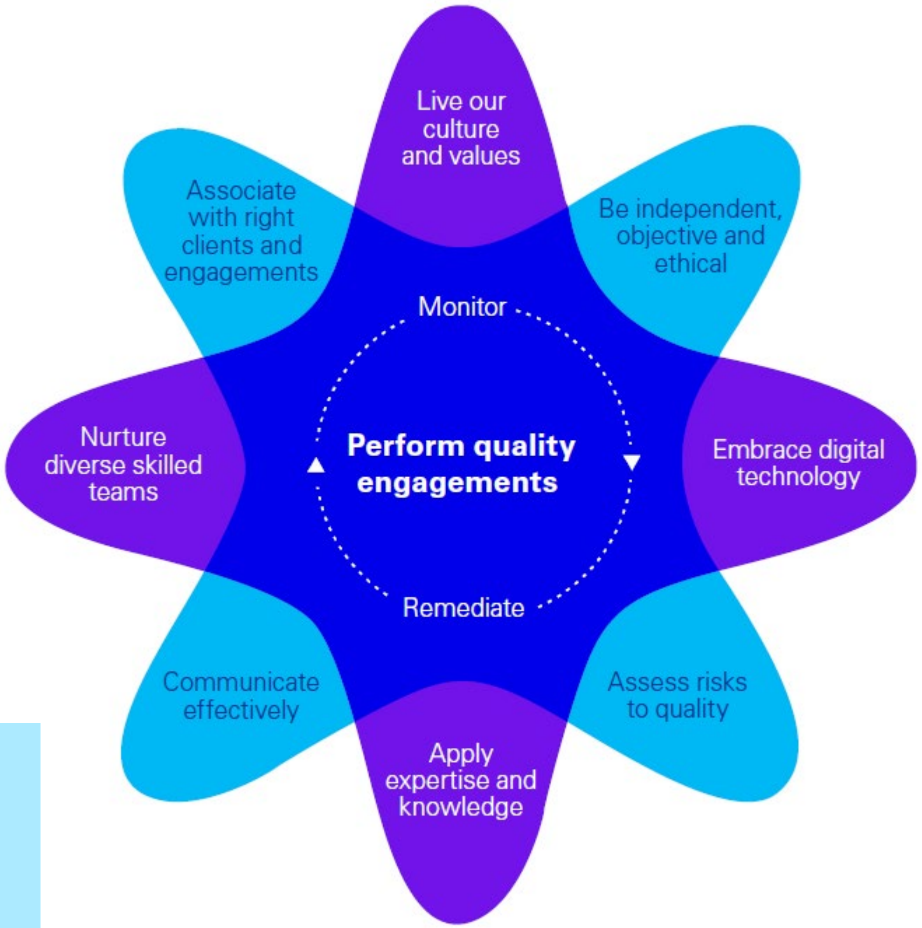
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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: Newly effective and upcoming changes to accounting standards

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: Newly effective and upcoming changes to accounting standards

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: Newly effective and upcoming changes to accounting standards

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: Newly effective and upcoming changes to accounting standards

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: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

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

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix E: Audit and assurance insights

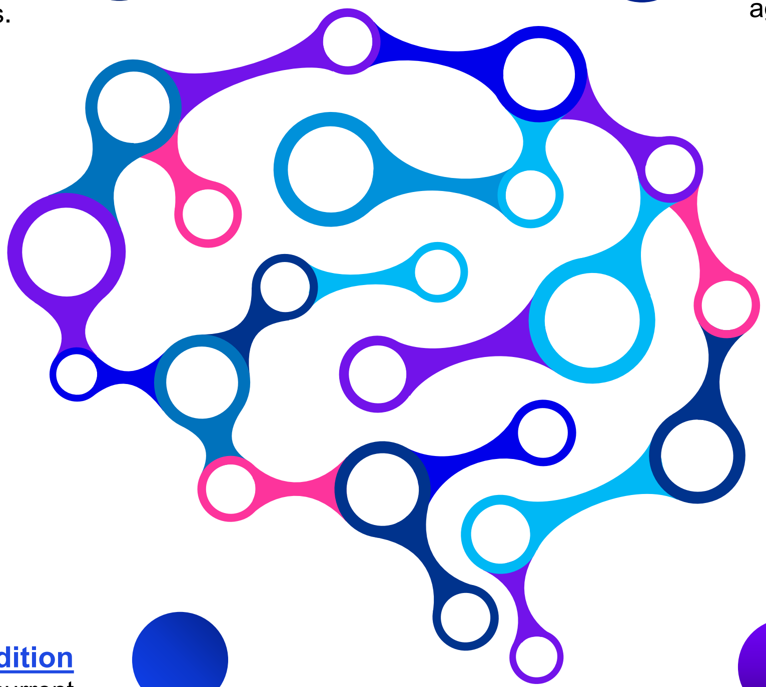
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

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

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

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

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



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

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

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

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

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