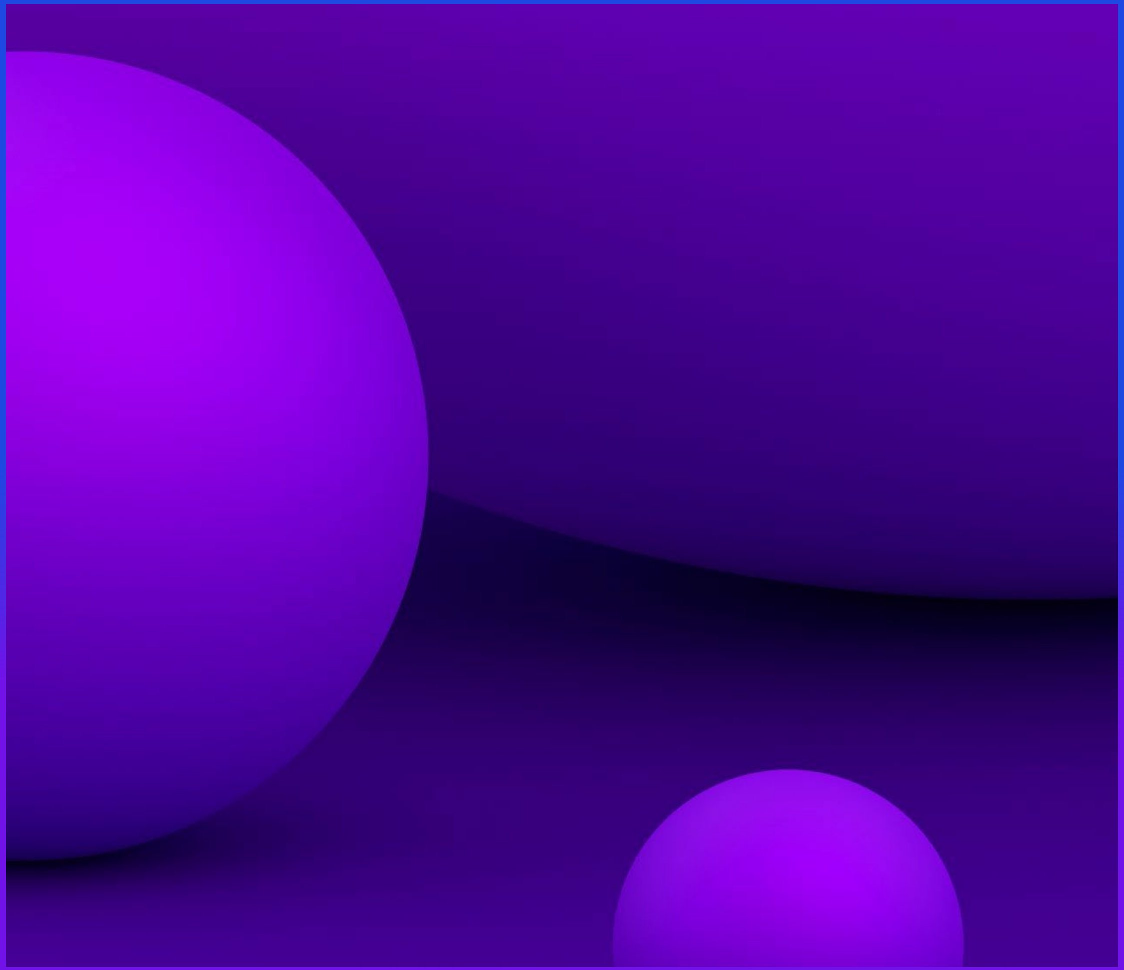
# Toronto Transit Commission



## Audit Planning Report for the year ending December 31, 2025

KPMG LLP

Licensed Public Accountants

Prepared as of October 3, 2025 for presentation to the Audit and Risk Management Committee on December 1 , 2025

kpmg.ca/audit

# KPMG contacts

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# Digital use information

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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 Toronto Transit Commission ("TTC") and Toronto Transit Commission Insurance Company Limited ("TTCIC" or "TTC Insurance Company Limited") ("the Entities") as of and for the year ending December 31, 2025, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

The Entities are controlled by the City of Toronto (the "City") and thus the Entities' financial results are consolidated into the City's consolidated financial statements. The audit engagement team for the City (the "Group auditor") has noted they will use the work of our audit and the auditors' report related to the Entities financial statements. TTC is considered a significant component for the audit engagement of the City. 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.

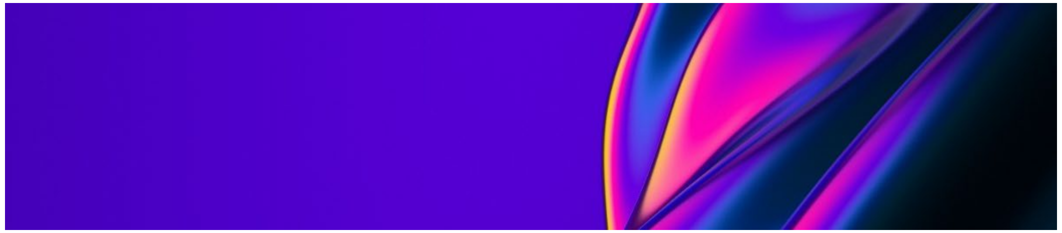
**Engagement letter**

## Audit strategy

**Materiality:**
**TTC: $70 million**
**TTCIC: $3.0 million**

Involvement of others

Group Audit - Scoping



## Risk assessment

Risk of management override of controls

Presumed risk of fraudulent revenue recognition

Other risks of material misstatement

- Revenue, subsidies receivable, accounts receivable and deferred revenue
- Cash and investments
- Accounts payable, accrued liabilities and other expenses
- Unsettled accident claims
- Tangible capital assets
- Inventory
- Salaries, benefits and employee future benefits
- Contingencies, commitments & subsequent events

The purpose of this report is to assist you, as a member of the Audit and Risk Management 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 and Risk Management Committee, and the TTC Board 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.

# Updates to our prior year audit plan

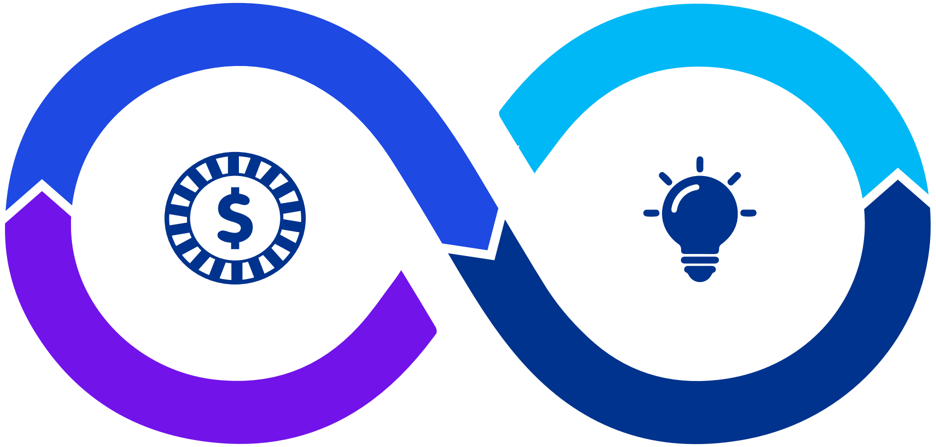
## New significant risks

No new significant financial reporting risks identified.

## Other significant changes

| | | |
|---|---|---|
| Newly effective accounting standards | Assess the impact to the financial statements and related disclosures for the changes to accounting standards effective 2025. Refer to Appendix C for new standards impacting the fiscal 2025 audit and for future changes in accounting standards. | Newly effective accounting standards |
| Newly effective auditing standards | Refer to Appendix D for new standards impacting the fiscal 2025 audit. | Newly effective auditing standards |

# 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 judgment***, 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 materiality

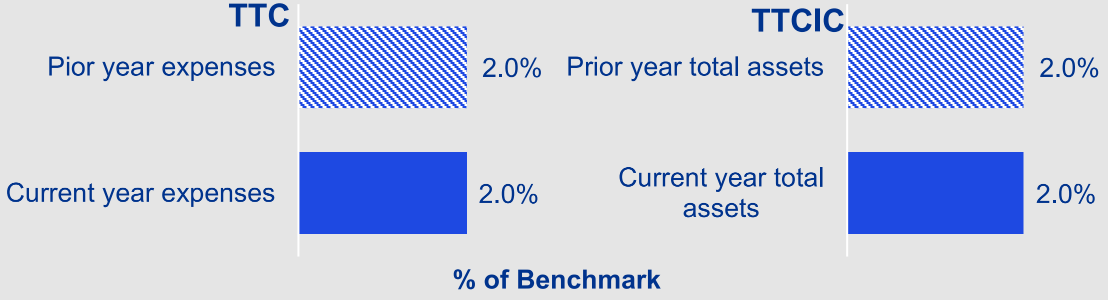
**Materiality**

**TTC: $70 million**

(2024: $66 million)

**TTCIC: $3.0 million**

(2024: $2.9 million)




**TTC: Estimated total expenses from continuing operations**

**$3.5 billion**

(2024: $3.3 billion)

**TTCIC: Prior year total assets**

**$151.4 million**

(2024: $145.6 million)

# Involvement of others

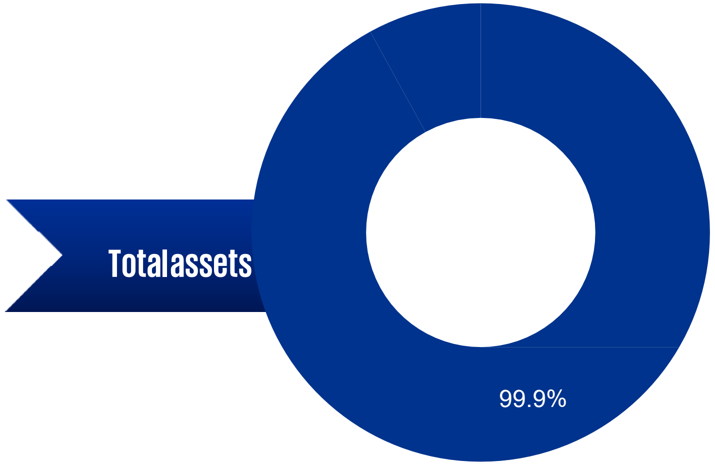
The following parties are involved in the audit of the financial statements:

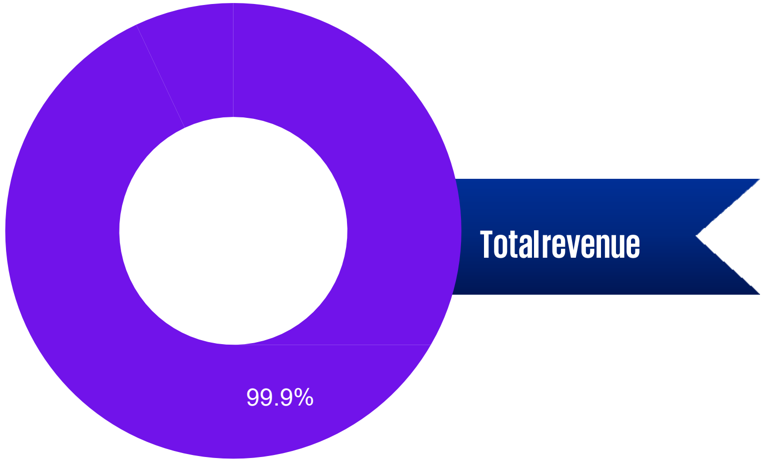
| Involved party – KPMG Professionals | Nature and extent of planned involvement |
|---|---|
| **Actuarial Specialist**<br>**Entity Applicable: TTC** | **Employee Future Benefits:**<br>• Evaluation of valuation of the employee future benefits. |
| **IT Audit Specialist**<br>**Entity Applicable: TTC** | **IT Environment:**<br>• Assisting Audit team in obtaining an understanding of the entity's IT environment, evaluating the design of relevant general and application IT controls and testing their operating effectiveness. |
| **P&C Actuarial Specialist**<br>**Entity Applicable: TTCIC and TTC** | **Accident claims liability:**<br>• Assessing the reasonableness of the estimates of claim liabilities, including the underlying assumptions and the methodology used in the determination of the liability. |

| Involved party – Management Specialists | Nature and extent of planned involvement |
|---|---|
| **Management's actuarial specialists** | **Actuarial Specialist – Employee Future Benefits (Entity Applicable: TTC):**<br>• Employee Future Benefits Actuarial Specialist has been engaged by the TTC to prepare actuarial valuations to determine the value of the employee future benefits obligation.<br>**P&C Actuarial Specialist – Accident claims liability (Entity Applicable: TTCIC and TTC):**<br>• Accident claims liability Actuarial Specialist has been engaged by the Entities to prepare actuarial valuations to determine the value of the general and auto liability claims obligation. |

# Group audit - Scoping

| Type of work performed (based on prior year financial results) | Total assets | Total revenue |
|---|---|---|
| Total full-scope audits | 99.9% | 99.9% |
| Excluded from direct testing | 0.1% | 0.1% |
| **Total consolidated** | **100%** | **100%** |




The following components are not significant for the purpose of issuing the auditor's opinion on the group of the consolidated financial statements of The Toronto Transit Commission. These components are tested separately for statutory purposes:

- Toronto Transit Commission – Sick Benefits Association
- TTC Insurance Company Limited

The standalone parent entity of TTC Insurance Company Limited (TTCIC), Toronto Coach Terminal Inc. is not material to the group and out of scope for audit

# Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the Company and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the Entities' components of its system of internal control, including our business process understanding.

| | | Risk of fraud | Risk of error |
|---|---|---|---|
| ● (pink) | Risk of management override of controls | ✓ | |
| ● (pink) | Presumed risk of fraudulent revenue recognition | ✓ | |
| ● (blue) | Revenue, subsidies receivable, accounts receivable and deferred revenue | | ✓ |
| ● (blue) | Cash and investments | | ✓ |
| ● (blue) | Accounts payable, accrued liabilities and other expenses | | ✓ |
| ● (blue) | Unsettled accident claims | | ✓ |
| ● (blue) | Tangible capital assets | | ✓ |
| ● (blue) | Inventory | | ✓ |
| ● (blue) | Salaries, benefits and employee future benefits | | ✓ |
| ● (blue) | Contingencies, commitments & subsequent events | | ✓ |

● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER RISK OF MATERIAL MISTATEMENT

# Significant risks

Risk of 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.
- Incorporating an element of unpredictability to perform a different procedure each year or make changes to an existing procedures to address the potential risk of fraud in management override.

# Significant risks

## Presumed risk of fraudulent revenue recognition

RISK OF
**FRAUD**

**Presumption of the risk of fraud resulting from fraudulent revenue recognition**

### Why is it significant?

There is a presumed risk of material misstatement due to fraud. This risk has not been rebutted. Audit standards require us to assume there are generally pressures / incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition.

### Our planned response

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- substantive testing of subsidy and passenger revenues (both recognized and amounts recorded as deferred at year end),
- assessment of management methodology in determining appropriate cut-off as at year-end,
- obtaining an understanding of potential risks of fraud and error related to revenue recognition, and management's response to fraud risk in revenue recognition and test the design, implementation, and operating effectiveness of selected internal controls over revenue recognition,
- performing test of details to substantively test significant revenue streams,
- journal entry review of revenue entries matching predetermined high-risk criteria,
- revenue cut-off procedures, including review of the completeness of deferred revenue balances
- Incorporating an element of unpredictability to perform a different procedure each year or make changes to an existing procedures to address the potential risk of fraud

# Other risks of material misstatement

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Revenue, subsidies receivable, accounts receivable and deferred revenue**<br><br>**Applicable Entity:** TTC | Risk of material misstatement related to the occurrence and completeness of revenue and accuracy of timing of revenue recognition. | • Combined approach to test the operating effectiveness of controls, and substantive test of details over revenue transactions.<br>• Third party confirmation for operating and capital subsidies from Municipal, Provincial and Federal governments, and for subsidies receivable.<br>• Obtain and review service auditor's CSAE 3416 report on controls in place at PRESTO and obtain third party confirmation of passenger revenue from PRESTO, as well as supplemental procedures to reconcile TTC records to the information provided by PRESTO.<br>• Vouch a selection of revenue transactions to supporting documentation for other revenue streams.<br>• Agree significant receivable balances to subsequent cash receipts.<br>• Revenue cut–off testing considerations. |
| **Cash and investments**<br><br>**Applicable Entity:** TTC & TTC Insurance Company Limited | Risk of material misstatement related to the completeness, existence and accuracy of cash, investments, and presentation of related note disclosures. | • Confirmation with third party financial institutions for cash and short-term investment / derivative instrument balances.<br>• Consideration of any temporary or permanent declines in value, as well as related disclosure requirements.<br>• Review of bank reconciliations and vouch significant reconciling items to supporting documentation.<br>• Review of financial statement disclosures for cash and investments. |

# Other risks of material misstatement

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Accounts payable, accrued liabilities and other expenses**<br><br>**Applicable Entity:** TTC & TTC Insurance Company Limited | Risk of material misstatement related to completeness and accuracy of liabilities and operating expenses. | • Combined approach to test the operating effectiveness of controls related to the procurement process, and substantive test of details over expenses and liabilities.<br>• Perform substantive analytical procedures over payables and expenses.<br>• Significant accruals vouched to supporting documentation.<br>• Search for unrecorded liabilities. |
| **Unsettled accident claims**<br><br>**Applicable Entity:** TTC & TTC Insurance Company Limited | Evaluate the completeness and accuracy of unsettled accident claims. | • Review report prepared by management actuarial expert for determining unsettled accident claims.<br>• Obtain assistance from KPMG actuarial specialists to review the methodology and underlying assumptions used to formulate management expert report.<br>• Vouch underlying data contained in valuation to source documentation.<br>• Leverage work from TTC Insurance Company Limited as audit evidence over unsettled accident claims for TTC audit. |

# Other risks of material misstatement

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Tangible capital assets**<br><br>**Applicable Entity:** TTC | Evaluate classification and existence of capital asset additions, asset transfers, and accuracy of amortization. | • Significant additions and disposals vouched to supporting documentation.<br>• Review tangible capital asset continuity schedule, verify mathematical accuracy of schedule and reconcile to general ledger.<br>• Recalculation and assessment of amortization expense.<br>• Examination of classification of capitalized expenditures, including payroll.<br>• Impairment analysis of tangible capital assets and aging analysis of construction in progress |
| **Inventory**<br><br>**Applicable Entity:** TTC | Evaluate the completeness, existence and accuracy of inventory balances, and assessment of provision for inventory obsolescence. | • Physical attendance to observe cycle counts performed by management as a dual-purpose test over controls and as a substantive procedure.<br>• Reconciliation of inventory listing to inventory count results and general ledger.<br>• Vouch inventory related purchases to supporting documentation.<br>• Review of the accuracy of inventory costing.<br>• Review of the provision for inventory obsolescence. |

# Other risks of material misstatement

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Salaries, benefits and employee future benefits**<br><br>**Applicable Entity:** TTC | Risk of material misstatement related to the completeness and accuracy of payroll expenditures, accrued liabilities and employee future benefits | • Combined approach to test the operating effectiveness over monitoring controls related to payroll and substantive testing over payroll.<br>• Significant payroll-related accruals recalculated and vouched to supporting documentation.<br>• Perform substantive analytical procedures / test of details over salaries and benefits, and related accounts.<br>• Review of the reconciliation of the payroll journals to the general ledger.<br>• Review actuarial report prepared by management specialists for the determination of the valuation of employee future benefit liabilities.<br>• Obtain assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the employee future benefit liabilities.<br>• Vouch underlying data contained in valuation to source documentation. |
| **Contingencies, commitments & subsequent events**<br><br>**Applicable Entity:** TTC & TTC Insurance Company Limited | Evaluate the completeness and presentation of contingencies, commitments and subsequent events | • Gain an understanding of any events that have occurred during the year which impact outstanding commitments as disclosed (i.e. any new agreements that have financial implications either via expenditures or revenue generation).<br>• Obtain and review all significant agreements and / or correspondence received during and subsequent to year end to assess the impact on TTC's financial reporting.<br>• Direct confirmation with external legal counsel to ensure that all significant contingent liabilities are appropriately disclosed and / or recorded.<br>• Communication with those charged with governance and oversight to ensure that all significant and relevant subsequent events are appropriately disclosed. |

# Required inquiries of the Committee

## Inquiries regarding risk assessment, including fraud risks

- What are the Audit and Risk Management Committee's views about fraud risks, including management override of controls, in the Company? And have you taken any actions to respond to any identified fraud risks?
- Is the Audit and Risk Management Committee aware of, or has the Audit and Risk Management Committee 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?
- How does the Audit and Risk Management Committee exercise oversight over management's assessment of fraud risk and the establishment of controls to address/mitigate fraud risks?
- Is the Audit and Risk Management Committee aware of any instances of actual or possible violations of laws and regulations, including illegal acts (irrespective of materiality threshold)?
- Is the Audit and Risk Management Committee aware of any correspondence with regulators or licensing authorities?
- Is the Audit and Risk Management Committee aware of any additional matters relevant to the audit?

## Inquiries regarding company processes

- Is the Audit and Risk Management Committee aware of or have they received tips or complaints regarding the Company's financial reporting (including those received through the Audit and Risk Management Committee's internal whistleblower program, if such programs exist)? If so, what was the Audit and Risk Management Committee's responses to such tips and complaints?

## Inquires regarding related parties and significant unusual transactions

- Is the Audit and Risk Management Committee aware of any instances where the Company entered into any significant unusual transactions?
- What is the Audit and Risk Management Committee's understanding of the Company's relationships and transactions with related parties that are significant to the Company?
- Is the Audit and Risk Management Committee concerned regarding relationships or transactions with related parties? If so, what is the substance of those concerns?

# Key milestones and deliverables

## Sep – Oct 2025
### Planning & Risk Assessment

- Audit planning discussion timing:
  - **TTC:** October 17, 2025
  - **TTCIC:** October 2025
- Kick-off with management
- Planning and initial risk assessment procedures, including:
  - Involvement of others
  - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Entities and the environment

## October 2025
### Risk assessment & Interim work

- Evaluate the Entities' components of internal control, other than the control activities component
- Perform process walkthroughs for certain business processes
- Complete initial risk assessment
- Review and evaluate management's analysis of the relevance and impact of the newly implemented accounting standards, as detailed in Appendix B
- Evaluate D&I of controls for certain business processes (control activity component)

## Oct - Nov 2025
### Interim work

- Interim fieldwork timing:
  - **TTC:** October 6 – October 17, 2025
  - **TTCIC**: November 24 – 28, 2025
- Perform interim substantive audit procedures
- Perform site visits for cycle counts and substantive procedures
- Provide update on audit progress to management

## Jan - Apr 2026
### Final Fieldwork & Reporting

- **TTC:**
  - Final Fieldwork - March 9 to April 24, 2026
  - Closing meeting – Expected June 2026
  - Approval of financial statements – Expected June 2026
- **TTCIC:**
  - Final Fieldwork - January 12 - 23, 2026
  - Closing meeting – February 2026
  - Approval of financial statements – February 2026
- Complete year-end data extraction and processing activities
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Closing meeting with management
- Present audit results to the Audit and Risk Management Committee and perform required communications
- Issue audit report on financial statements

# Our commitment to delivering audit quality

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**.

KPMG is committed to fulfilling our public interest role in providing robust assurance that can benefit investors and other stakeholders.

Businesses are integrating technology in ways once unimaginable. Geopolitical changes and inflationary pressures continue to drive uncertainty, and businesses need to take action to respond to societal threats like climate change.

The pace and scale of change only strengthens our resolve to ensure the quality, consistency and adaptability of our services are fit for this new future. Audit and assurance quality remains the highest priority at KPMG.

Through sustained innovation, we aim to consistently deliver superior audit quality. Across the global organization:

- KPMG firms have implemented a consistent risk-based approach to our system of quality management to drive audit and assurance quality, enabling us to meet the requirements of the International Standard on Quality Management 1 (ISQM 1).
- We are utilising powerful technologies on audit and assurance engagements, including artificial intelligence, and leveraging our alliances with technology leaders such as Microsoft to further enhance quality and provide even more value through deeper analysis of businesses, no matter their size.

We encourage you to read our Transparency Report to learn more about our system of quality management and our firm’s statement on the effectiveness of our SoQM:

KPMG Canada Transparency Report

# How do we deliver audit quality?

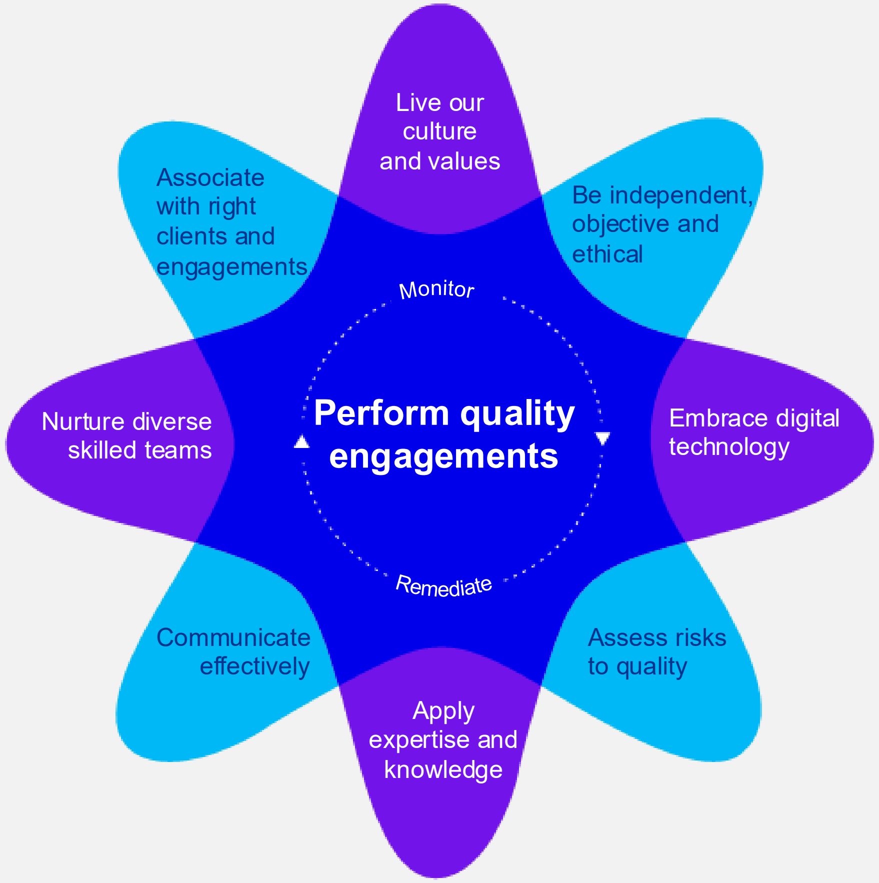
Quality essentially means doing the right thing and remains our highest priority.

We have strengthened the consistency and robustness of our system of quality management to meet the requirements of ISQM 1 (CSQM 1), issued by the International Audit and Assurance Standards Board. Foundational for quality management, KPMG's globally consistent approach to ISQM 1 drives compliance with the standard and our efforts to strengthen trust and transparency with clients, the capital markets and the public we serve.

Aligned with ISQM 1 (CSQM 1), our SoQM meets 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 **Global Quality Framework** outlines how we deliver quality and how every KPMG professional contributes to its delivery.

- **'Perform quality engagements'** sits at the core, along with our commitment to continually monitor and remediate to fulfil 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.

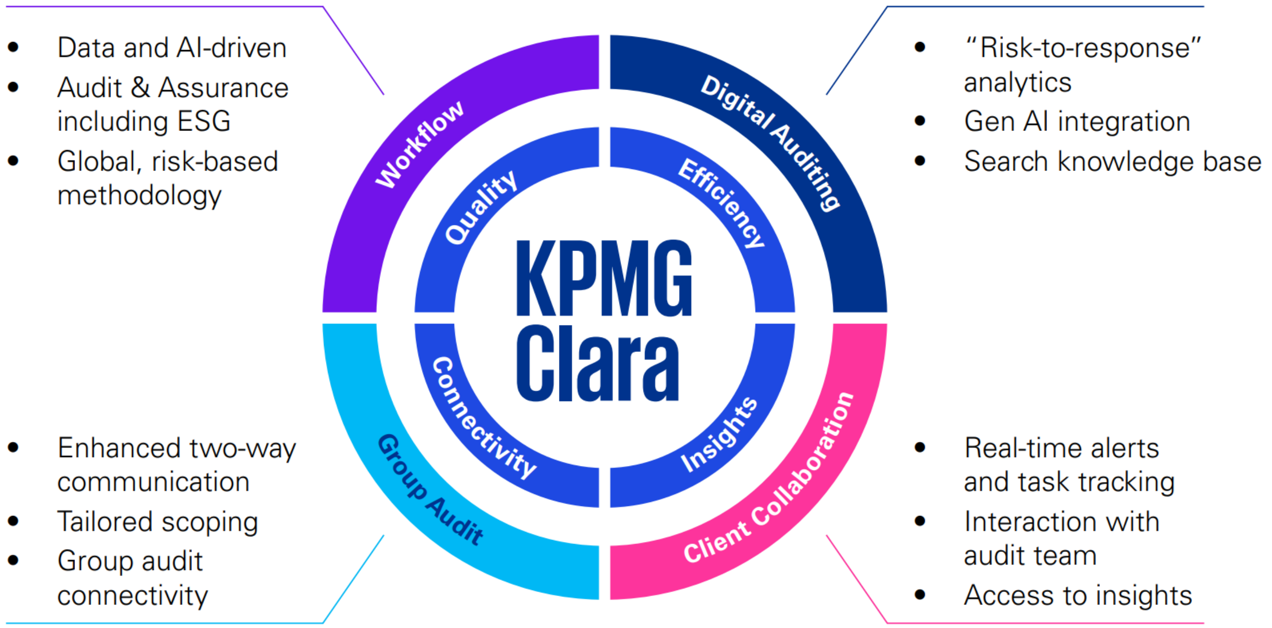



Doing the right thing. Always.

# The KPMG Audit

## Globally consistent audit and assurance methodology and tools

As a scalable, intuitive cloud-based platform, KPMG Clara is driving globally consistent execution across all KPMG member firms. It enables delivery of KPMG audit and assurance methodologies through data-enabled workflows, which align with the applicable audit and assurance standards and provide an improved experience to audit and assurance professionals.




- Methodology aligned with professional standards, laws and regulations
- Standardised methodology and guidance
- Deep technical expertise and knowledge
- Quality and risk management policies

- Meeting the applicable standards, including International Standards on Auditing (ISA), standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) – supplemented by KPMG firms to comply with additional local auditing standards and regulatory or statutory requirements.
- Identifying risks of material misstatements and the necessary audit response.

# Independence: Shared responsibilities

Auditor independence is a shared responsibility and most effective when management, audit committees, and audit firms work together in considering compliance with relevant independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and KPMG each play an important role. We apply the following ethical requirements, including independence requirements, in:

- the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies in Canada(“CPA code”) that are relevant to audits of financial statements of reporting issuers; and
- the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA independence rule”) that are relevant to audits of financial statements of public interest entities.

## System of independence quality controls

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information before the effective date of transactions or other business changes is necessary to effectively maintain the firm’s independence in relation to:

- New related entities
- Any former KPMG professional who are directors, officers, or  employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements.

## Pre-approval of services

- The CPA Code and IESBA independence rules require the audit committee to pre-approve all audit and permitted non-audit services to be provided by the auditor.
- IESBA also has requirements to obtain the audit committee’s concurrence with the provision of non-assurance services and the auditor’s conclusion on the impact to independence.

## Independence communications

- We are required report to the audit committee all relationships that may reasonably be thought to bear on our independence, including fees charged, and discuss the potential effects of such relationships on our independence. We are also required report to the related safeguards that have been applied, as applicable, to eliminate identified threats to independence or reduce them to an acceptable level.
- This communication will be provided during our year-end communications.

# Appendices

A Regulatory communications

B New accounting standards

C New auditing standards

D Insights

E Technology

# Appendix A: Regulatory 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 Regulatory Oversight Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results
- CPAB Regulatory Oversight Report: 2023 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2024 Interim Inspections Results
- CPAB Regulatory Oversight Report: 2024 Annual Inspections Results

# Appendix B: Changes in accounting standards

| Standard | Summary and implications |
| --- | --- |
| **Lessee Accounting for Operating Leases of Tangible Capital Assets** | • The Public Sector Accounting Board has issued the following amendments to PSG-2, Leased Tangible Capital Assets<br>  • deleted an outdated cross-reference to Section 3065, Leases in former Part V of the CPA Canada Handbook – Accounting, pre-changeover accounting standards, in Appendix A to PSG-2, Leased Tangible Capital Assets;<br>  • renamed Appendix A as the glossary is no longer identified as an appendix, consistent with other glossaries in the PSA Handbook;<br>  • added paragraphs PSG-2.4A-4C of to set out minimal requirements for lessee accounting for operating leases of tangible capital assets; and<br>  • replaced the deleted cross-reference in the appendix with a reference to new paragraphs PSG-2.4A-4C<br>• These changes do not comprise a change in practice and are effective immediately. |
| **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.<br>• The section includes the following:<br>  • 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.<br>  • Separating liabilities into financial liabilities and non-financial liabilities.<br>  • Restructuring the statement of financial position to present total assets followed by total liabilities.<br>  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).<br>  • 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”.<br>  • A new provision whereby an entity can use an amended budget in certain circumstances.<br>  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. |

# Appendix B: Changes in accounting standards

| 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.<br>• The intention is to use principles from International Public Sector Accounting Standard 39 Employee benefits as a starting point to develop the Canadian standard.<br>• 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.<br>• 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.<br>• 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.<br>• Final approval of the standard is expected in Spring 2026, with an effective date of April 1, 2029. |
| **2024-2025 Annual Improvements to Public Sector Accounting Standards** | • The Public Sector Accounting Board has issued an exposure draft proposing terminology updates and amendments to align various sections of the PSA Handbook with PSAB's Conceptual Framework and Reporting Model.<br>• The comment period is closed. Final amendments are expected to be issued in November 2025, with an effective date of April 1, 2026. |

# Appendix B: Changes in accounting standards

| Standard | Summary and implications |
|---|---|
| **Tangible Capital Assets** | • The Public Sector Accounting Board has issued amendments to Section PS 3150 in May 2025 as part of implementing its Government Not-for-Profit Strategy, which incorporates the PS 4200 series into public sector accounting standards with potential customizations.<br>• The amendments add:<br>  • a new criterion to the definition of a tangible capital asset;<br>  • a new definition of a collection;<br>  • new disclosure requirements for works of art, historical treasures and/or collections;<br>  • new guidance for situations where an entity purchases a tangible capital asset at substantially below fair value; and<br>  • new guidance for situations where an entity receives contributed materials and/or labour when constructing or developing a tangible capital asset<br>• For public sector entities that have not applied the PS 4200 series, the amendments to this Section are effective for fiscal periods beginning on or after April 1, 2030.<br>• The amendments would be applied retroactively with restatement of prior periods except for the amendments related to purchases of tangible capital assets at substantially below fair value and including in the cost of a constructed or developed tangible capital asset, the contributed materials and/or labour, which are applied only to new transactions or events from the date of change |
| **Elevation of GAAP Designation of Application Guidance** | • The Public Sector Accounting Board has issued amendments to elevate the level of generally accepted accounting principles (GAAP) designated for four CPA Canada Public Sector Accounting Handbook Appendices (i.e., what level of GAAP an appendix comprises)<br>• The GAAP designation level (i) per GAAP hierarchy in paragraph 03(d) of Section PS 1150, Generally Accepted Accounting Principles has been specified and paragraphs renumbered as AG.02, AG.02, etc. for four application guidance appendices:<br>  • Appendix A to Section PS 3400, Revenue;<br>  • Appendix B to Section PS 3410, Government Transfers;<br>  • Appendix A to Section PS 3450, Financial Instruments; and<br>  • Appendix A to Section PS 4270, Disclosure of Allocated Expenses by Not-for-Profit Organizations.<br>• The elevation of the GAAP designation of these four application guidance appendices is effective for fiscal years beginning on or after April 1, 2026 |

# Appendix B: Changes in accounting standards

| 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.<br>• The framework provides the core concepts and objectives underlying Canadian public sector accounting standards.<br>• 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. |
| **Intangible Assets, Proposed Section 3155** | • The Public Sector Accounting Board has issued an exposure draft proposing a new intangible assets standard that will replace Public Sector Guideline (PSG) 8, Purchased Intangibles.<br>• The proposed standard provides foundational guidance on intangible assets including the definition, recognition, measurement and required disclosures of intangible assets.<br>• The proposed standard covers both acquired and internally generated intangible assets.<br>• PSG-8 content has been incorporated into the new section, ensuring continuity of recognition for purchased intangibles.<br>• The scope of the proposed standard excludes intangible assets addressed in other Sections of the PSA Handbook, as well as other intangible items such as exploration and extraction costs for non-renewable resources or intangible assets related to insurance contracts.<br>• In alignment with PSAB's international strategy, the proposed guidance leveraged principles from the existing International Public Sector Accounting Standard (IPSAS) 31, Intangible Assets.<br>• The comment period is closed and under review. |

# Appendix C: Newly effective and upcoming changes to auditing standards

## Effective for periods beginning on or after December 15, 2024

### ISA 260/CAS 260

Communications with those charged with governance

**Summary of Changes:**
**New requirements for the auditor to communicate:**

- about the relevant ethical requirements, including those related to independence, that the auditor applied to the audit of the financial statements; and
- any enhanced independence requirement that the auditor applied specific to the audit of financial statements of certain entities.

### ISA 700/CAS 700

Forming an opinion and reporting on the financial statements

**Summary of Changes:**
New requirements for the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities WHEN the ethical requirements require public disclosure.

# Appendix D: Audit and assurance insights

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

**KPMG Audit & Assurance Insights**

Curated research and insights for audit committees and boards.

**Sustainability Reporting**

Resource centre on implementing the new Canadian reporting standards

**Board Leadership Centre**

Leading insights to help board members maximize boardroom opportunities

**IFRS Breaking News**

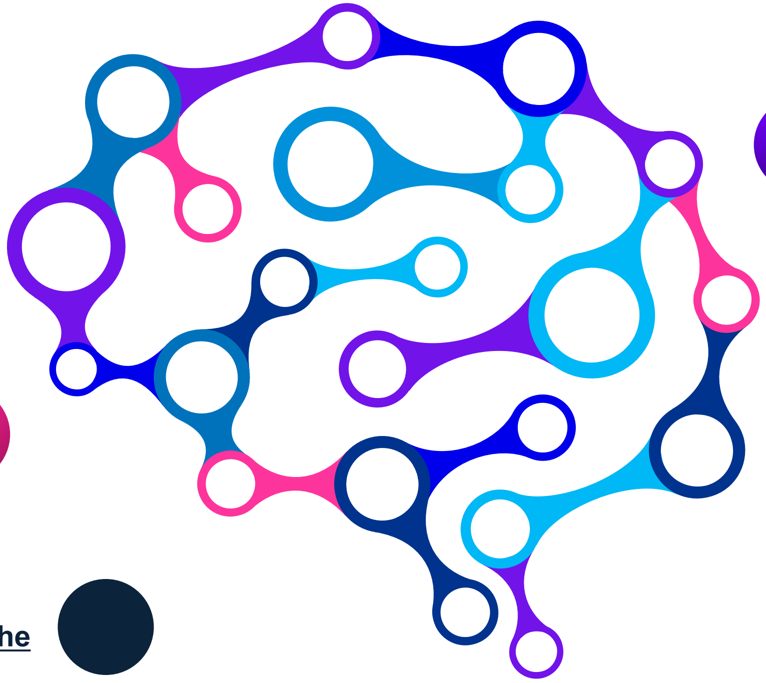
A monthly Canadian newsletter that provides the latest insights on accounting, financial reporting and sustainability reporting.

**Current Developments**

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Assurance & Related Services, Canadian Securities 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 - The key issues driving the audit committee agenda**

Discover the most pressing risks and opportunities that face audit committees, boards and management teams.

# Appendix E: Our technology story

## Streamlined client experience

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

## Secure

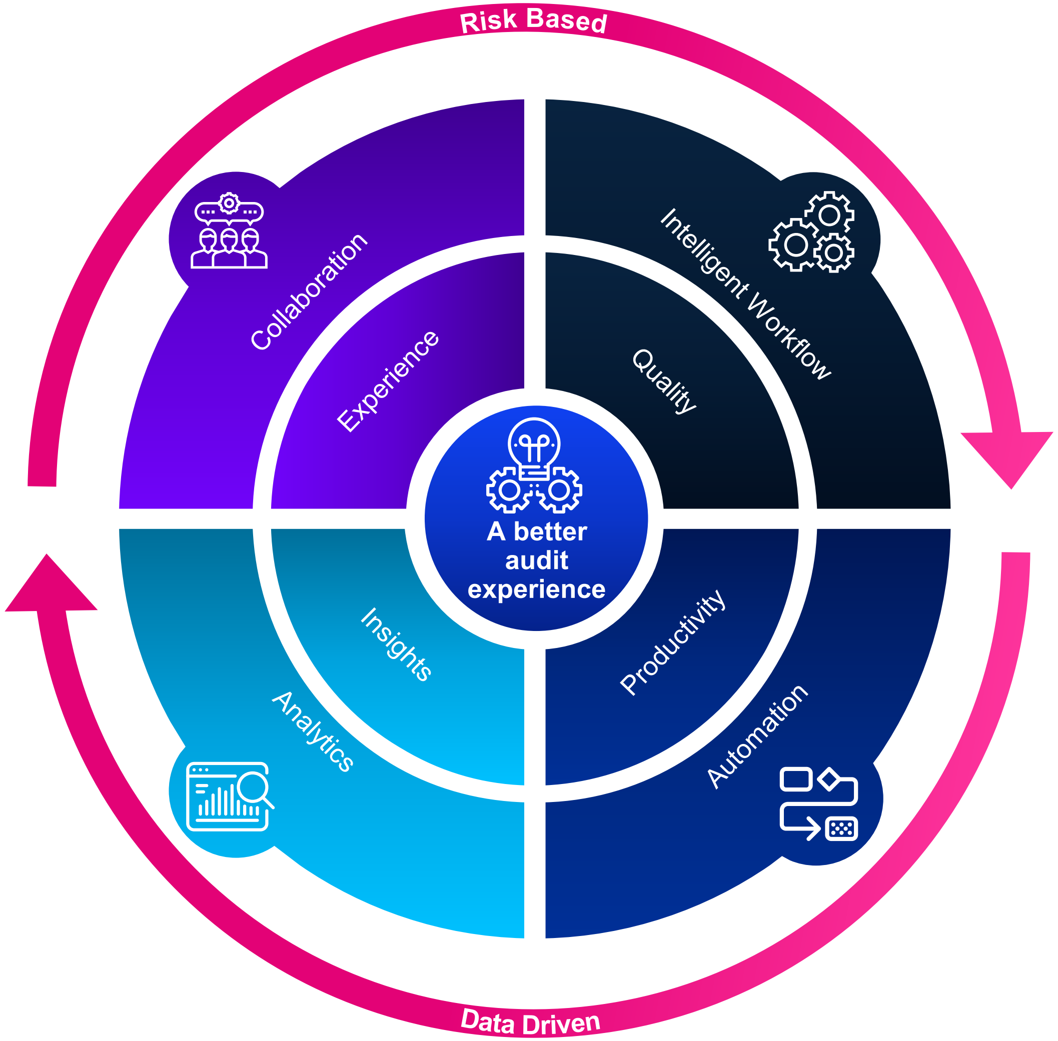
A secure client portal provides centralized, efficient coordination with your audit team.

## Intelligent workflow

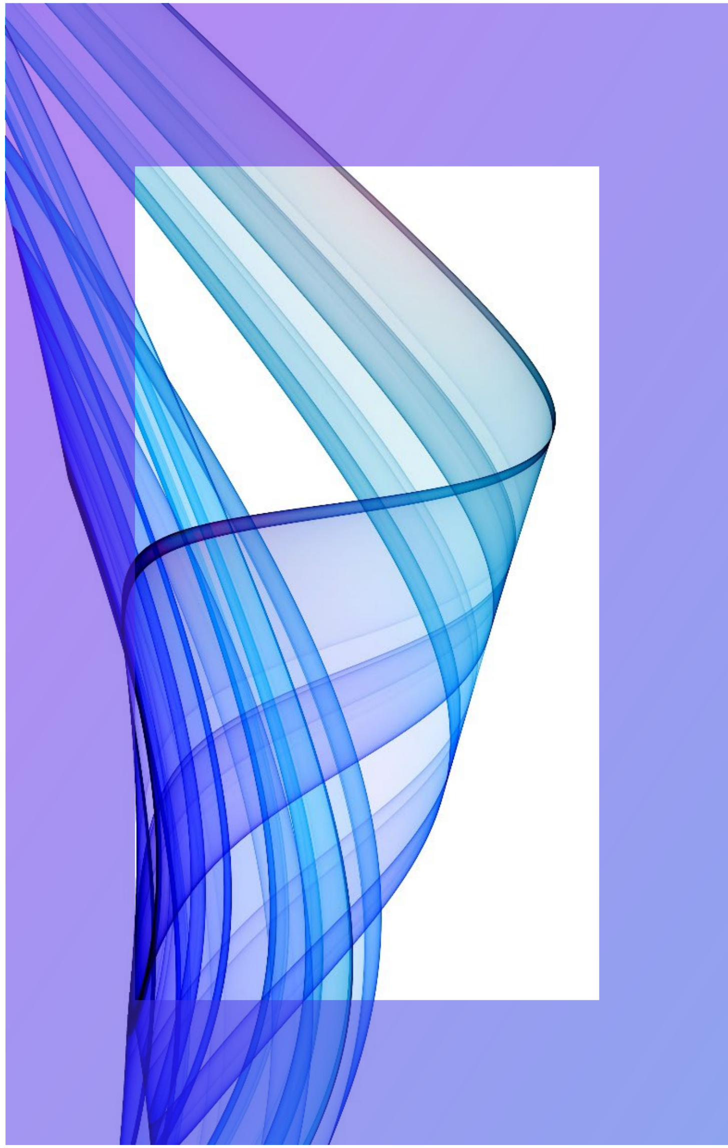
An intelligent workflow guides audit teams through the audit.

## Increased precision

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



# Appendix E: Expanding the use of audit technology



## Analytics

- AI Transaction Scoring
- Audit Routine Catalogue
- Data Visualization
- Group Scoping Tool
- Matching Routines
- Process Mining Analytics
- KPMG Forecast Analytics Suite

## Automation

- Agentic AI with Clara AI - Chat
- Automated Industry Routines
- Confirmation
- Data Extraction Scripts
- DataShare
- DataSnipper
- Inventory Counter App
- iRadar and iNav
- Offset Remover

## Collaboration

- DocuSign™
- KPMG Clara for Clients

## Workflow

- KPMG Clara Workflow
- Account Analysis
- Journal Entry Analysis
- Planning Analytics

# Appendix E: Continuous evolution

## Our continued investment

We continue to expand our strategic alliance partnerships with Microsoft and MindBridge to bring AI to the future of audit.

## Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

## Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.

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