



# The Corporation of the City of Markham

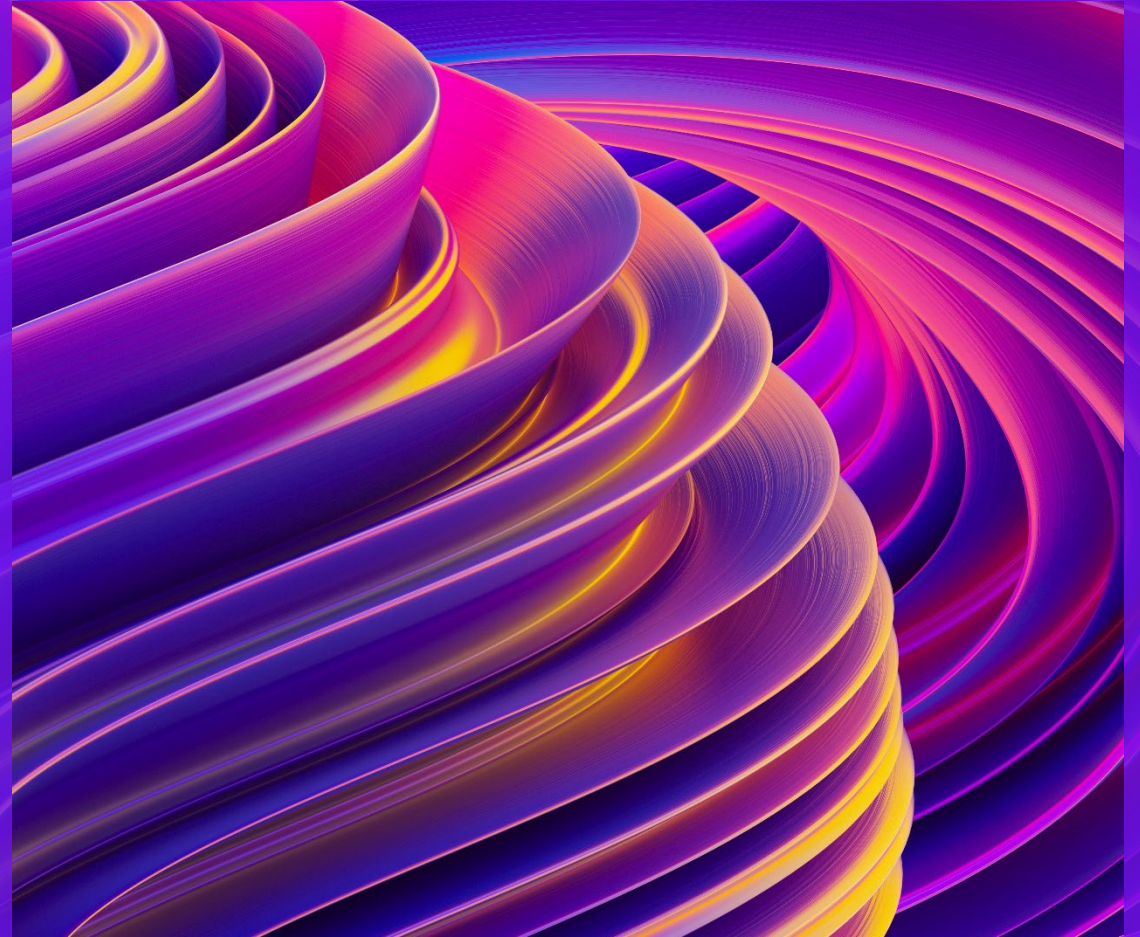
**Audit Findings Report  
for the year ended  
December 31, 2023**



Licensed Public Accountants

Prepared as of April 8, 2024 for presentation to the General Committee  
of Council Members on April 16, 2024

[kpmg.ca/audit](https://kpmg.ca/audit)



# KPMG contacts

## Key contacts in connection with this engagement



**Maria Khoushnood**

Lead Audit Engagement Partner

416-228-7082

[mkhoushnood@kpmg.ca](mailto:mkhoushnood@kpmg.ca)



**Victoria Zolotko**

Audit Manager

416-228-4534

[vzolotko@kpmg.ca](mailto:vzolotko@kpmg.ca)



# Table of contents

## 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.

**4** Highlights

**6** Status

**7** Risks and results

**16** Control deficiencies

**17** Policies and practices

**18** Appendices

The purpose of this report is to assist you, as a member of the General Committee of Council Members, 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 and the General Committee of Council Members, 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.



# Audit highlights

No matters to report

Matters to report – see link for details

## Status

We have completed the audit of the consolidated financial statements (“financial statements”) of the City of Markham, with the exception of certain remaining outstanding procedures, which are highlighted on the ‘Status’ slide of this report.



## Policies and practices



Accounting policies and practices



## Control deficiencies



Significant deficiencies



## Risks and results

Presumption of the risk of fraud involving improper revenue recognition

Management Override of Controls

Other significant findings and results

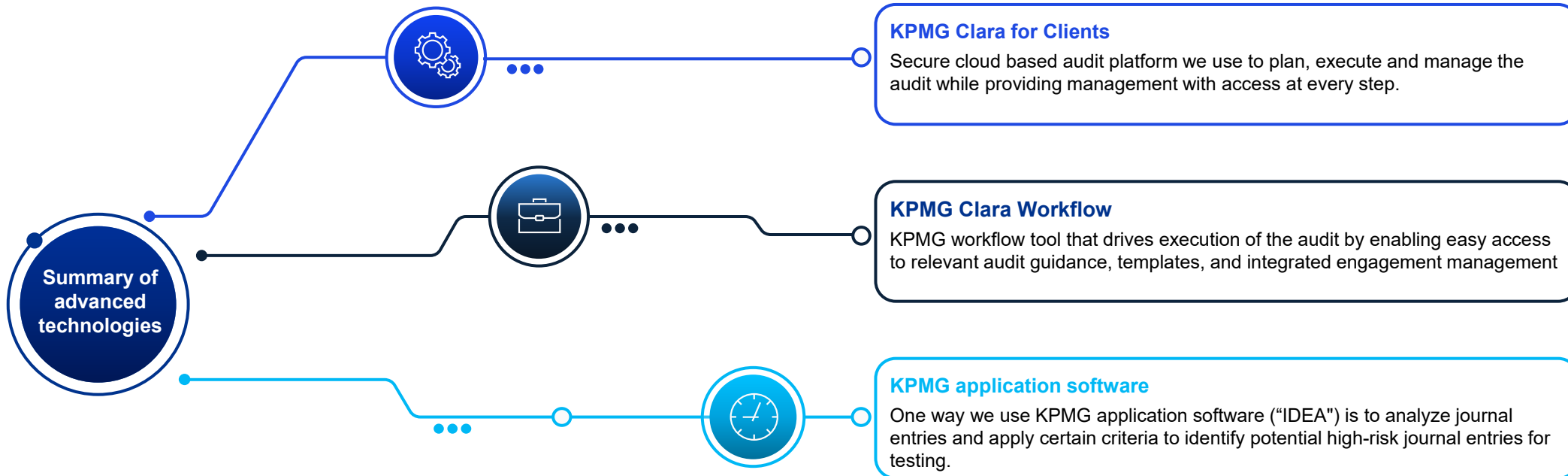
- Asset retirement obligation
- Financial instruments
- Tangible capital assets
- Deferred revenue earned
- Employee future benefits liabilities
- Contingencies
- Markham Enterprise Corporation





# Technology highlights

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



KPMG's software audit tools are intended to be used as internal enablement tools in conjunction with the performance of audit services. Information resulting from use of software audit tools may not be used as a basis for management's conclusions as to the fairness of presentation of its financial statements or form a part of the internal control.



# Status

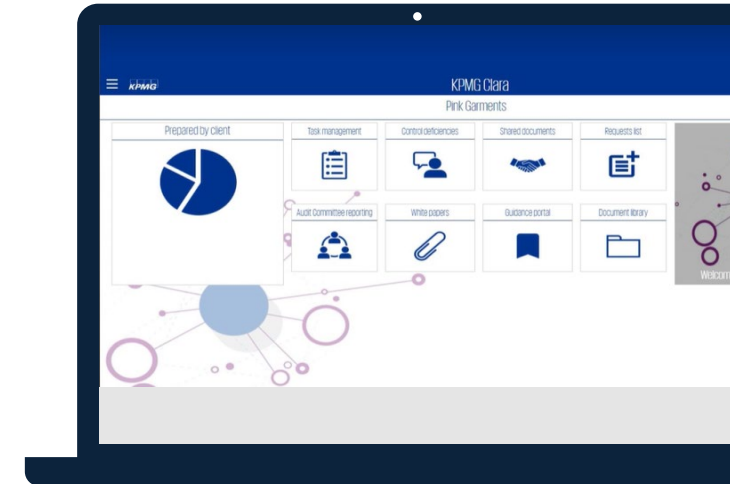
As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completion of substantive procedures for asset retirement obligation
- Completion of deferred revenue substantive procedures
- Completing our discussions with the General Committee of Council Members
- Obtaining evidence of Management's approval of the financial statements
- Completion of subsequent event review procedures
- Completion of legal inquiries follow-up
- Receipt of signed management representation letter (to be signed upon approval of the financial statements)

We will update the General Committee of Council Members, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report will be dated upon the completion of any remaining procedures.

## KPMG Clara for Clients (KCfc)



### Real-time collaboration and transparency

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

[Learn more](#)



# Significant risks and results

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



Presumption of the risk of fraud involving improper revenue recognition

RISK OF



ERROR FRAUD

## Other significant findings

Estimate?

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

No

The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business, specifically related to management's calculation of the deferred revenue – obligatory reserve funds.

## Our response

- Our audit methodology incorporated the required procedures in professional standards to address this risk.
- Our audit approach consisted of evaluating the design and implementation of selected relevant controls. We tested journal entries that meet specific criteria. This criteria was designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end). We also incorporated an element of unpredictability into the journal entries and revenue testing.
- We reviewed controls implemented pertaining to revenue recognition and performed walkthroughs of key controls surrounding the revenue process.

## Significant findings

- We did not identify any issues related to fraud risk associated with revenue recognition.



# Significant risks and results



## Management Override of Controls

RISK OF



FRAUD

### Other significant findings

Estimate?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities

No

### Our response

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- We performed procedures consistent with professional standards to address this risk. These procedures include the following:
  - testing of journal entries and other adjustments;
  - performing retrospective review of estimates;
  - evaluating the business rationale of significant unusual transactions.

### Significant findings

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





# Other significant findings and results

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



## Asset retirement obligations

### Other significant findings

### Estimate?

The new standard PS 3280 Asset retirement obligations (“ARO”) came into effect for fiscal year ended on December 31, 2023. The new ARO standard requires the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The assessment of these future legal obligations requires management to perform a comprehensive analysis of controlled assets, along with the development of estimates to evaluate an estimated liability at the financial reporting dates of December 31, 2023 and December 31, 2022. The City has adopted the modified retroactive approach, which entails a recognition of the ARO liability as at January 1, 2022. See change in accounting policy note for restatement details.

Yes

Using the modified retroactive method, the City has recognized ARO as at January 1, 2022 with a restatement of the opening accumulated surplus as at January 1, 2022. See note 2 in the financial statements for the change in accounting policy note.

### Our response and significant findings

- We obtained the City’s ARO policy and the corresponding ARO implementation memo and performed a review to ascertain their alignment with the requirements of the PS 3280. We performed an assessment of the reasonableness of the City’s scoping decisions and the rationale for excluding certain TCA items to determine whether they are in compliance with standard guidelines and general practice across industry.
- We obtained City’s ARO model assessment and performed the following procedures:
  - We reviewed the City’s ARO model and performed an assessment of the mathematical accuracy and related calculations of ARO liability at asset category level.
  - We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness.
  - We reviewed the cost per square foot analysis for asbestos, as developed by management, and verified all inputs against supporting documentation to ensure reasonable and accurate cost was applied to all in-scope assets in the ARO model. For any inputs that incorporated significant assumptions, we evaluated the reasonableness of these assumptions and compared to the external sources or general industry practice.
  - We selected samples of in-scope assets where measurement of ARO has been calculated and agreed to relevant inputs to supporting documentation.
- We conducted meetings with significant internal subject matter experts involved in the ARO model development to evaluate their extent of involvement, area of expertise and relevant skills and capabilities. We assessed the qualifications, competence and objectivity of these internal experts as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PS 3280 to ensure disclosures are in accordance with PS 3280.
- We did not note any issues in the City’s adoption process of new ARO accounting standard. The measurement and recognition of ARO obligation is reasonable.



# Other significant findings and results



## Financial instruments

### Other significant findings

Estimate?

The new standard PS 3450 Financial instruments came into effect for the fiscal year ended on December 31, 2023, and is to be prospectively applied from January 1, 2023. This standard sets forth the guidelines for accounting for financial assets and liabilities, including derivative financial instruments. For items that are reported at fair value, the unrealized gains and losses are required to be reported on a new statement called Statement of Remeasurement Gains and Losses.

Other new standards coming into effect starting fiscal 2023 include PS2601 *Foreign Currency Translation*, PS 1201 *Financial Statement Presentation*, PS 3041 *Portfolio Investments*. These other standards are required to be adopted concurrently with PS 3450 *Financial Instruments*.

Upon evaluation, the City identified that the Principal Protected Notes (PPNs) encompass embedded derivatives and fall under the requirements of PS 3450 to report at fair value due to presence of an embedded derivative. In accordance with PS 3450, the entity has an ability to either bifurcate the embedded derivatives from the host contract or can choose to value the entire contract at its fair value. The City has elected to designate the entire instrument at fair value.

No

There are no other financial instruments that meet the requirements of mandatory fair value reporting for the City. The City has not elected to report any additional financial instruments at fair value.

During the year, the City recognized 10.5M (2022 – nil) as unrealized gain attributable to revaluation of PPNs, as reflected in the Statement of Remeasurement Gains and Losses.

### Our response and significant findings

- We obtained and reviewed management's support for fair value reported by the City for PPNs. We obtained investment confirmations from third party financial institutions to examine accuracy and existence of reported fair value of PPNs.
- We performed additional procedures to gain comfort over the valuation of the PPNs by using the actively traded data information from the issuer's website.
- We reviewed the newly introduced Statement of Remeasurement Gains and Losses, and assessed the accuracy of the presentation of unrealized gains and losses incurred on the fair value of financial instruments.
- The City has added additional disclosures related to the financial risks associated with their financial instruments as required by PS 3450 Financial Instruments.
- We assessed the disclosures in the financial statements including the new statement of remeasurement gains and losses against the requirements of the PS 3450.
- Management has assessed the impact of the 'other standards' noted above to be insignificant and immaterial. We agree with management's assessment.



# Other significant findings and results



## Tangible capital assets

### Other significant findings

Estimate?

Tangible capital assets present the biggest non-financial asset for the City. There is a risk of material misstatement related to the existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets.

No

### Our response and significant findings

- We reviewed on a sample basis the additions to tangible capital assets and noted that management has appropriately capitalized the additions including transfers from work in progress to tangible capital assets. We obtained assurance related to the accuracy and existence of these additions and also assessed if these additions met the criteria for capitalization.
- We reviewed work in progress to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis.
- We reviewed financial statement note disclosure in line with the PSAS.
- We obtained amortization policy and assessed reasonableness of estimated useful lives in use and to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives.
- There were no other significant findings as a result of our audit procedures for tangible capital assets. The amounts reported for tangible capital assets are reasonable and disclosures in the financial statements are in accordance with the Public Sector Accounting Standards.



# Other significant findings and results



## Deferred revenue earned

### Other significant findings

### Estimate?

Recognition of revenue relating to amounts previously deferred as result of legislation or contractual agreements. During our substantive testing, we noted that the City recognized \$32M (2022 -\$133M) of deferred revenue earned.

No

### Our response and significant findings

- We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to.
- We recalculated management's calculation of deferred revenue – obligatory reserve funds as at year-end.
- We also selected a sample of the increases (cash receipts) and decreases (revenue recognized) for deferred revenue during the current year to ensure appropriate revenue recognition.
- No exceptions were noted during testing.



# Other significant findings and results



## Employee future benefits liabilities

### Other significant findings

### Estimate?

Employee future benefits represent a liability computed by management's actuarial experts. As the employee future benefits liabilities are significant and complex estimates, KPMG actuarial specialists were involved in completing the audit procedures.

Yes – Employee future benefits obligation

### Our response

- We assessed the participant data supplied by management to the Actuary for completeness and accuracy.
- We obtained the actuarial valuation report and engaged our KPMG actuarial specialist team to audit the method and assumptions applied in the valuation.
- We evaluated the discount rate in comparison with rates issued by the Canadian Institute of Actuaries ("CIA") and KPMG LLP.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PSAS.

### Significant findings

- Based on our review of the memo prepared by the Actuary, we noted that method applied for the estimate is acceptable per CIA and PSAS 3250 Retirement Benefits.
- KPMG actuarial specialist team assessed the key assumptions including discount rate used by the Actuary in light of the City's financial results. KPMG specialists noted that the assumptions used were set at the time of the most recent full valuation of the Plans (Dec 31, 2021). This is not in accordance with the Accounting Standard for an unfunded plan which requires assumptions to be appropriate at the measurement date. Some assumptions may not need to be updated annually but certain assumptions such as the discount rate for the funded plans often differ significantly year-over-year due to change in market conditions and thus need to be reassessed and re-determined on an annual basis at each measurement date. For 2023 year-end, this issue has immaterial impact on financial reporting.
- The disclosures included in the financial statements are in accordance with the requirements of the PSAS.
- Based on the audit work performed, we did not note any issues related to the calculation of the City's Employee Benefits Liabilities as at December 31, 2023.



# Other significant findings and results



## Contingencies

### Other significant findings

### Estimate?

PSAS 3300 Contingent Liabilities requires that the City recognize a liability when “it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.” At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, etc.

Yes

At year end, no provision has been made in the consolidated statements for any liability that may result.

### Our response and significant findings

- We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is consistent with the approach taken in prior years and has been appropriately reviewed.
- We obtained external legal confirmations and reviewed the pending legal matters in terms of determination of likelihood and measurability.
- We did not note any issues in the City’s assessment of contingent liabilities and amount of related liabilities for the year-ended December 31, 2023.



# Other significant findings and results



## Markham Enterprise Corporation

### Other significant findings

Estimate?

The City recognizes its investment in MEC using the modified equity method. We reviewed the criteria per PS 3070 – Investment in Government Business Enterprises and noted the City's investment in MEC continues to meet the criteria of the section and therefore it is appropriate to continue to record the investment in MEC using the modified equity method of accounting.

Included in the annual surplus for the City for the year is \$25.4M (2022 - \$12.1M), which represents 100% of the net income of MEC for the year. The City's share of MEC's other comprehensive loss of \$150K is reported in the Statement of Remeasurement Gains and Losses.

No

During the year, MEC paid the City dividends of \$14.8M (2022 –\$7.4M), which are treated as a reduction to the investment under the modified equity method.

There was a return of capital to the City of \$962K (2022 – \$1M), which is also treated as a reduction to the investment.

### Our response and significant findings

- We reviewed the MEC modified equity method calculation for above transactions.
- We reviewed notes disclosures and noted these transactions are disclosed properly in Note 7 of the financial statements.
- Based on the audit work performed, there were no other items of significance to be reported.



# Control deficiencies

## Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.



Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

## A deficiency in internal control over financial reporting



A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## Significant deficiencies in internal control over financial reporting



A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

**No significant deficiencies in internal control were noted during the audit.**





# Accounting policies and practices



## Initial selection

The following new accounting standards came into effect for the year ended December 31, 2023 and were implemented by the City:

- PS 3450 *Financial Instruments*, PS 2601 *Foreign Currency Translation*, PS 1201 *Financial Statement Presentation*, PS 3041 *Portfolio Investments*
- PS 3280 *Asset Retirement Obligations*

Impact on adoption of new accounting policies are disclosed in Note 2 to the consolidated financial statements.



## Revised

None in 2023.



## Significant qualitative aspects

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

Estimates and assumptions are disclosed in Note 1(p).



# Appendices



Other required communications



Audit quality



Changes in accounting standards



Audit and Assurance Insights



Environmental, social and governance (ESG)



Climate risk in the financial statements





# Appendix A: Other required communications



## Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to the General Committee of Council Members.



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

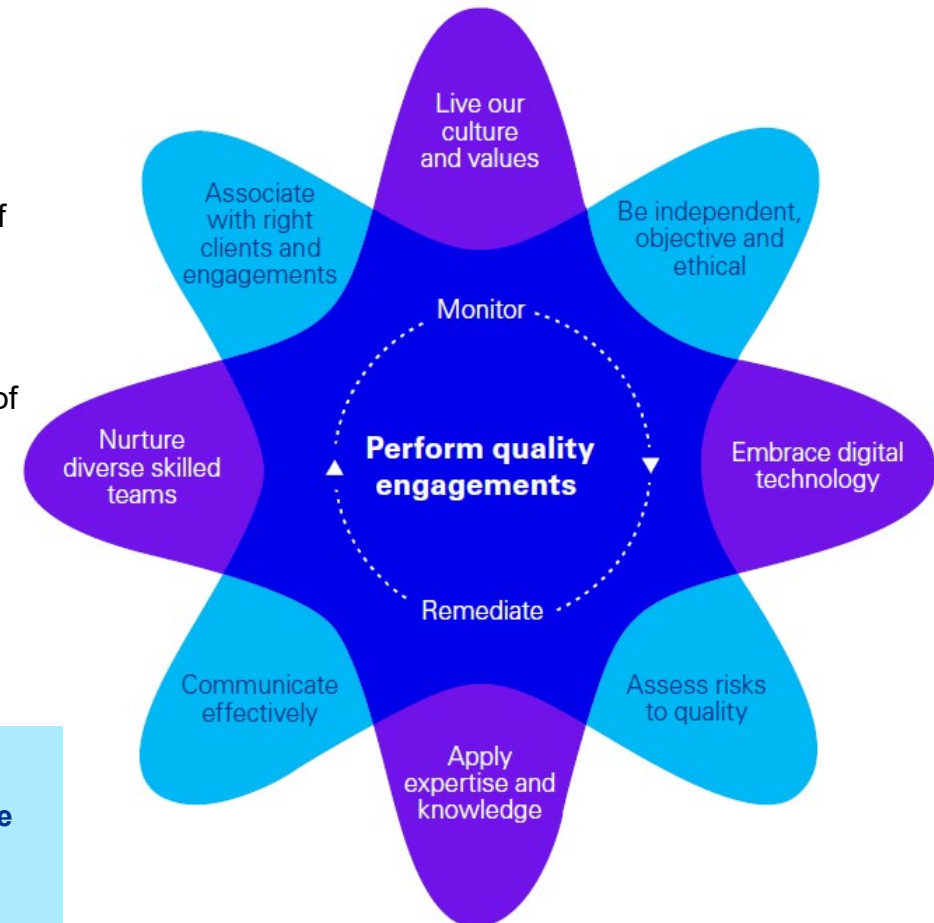
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

 [KPMG 2023 Audit Quality and Transparency Report](#)

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

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



**Doing the right thing. Always.**



# Appendix C: Changes in accounting standards

Standard	Summary and implications
<b>Revenue</b>	<ul style="list-style-type: none"><li>• The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023.</li><li>• The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.</li><li>• 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.</li><li>• 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.</li></ul>
<b>Purchased Intangibles</b>	<ul style="list-style-type: none"><li>• The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted.</li><li>• 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.</li><li>• Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized.</li><li>• The guideline can be applied retroactively or prospectively.</li></ul>



# Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Public Private Partnerships</b>	<ul style="list-style-type: none"> <li>• The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023.</li> <li>• The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• The standard can be applied retroactively or prospectively.</li> </ul>
<b>Concepts Underlying Financial Performance</b>	<ul style="list-style-type: none"> <li>• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted.</li> <li>• The framework provides the core concepts and objectives underlying Canadian public sector accounting standards.</li> <li>• 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.</li> </ul>



# Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Financial Statement Presentation</b>	<ul style="list-style-type: none"><li>• The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> 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.</li><li>• The proposed section includes the following:<ul style="list-style-type: none"><li>• 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.</li><li>• Separating liabilities into financial liabilities and non-financial liabilities.</li><li>• Restructuring the statement of financial position to present total assets followed by total liabilities.</li><li>• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).</li><li>• 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”.</li><li>• A new provision whereby an entity can use an amended budget in certain circumstances.</li><li>• Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.</li></ul></li><li>• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.</li></ul>



# Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
<b>Employee benefits</b>	<ul style="list-style-type: none"><li>• The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>.</li><li>• The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard.</li><li>• 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.</li><li>• The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.</li><li>• 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.</li><li>• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.</li></ul>





# Appendix D: Audit and assurance insights

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

## [KPMG Audit & Assurance Insights](#)

Curated research and insights for audit committees and boards.

## [Board Leadership Centre](#)

Leading insights to help board members maximize boardroom opportunities

## [Current Developments](#)

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

## [Audit Committee Guide – Canadian Edition](#)

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

## [Accelerate 2023](#)

The key issues driving the audit committee agenda in 2023.

## [Momentum](#)

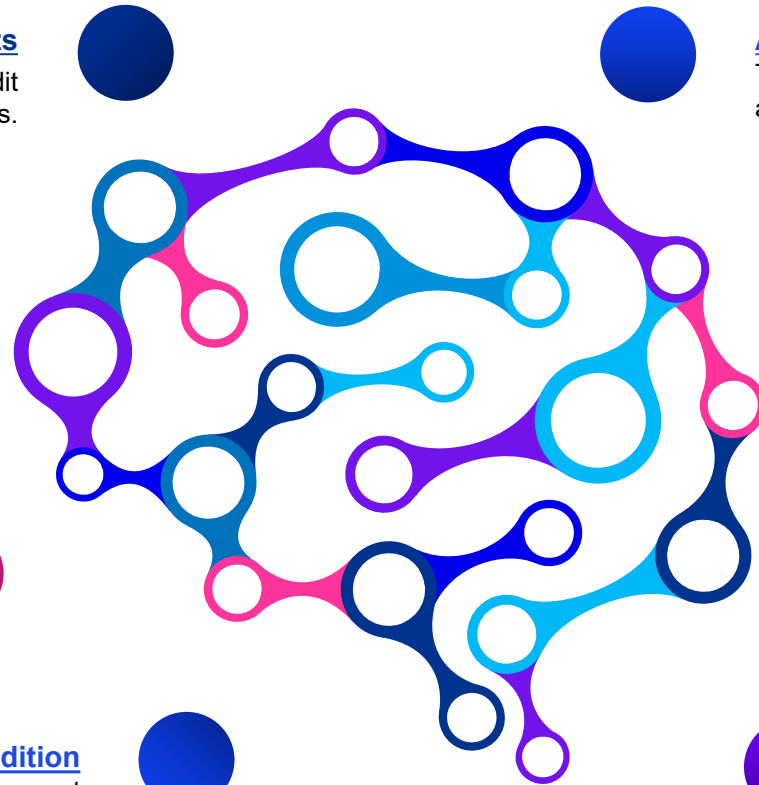
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

## [KPMG Climate Change Financial Reporting Resource Centre](#)

Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

## [IFRS Breaking News](#)

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





# Appendix E: ESG - Global regulatory reporting standards

## Global regulatory reporting standards

### ISSB<sup>1</sup> and CSSB

### Canadian regulators (CSA)

### US (SEC<sup>2,3</sup> and California<sup>4</sup>)

### EU<sup>5,6</sup>

#### Recent Activity

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
  - The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
  - In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
  - The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.
- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
  - In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
  - Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31<sup>st</sup> of each year.
- The SEC's final climate rule was issued on March 6, 2024.
  - The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
  - The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
  - The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
  - On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.
- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
  - On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
  - The ESRSs will become effective as early as 2024 reporting periods for some companies.
  - There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods
- Refer to our [ISSB Resource Centre](#) for resources on implementing the IFRS Sustainability Disclosure Standards
  - Refer to our [Defining Issues](#) publication for more information on the SEC's final climate rule
  - Refer to our [Defining Issues](#) publication for more information on the SEC's cybersecurity rules
  - Refer to our [publication](#) on California's introduction of climate disclosures and assurance requirements
  - Refer to our [ESRS Resource Centre](#) for resources on implementing the ESRSs
  - Refer to our [publication](#) on the impact of EU ESG reporting on non-EU companies



# Appendix E: Environmental, social and governance (ESG)

## How we can help along your ESG reporting journey

Preparing for ESG reporting in accordance with regulatory standards will take substantial time and resources – it is a journey. The end goal is implementing and sustaining ESG external reporting in compliance with the applicable reporting frameworks in such a way that the ESG information and metrics reported can be verified and assured.

**As your financial statement auditor, we are able to support you across a number of activities throughout your ESG reporting journey, prior to undertaking assurance readiness or formal assurance on your reported ESG information and metrics.**



### Establish

- Findings and observations with respect to **materiality assessment**, governance structure, reporting strategy
- **Gap assessment** to global reporting standards (e.g., IFRS S1 and S2)
- **Peer benchmarking and insights** on industry best practices



### Implement / Report

- ESG reporting **training** to Board and Management



### Assess

- Feedback on **current state operating model**, including processes, people, technology, service delivery model and data
- Review existing **data and estimation methodologies**



### Design

- Provide management with feedback on the **reporting roadmap**
- Findings and observations on draft **external disclosures** based on leading practice





# Appendix E: Environmental, social and governance (ESG)

## Why your auditors should be engaged in the reporting journey

### We are one-team at KPMG.

With KPMG's one-team approach, you will benefit from the efficiencies gained by having members of your financial statement audit team engaged in your ESG reporting journey along with our ESG subject matter experts.



### We know you

It is important to have a general understanding of the entity and its control environment (e.g., IT systems and underlying processes) to best support you in your ESG reporting journey



### Coordinated approach

Management meetings are carried out once and leveraged across your financial statement and ESG journey process, wherever possible



### Synergies gained

Key messages and reports to management and the audit committee will be consistent and include both financial and ESG information



### Connected to financial statements

Increased demand for consistency between ESG reporting and financial reporting puts us in the best position to support you



### Single point of contact

Having KPMG as your ESG service provider – your key audit points of contacts will enable you to get clear perspectives on all your reporting needs when you need them



### Future efficiencies

Engaging us in the reporting process today will be an investment that will lead to efficiencies when undergoing limited assurance in the future



# Appendix F: Climate risk in the financial statements

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

## How might climate-related risks impact the financial statements?

**01**

### Assets

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

**02**

### Liabilities

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

**03**

### Borrowers

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

**04**

### Lenders

Consider how climate-related risks impact operating and financing leases, the potential impact on expected credit losses, and whether green loans meet the solely payments of principal and interest (SPPI) criterion.

**05**

### Disclosures

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

[See here for more information](#)





<https://kpmg.com/ca/en/home.html>

© 2023 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

