Attachment 1

# The Corporation of the Town of Aurora

## Audit Findings Report
## for the year ended December 31, 2022

KPMG LLP

**Licensed Public Accountants**

Prepared on June 15, 2023

Presentation on June 27, 2023

kpmg.ca/audit

# KPMG contacts

**Key contacts in connection with this engagement**

**Maria Khoushnood**
Lead Audit Engagement Partner
416-228-7082
mkhoushnood@kpmg.ca

**Queena Yang**
Audit Senior Manager
416-549-7973
qyang@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.

The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2022. This report builds on the Audit Plan we presented to the Audit Committee. This report is intended solely for the information and use of Management, the Audit Committee, and the Board of Directors 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

## Status of the audit

We have completed the audit of the consolidated financial statements ("financial statements") of the Town of Aurora (the Town or Aurora), with the exception of certain remaining outstanding procedures, which are highlighted on slide 5 of this report.

## Significant changes to auditing standards

There is a newly effective auditing standard –CAS 315
CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*
Refer to appendix B for further information on the new standard.

## Audit risks and results – significant risks

No matters to report.

## Audit risks and results – going concern assessment

No matters to report.

## Uncorrected audit misstatements

No matters to report

## Corrected audit misstatements

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

See page 14 for details.

## Audit risks and results – Restatement

There is restatement of comparative balances due to Firehall cost sharing project with Newmarket. The restatement adjustment reduces tangible capital assets recorded by Aurora and opening accumulated surplus.

See pages 11 – 12 for details.

## Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

## Accounting policies and practices

There are no new accounting standards that came into effect in the current year. The significant accounting policies applied for the financial statements are reported in note 1 of the financial statements.

## Other financial reporting matters – initial audits

We completed our review of the predecessor working papers and completed all required communications with the predecessor.

## Significant unusual transactions

No matters to report.

## Audit opinion

Our audit opinion is unqualified. We have included the following additional paragraphs as required by the auditing standards.

1. Other matters, to note that comparative information was audited by another firm
2. Emphasis of matter, to highlight the restatement of the comparative figures

# Status of the audit

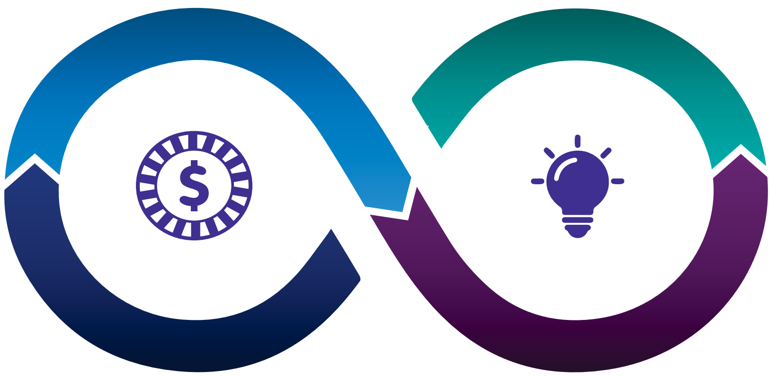
As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Audit Committee and Council
- Completion of audit quality control procedures
- Obtaining evidence of the Council's approval of the financial statements
- Completion of subsequent event review procedures
- Receipt of signed management representation letter (to be signed upon approval of the financial statements)

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report, a draft of which is appended to the draft financial statements, will be dated upon the completion of any remaining procedures.

# 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.

# Group Materiality

**Materiality**

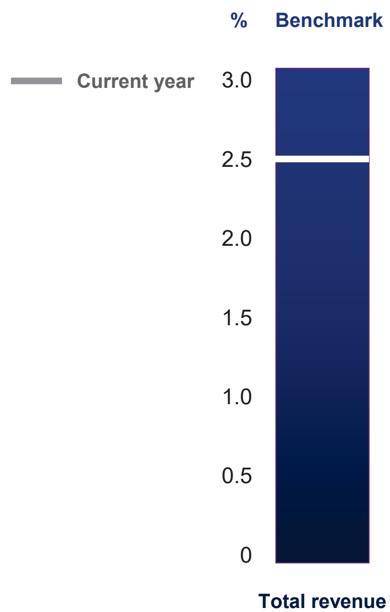
$3,150,000

**Total Preliminary Revenue (December 31, 2022)**

$126,549,000

**Audit Misstatement Posting Threshold (AMPT)**

$157,000




# Component Materiality

**Materiality**

$2,990,000

**Total Preliminary Revenue (December 31, 2022)**

$126,470,000

**Audit Misstatement Posting Threshold (AMPT)**

$149,000

# Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional risks identified.

## Presumption of the risk of fraud involving improper revenue recognition

| Significant risk | Why is this significant | Estimate? |
|---|---|---|
| Presumed fraud risk involving improper revenue recognition | Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition.<br><br>We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Town and its subsidiaries.<br><br>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. | No |

**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 uncertainty into the journal entries and revenue testing
- We did not identify any issues related to fraud risk associated with revenue recognition.
- See pages 13 and 14 for our procedures and findings related to revenue.

# Significant risks and results

## Presumed Risk of Management Override of Controls

| Significant risk | Why is this significant | Estimate? |
|---|---|---|
| Presumed fraud risk 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 risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included the testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transaction.
- We did not identify any issues or concerns regarding management override of controls.

# Restatement of comparative information

Restatement of comparative information related to cost sharing agreement with Newmarket for a shared Fire Hall

| Other significant finding | Estimate ? |
|---|---|
| Aurora and the Town of Newmarket ("Newmarket") entered into an Agreement for the Consolidated Fire Services Department to consolidated their respective fire departments into one fire and emergency service effective January 1, 2002, under the name Central York Fire Services ("CYFS"). CYFS provides fire and emergency protection to Aurora and Newmarket on a 40/60 cost split based on population of the respective municipalities. | No |

In December 2018, Aurora and Newmarket entered into a Cost-Sharing Agreement, under which Aurora was to build a new Fire Hall within the Town of Aurora in partnership with Newmarket for CYFS (the "Project"). Aurora was to solely contract for the construction of the Project and was to bill Newmarket for 59.6% of the design and construction costs. Therefore, the cost split between Aurora and Newmarket for the Project is 40.4% : 59.6%, which represents the respective capital costs should be recorded by the parties. During the course of the construction, CYFS provided additional funding to help with the higher than expected construction costs.

**Prior period error:**

As part of the current year financial close process, the Town's finance team identified that up to 2021, Aurora recorded 100% capital costs (including the 59.6% pertaining to Newmarket) on its own books as tangible capital asset (work in progress), and recorded cost sharing received from Newmarket as grant revenue. In 2022, when the project was completed, Aurora realized that 59.6% of the capital costs should not have been recorded as Aurora's tangible capital asset as the ownership lies with Newmarket and cost sharing received from Newmarket should not have been recorded as grant revenue. During the current year, the Town wrote down 59.6% of tangible capital asset (work in progress) as of December 31, 2021 and recorded the amount as a loss on disposal in the current year. All additional construction costs incurred in 2022 were recorded directly as expenses in P&L in the year.

Audit team proposed the following restatement adjustments due to the material nature of prior period balances involved:

1. Tangible capital asset (work in progress) additions related to Newmarket's portion should not have been recorded on Aurora's books in the prior years as they are not considered to be Aurora's assets. An adjustment was proposed to remove Tangible capital assets (work in progress) for Newmarket's share from the current and prior periods. Due to the material nature of this adjustment, the comparatives are required to be updated. It would not be reasonable to record this reversal as a loss on disposal through current year.

2. Funds received from Newmarket for cost sharing as per the agreement do not qualify as revenue. The audit team proposed that funds received from Newmarket for cost sharing should be reversed as grant revenue in the current and prior periods. Due to the cost sharing nature of these balances, these balances should have bee reported through statement of financial position as a receivable from Newmarket in the prior periods.

This restatement has resulted in a decrease in tangible capital assets balance as at January 1, 2021 (opening balance) and December 31, 2021, and a decrease in accumulated surplus as January 1, 2021 and revenue recognized in the year ended December 31, 2021. See note 2 to the financial statements for the details on this restatement.

# Audit risks and results

Restatement of comparative information related to cost sharing agreement with Newmarket for a shared Fire Hall

**Our response**

Audit procedures performed for the restatement:

- We obtained the initial agreements between Newmarket, Aurora and CYFS from 2002 and 2018 to understand the details of the arrangements between the three entities.
- We obtained detailed capital expenditures incurred for the fire hall project and performed detailed testing on these capital expenditures to assess whether the criteria for capitalization is met.
- We obtained the breakdown of funds received from Newmarket and CYFS since the commencement of the Project in 2017 and assessed them in accordance with the agreements in place.
- We held discussions with management to understand the nature of the transactions and any other relevant details that would support the accounting assessment.
- We recalculated the amount of tangible capital assets (work in progress) that meets the definition of an asset as per the public sector accounting standards for Aurora and based on the cost sharing split as per the cost sharing agreement between Aurora and Newmarket.
- We recalculated the amount of revenue that meets the definition of revenue as per the public sector accounting standards for Aurora and based on the cost sharing agreement with Newmarket and CYFS.
- We have communicated the restatement of comparative information to the predecessor auditor and asked for their input. Predecessor auditor has not provided us with any comments.
- We have completed all required communications and consultations internally as required by the Canadian Auditing Standards and firm standards.

# Audit risks and results

## Revenue and Deferred Revenue

| Audit risk | Estimate? |
| --- | --- |
| The Town recognizes revenue from the different streams including property taxation, taxation from other governments, user charges, government grants, development levies earned on restricted capital contributions, investment income, interest earned on reserves, penalties, fines and interest, developer contributed tangible capital assets and other. Management follows the revenue recognition policies reported in the financial statements note 1 to recognize revenue in accordance with PSAS. | No |

**Our response**

- We recalculated tax revenue based on the tax rate enacted per the bylaw and assessed it for reasonableness.
- We picked a statistical sample of individual transactions for revenue from user charges, penalties, fines and interest, investment income and other revenue.
- 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 inflows (cash receipts) and outflows (revenue recognition) for deferred revenue during the current year to ensure appropriate revenue recognition
- We obtained and vouched to funding agreements for government transfer and grants on sample basis.
- See next page for findings.

# Audit risks and results

## Revenue and Deferred Revenue (Continued)

**Significant findings**

1. **Misstatement of Safe Restart Fund (SRF) revenue recognition:**

- As a result of out testing for revenue recognized from government grants deferred revenue (revenue recognition), we noted that the Town recognized a SRF grant revenue of $150K to recover a lease revenue loss. Based on our discussion and inquiry with management, it was concluded by management that there was no loss of revenue due to relief of COVID restrictions and as such revenue recognition criteria was not met. We proposed an adjustment for this error. Management agreed to this proposed adjustment and a correction has been made for this error in the financial statements.
- As a result of this error we extended our sample size to gain comfort over the remaining population. Based on additional testing, no further issues were noted.

2. **Misstatements of other general deferred revenue outflows:**

- As part of our testing of revenue recognized from deferred revenue (revenue recognition), we identified items where management recognized revenue but no eligible expenditures were incurred to support the revenue recognition.
- Based on our discussion with management, it was noted that management had undertaken a review of general deferred revenue during 2022 to clean up items from prior years and an adjustment was made by management to make immaterial corrections related to deferred revenue. Based on our review of the adjustments made by management for this clean up exercise, we identified an additional error of $500K related to revenue recognition from deferred revenue. We proposed an adjustment for this error. Management agreed to this proposed adjustment and a correction has been made for this error in the financial statements.

Based on the above findings, we recommend management to complete a thorough review of all revenue recognized from deferred revenue as part of the financial close process. This is to ensure that revenue recognition is appropriate and supported by eligible expenditures or other requirements outlined in the agreement.

# Audit risks and results

## Tangible Capital Assets

| Other significant finding | Estimate? |
| --- | --- |
| Tangible capital assets present the biggest non-financial asset for the Town. 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 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 and assumed 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 also reviewed on a sample basis the disposals from tangible capital assets. We proposed entries regarding a Fire Hall additions and had some observations regarding other disposals. See pages 11-12 for restatement impact on tangible capital assets.
- We obtained amortization policy and assessed reasonableness of estimated useful lives in use and to address the requirements of new CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives.
- We reviewed financial statement note disclosure in line with the PSAS.
- 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 findings and results

## Employee benefits liability

| Other significant finding | 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/liability |

### 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 Nexus Actuarial Consultants Ltd. ("Nexus") 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.

### Our findings

- Based on our review of the report prepared by the actuary, we noted that the method applied for the estimate is acceptable per the Canadian Institute of Actuaries and Public Sector Accounting Standards (PSAS) 3250 Retirement Benefits.
- We noted that the discount rate used by the actuary is a key assumption. Discount rates of 3.50% (2021 – 3.50%) were used for the determination of the liability. We evaluated the discount rates against the discount rate curve issued by different reliable sources including CIA, FIERA and KPMG LLP. Our actuarial specialists assessed the discount rate and other assumptions using actuarial techniques and market data. Based on this evaluation, we concluded that the discount rates used are reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of the public sector accounting standards.
- Based on the audit work performed, we did not note any issues related to the calculation of the Town's employee benefits liability as at December 31, 2022.
- The employee benefit liability as at December 31, 2022 are outlined in note 9 to the financial statements.

# Other audit findings and results

## Contingencies

| Other significant finding | Estimate? |
| --- | --- |
| PSAS 3300 Contingent Liabilities requires that the Town 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.”<br>At any point in time, the Town 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.<br>The Town has disclosed the self insurance liability and contingencies in notes 16 and 17 of the financial statements. | Yes |

**Our response and significant findings**

- We obtained an understanding of the methodologies applied to compute the estimate, data involved, and assumptions applied.
- We obtained and evaluated the Town’s assessments and claims listing that are used to develop and record these estimated liabilities.
- We obtained a legal confirmation from the internal legal counsel that no material exposure of legal claims to the Town.
- Based on the audit work performed, we are satisfied that the method, data, and assumptions used by the Town are reasonable and consistent with the industry norms.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.
- Based on the work performed, the contingent liabilities reported by the Town are reasonable.

# Significant accounting policies and practices

**Initial selections of significant accounting policies and practices**

None in 2022

**Description of new or revised significant accounting policies and practices**

None in 2022

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

**Significant qualitative aspects of the Company's accounting policies and practices**

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

# Specific topics

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

| Matter | Finding |
|---|---|
| **Useful lives of Tangible Capital Assets** | • When we reviewed the listing of Tangible Capital Assets' disposals, we noted that some assets were disposed or replaced prior to end of useful lives, resulting a loss on disposal equal to unamortized portion.<br>• We recommend management to review useful lives of Tangible Capital Assets on an annual basis to ensure the balance at Tangible Capital Assets and amortization of the assets are fairly presented on the financial statements.<br>• Change in useful lives is considered to be change in accounting estimate and is treated prospectively on the financial statements. Therefore, prior periods would not need to be adjusted. |

# Audit quality: How do we deliver audit quality?

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

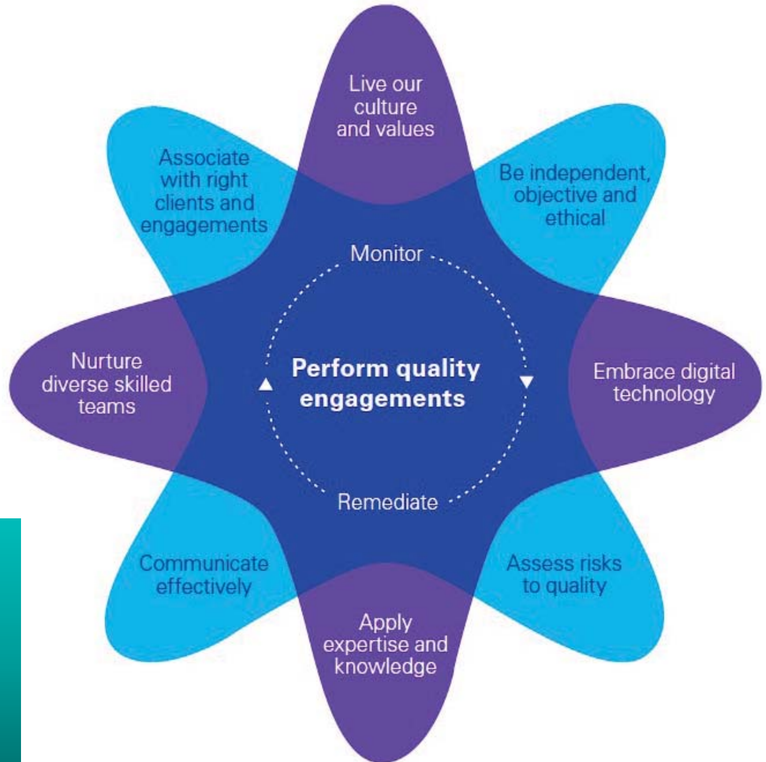
**Perform quality engagement** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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

KPMG 2022 Audit Quality and Transparency Report

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

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



# Appendices

A — Other required communications

B — Newly effective auditing standards

C — Changes in accounting standards

D — Environmental, social and governance (ESG)

E — Audit and assurance insights

# Appendix A: Other required communications

## Engagement terms

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

## 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 Annual Inspections Results

# Appendix B: Newly effective auditing standards

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

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

**Affects both preparers of financial statements and auditors**

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

**See here for more information from CPA Canada**

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

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

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

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

# Appendix B: Newly effective auditing standards (continued)

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

# Appendix B: Newly effective auditing standards (continued)

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

# Appendix B: Newly effective auditing standards (continued)

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

# Appendix B: Newly effective auditing standards (continued)

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

# Appendix C: Changes in accounting standards

| Standard | Summary and implications |
|---|---|
| **Asset retirement obligations** | • The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022.<br>• 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.<br>• 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.<br>• As a result of the new standard, the public sector entity will:<br>  • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>  • 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;<br>  • 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. |

# Appendix C: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Financial instruments and foreign currency translation** | • The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022.<br>• Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.<br>• Hedge accounting is not permitted.<br>• A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.<br>• PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments. |
| **Revenue** | • The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023.<br>• The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.<br>• 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.<br>• The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |

# Appendix C: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Purchased Intangibles** | • The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted.<br>• 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.<br>• 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.<br>• 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.<br>• The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.<br>• 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.<br>• 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.<br>• 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.<br>• The standard can be applied retroactively or prospectively. |

# Appendix C: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Concepts Underlying Financial Performance** | • The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted.<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. |
| **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 proposed 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.<br>• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model. |

# Appendix C: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Employee benefits** | • The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*.<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*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.<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>• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft. |

# Appendix D: Environmental, Social and Governance (ESG)

## The Importance of Sustainability Reporting

### Sustainability Reporting – Who is impacted?

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

### Importance to the Audit Committee

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

### Governance on ESG Data and Sustainability Reporting

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

# Appendix D: Environmental, Social and Governance (ESG)

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

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

### 01 Assets

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

### 02 Liabilities

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

### 03 Borrowers

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

### 04 Lenders

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

### 05 Disclosures

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

See here for more information

# Appendix D: Environmental, Social and Governance (ESG)

## The Sustainability reporting journey: Regulatory update

**Recent Activity**[1]

### International (ISSB)

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

### EU (EFRAG)

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

### US (SEC)

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

### Canada (CSA)

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

**What about the CSSB?**

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

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

# Appendix E: Audit and assurance insights

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

## KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

## Accelerate 2023

The key issues driving the audit committee agenda in 2023.

## Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

## Momentum

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

## Current Developments

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

## KPMG Climate Change Financial Reporting Resource Centre

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

## Audit Committee Guide – Canadian Edition

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

## IFRS Breaking News

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

kpmg.ca



KPMG member firms around the world have 227,000 professionals, in 145 countries.