



The Corporation of the City of Brampton

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



Licensed Public Accountants

Prepared on May 9, 2023

Presentation on June 12, 2023

kpmg.ca/audit



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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the 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.

Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.



Click on any item in the table of contents to navigate to that section.



Audit highlights

Status of the audit

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

Uncorrected audit misstatements

No matters to report

Accounting policies and practices

No matters to report

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning 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.

Other financial reporting matters

No matters to report

Audit risks and results – significant risks

No matters to report.

Audit risks and results – Restatement

See page 9.

Significant unusual transactions

No matters to report.

Audit risks and results – going concern assessment

No matters to report.

Control deficiencies

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



Status of the audit

As of May 9, 2023 i.e. the date of preparation of Audit Findings 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 the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

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



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

Estimate?

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.

Significant findings

- During the year, management reviewed obligatory reserve fund transfers for pre-2016 projects and restated obligatory reserve fund by \$173m as a result of a clean up exercise to move away from year-end estimated PSAS adjustment and recognize revenue based on actual expenditures incurred. See details in Slide 9.



Significant risks and results



Presumed Risk of Management Override of Controls

Significant risk

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.
- 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.



Audit risks and results



Revenue

Audit risk

Estimate?

City 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 and significant findings

- To address the risk of fraudulent revenue recognition reported in the audit planning report, we performed procedures outlined in slide 6.
- 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 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 slide for the findings related to restatement of deferred revenue obligatory reserves as at January 1, 2021.



Audit risks and results



Restatement to increase deferred revenue obligatory reserve balance as at January 1, 2021 (opening balance) and December 31, 2021

Other significant finding

Estimate?

Prior to 2016, revenue from deferred revenue obligatory reserves was recognized upon capital budget approval of capital projects (the full budgeted amount was recognized upon approval). As a second step, as at year-end, a PSAS adjustment was recorded by management to reverse out unspent amounts related to deferred revenue obligatory based on a pro-rata analysis and assessment. This was done to comply with PSAS which requires revenue to be recognized once eligible expenditures have been incurred. While the year-end true-up method used by the City was considered an accepted method in the industry, it was difficult for management to attain a higher level of accuracy using this method. Based on the audit procedures performed in the previous years, difference in revenue amounts recognized in each individual year was not material in any given year. However, cumulative amounts over many years have grown to be significant.

No

Over the past few years, the City has been discussing with other municipalities in the GTA on how to improve the tracking of deferred revenue obligatory reserves. Based on discussion with what some of the other municipalities have done, the City changed their process of tracking unspent deferred revenue obligatory reserves in 2016. Thus for projects approved in 2016 and onwards, revenue recognized from deferred revenue obligatory reserve was based on actual eligible expenditures incurred. Thus capital projects approved in 2016 and after are not in scope of this restatement.

However in 2016 a decision was made to leave historical projects as is due to other priorities for Management and Finance. During the current year, the City made a decision to undertake a clean-up project to review all pre-2016 projects on a project-by-project basis in order to identify actual eligible expenditures incurred to date. The City then recalculated the correct unspent deferred revenue obligatory reserve as at January 1, 2021 and December 31, 2021.

Our response and significant findings

- We noted that Management prepared this assessment as at December 31, 2022 for ease and accuracy. Management then identified revenue that should be recognized for fiscal 2022 and 2021 in order to get back to the correct opening balance for deferred revenue obligatory reserves as at January 1, 2021.
- We obtained a summary of pre-2016 projects to identify revenue recognized (based on cash receipts) in excess of the total amount of excess in obligatory reserve fund expenditures incurred as at December 31, 2022 and details related to revenue recognized for 2022 and 2021.
- We recalculated management's calculation and ensured that the total funding and transfers (cash receipts) from deferred revenue obligatory reserve agreed to the initially approved budget.
- We tested any project expenditures incurred before 2021 as well as during 2022 and 2021 fiscal years substantively for their existence and accuracy.
- We performed completeness check to ensure all pre-2016 projects are included in management's calculation and any funding (cash receipts) from obligatory reserve funds exceeding expenditures are properly returned to deferred revenue obligatory reserve funds at year-end.
- We reviewed and recalculated deferred revenue obligatory reserve fund continuity to ensure all contributions and transfers are rolled properly based on the restated amounts.
- Based on the testing performed, we noted that the restated balances for deferred revenue obligatory reserve and opening accumulated surplus as at January 1, 2021, December 31, 2021 and December 31, 2022 are reasonable.



Other audit findings and results



Employee benefits and liabilities

Other significant finding

Estimate?

In prior year, the City engaged an external actuarial consultant, (the “Actuary”) to undertake a valuation of the City’s non-pension retirement benefits and accumulated sick leave liability as at December 31, 2019. A valuation update was performed to determine the liability as reported in the City’s 2022 financial statements. The employee benefit liabilities as at December 31, 2022 are outlined in note 9 to the financial statements.

Yes – Employee future benefits obligation

A discount rate of 3.75% (2020 – 3.5%) was used for the determination of the 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 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, 2019). 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 2022 year-end, this issue has immaterial impact on financial reporting. We have shared this feedback from our actuarial specialists with Management as well as Management’s actuary.
- 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, 2022.



Other audit findings and results



Contingencies

Other significant finding

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.”

Yes

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.

The City has disclosed the self insurance liability in notes 14 and 16 of the financial statements.

Our response and significant findings

- We held discussions with the Risk and Insurance division of the City to understand the process employed to determine the estimates for the liabilities related to self insurance and legal matters.
- We obtained an understanding of the methodologies applied to compute the estimate, data involved, and assumptions applied.
- We obtained and evaluated the City’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 and evaluated the assessments made by internal legal counsel on the pending legal matters in terms of determination of likelihood and measurability.
- Based on the audit work performed, we are satisfied that the method, data, and assumptions used by the City’s Risk and Insurance division are reasonable and consistent with the industry norms. The approach is also consistent with prior years.
- 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 City 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

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



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**.



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Other required communications

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Newly effective and upcoming changes to accounting standards

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Upcoming changes to auditing standards

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Environmental, social and governance (ESG)

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Audit and Assurance Insights





Appendix: Other required communications

Auditor's report:

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Representation of management:

A copy of the management representation letter.

Auditor's Quality in Canada:

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:

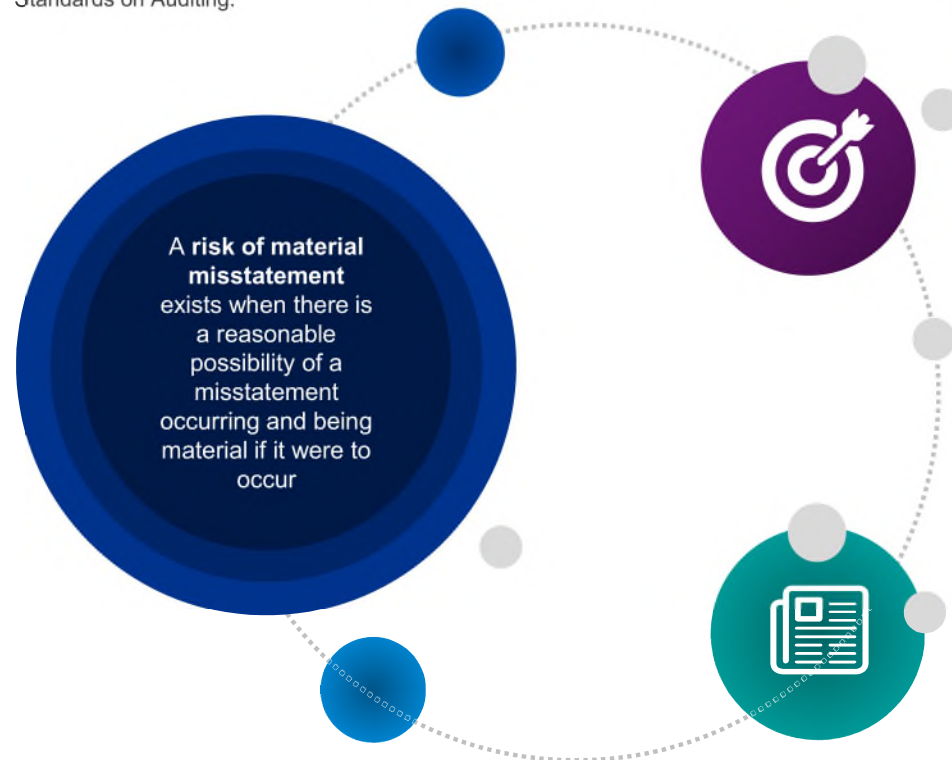
- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Annual Inspections Results](#)





Appendix: 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.



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:

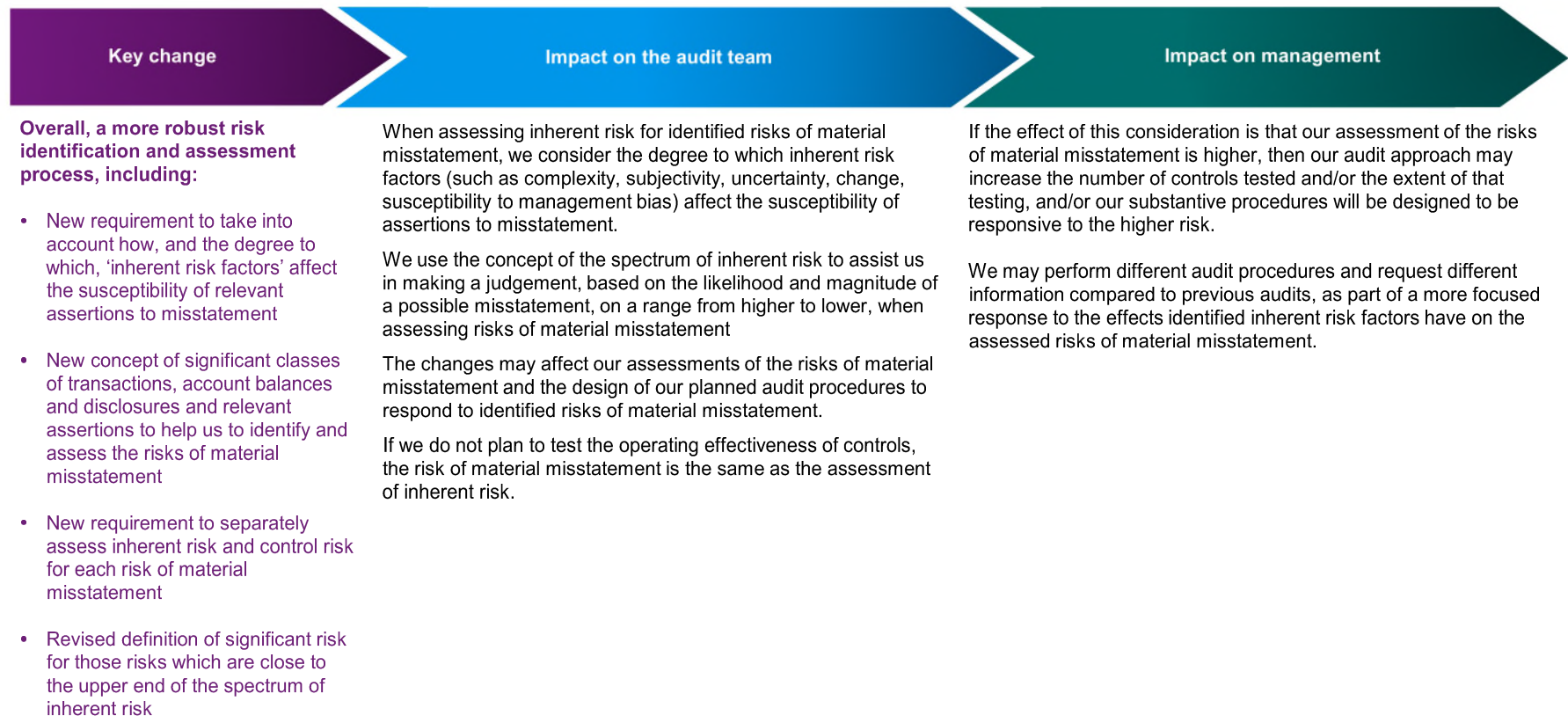
- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

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: Newly effective auditing standards





Appendix: Newly effective auditing standards

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.

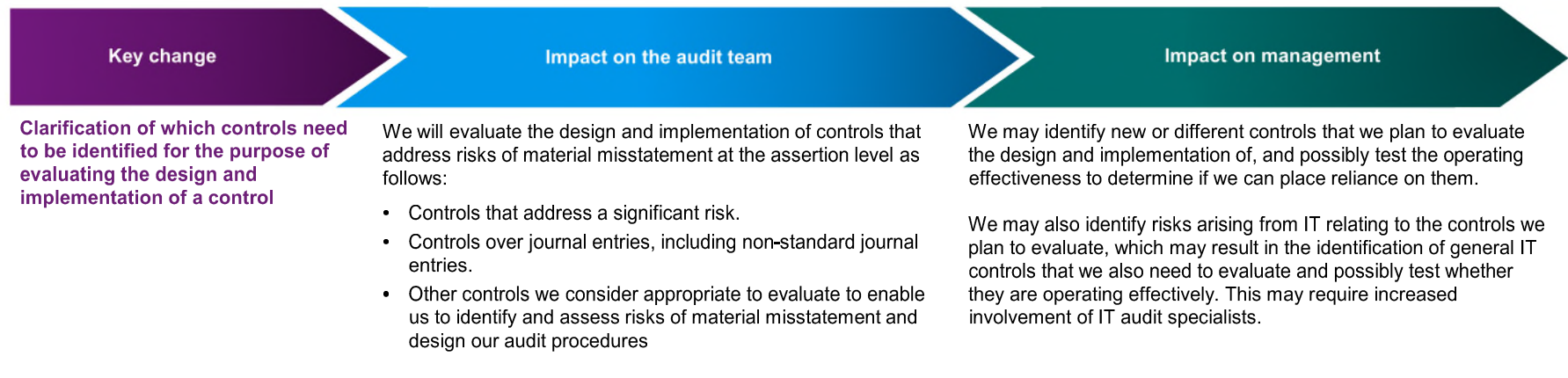


Appendix: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
<p>Modernized to recognize the evolving environment, including in relation to IT</p>	<p>New requirement to understand the extent to which the business model integrates the use of IT.</p> <p>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.</p> <p>Based on the identified controls we plan to evaluate, we are required to identify the:</p> <ul style="list-style-type: none">• IT applications and other aspects of the IT environment relevant to those controls• related risks arising from the use of IT and the entity's general IT controls that address them. <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>Enhanced requirements relating to exercising professional skepticism</p>	<p>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.</p>	<p>We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquiries of management, the activities we observe or the accounting records we inspect.</p>



Appendix: Newly effective auditing standards





Appendix: Changes in accounting standards

Standard	Summary and implications
Asset retirement obligations	<ul style="list-style-type: none">• The new standard PS 3280 <i>Asset retirement obligations</i> is effective for fiscal years beginning on or after April 1, 2022.• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.• The asset retirement obligations (“ARO”) standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.• As a result of the new standard, the public sector entity will:<ul style="list-style-type: none">• Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;• Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;• Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	<ul style="list-style-type: none">• The new standards PS 3450 <i>Financial instruments</i>, PS 2601 <i>Foreign currency translation</i>, PS 1201 <i>Financial statement presentation</i> and PS 3041 <i>Portfolio investments</i> are effective for fiscal years beginning on or after April 1, 2022.• Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.• Hedge accounting is not permitted.• A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.• PS 3450 <i>Financial instruments</i> was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	<ul style="list-style-type: none">• The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023.• The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.• The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.• The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none">• 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.• The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.• Narrow scope amendments were made to PS 1000 <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.• The guideline can be applied retroactively or prospectively.
Public Private Partnerships	<ul style="list-style-type: none">• The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023.• The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.• The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends.• The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.• The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.• The standard can be applied retroactively or prospectively.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	<ul style="list-style-type: none">• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted.• The framework provides the core concepts and objectives underlying Canadian public sector accounting standards.• The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.
Financial Statement Presentation	<ul style="list-style-type: none">• 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.• The proposed section includes the following:<ul style="list-style-type: none">• Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.• Separating liabilities into financial liabilities and non-financial liabilities.• Restructuring the statement of financial position to present total assets followed by total liabilities.• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).• Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.• A new provision whereby an entity can use an amended budget in certain circumstances.• Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.



Appendix: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	<ul style="list-style-type: none">• 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>.• 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.• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.• The proposed section PS 3251 <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.• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.



Appendix: 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: 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: 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 Long-lived assets
- 02 Leases
- 03 Impairment of nonfinancial assets
- 04 Financial instruments
- 05 Contingencies and insurance
- 06 Revenue and inventories
- 07 Compensation and benefits
- 08 Income taxes
- 09 Acquisitions and restructuring
- 10 Fair value measurement and projections
- 11 Presentation and disclosure



[See here for more information](#)



Appendix: Environmental, Social and Governance (ESG)

The Sustainability reporting journey: Regulatory update

International (ISSB)

EU (EFRAG)

US (SEC)

Canada (CSA)

<p>Recent activity¹</p>	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 companies² 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 <p>What about the CSSB?</p> <ul style="list-style-type: none"> 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
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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: 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 centre provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News

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





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