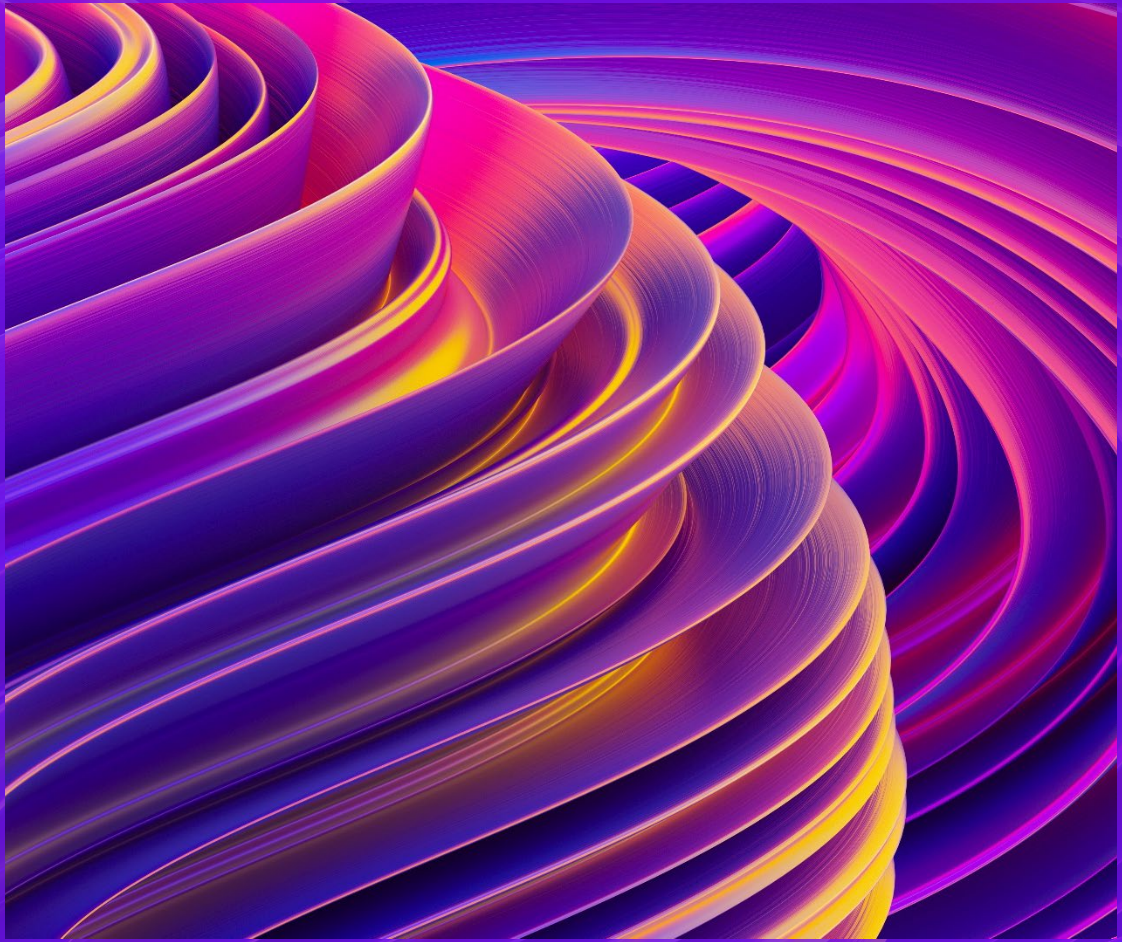
The Corporation of the Town of Tecumseh

Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Prepared as of November 26, 2024 for presentation to Town Council on January 14, 2025



kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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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 Town Council, in your review of the results of our audit of the consolidated financial statements. This report is intended solely for the information and use of Management and Town Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit highlights

No matters to report

Matters to report – see link for details

Status

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

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total expenses. We have determined materiality to be $1,100,000.

Risks and results

Significant risks

- Fraud risk from revenue recognition
- Fraud risk from management override of controls
- Asset retirement obligations

Other risks of material misstatement

- Employee future benefits
- Tangible capital assets
- Other newly effective accounting standards

Going concern matters

Policies and practices & Specific topics

Significant unusual transactions

Accounting policies and practices

Other financial reporting matters

Uncorrected and corrected misstatements

Uncorrected misstatements

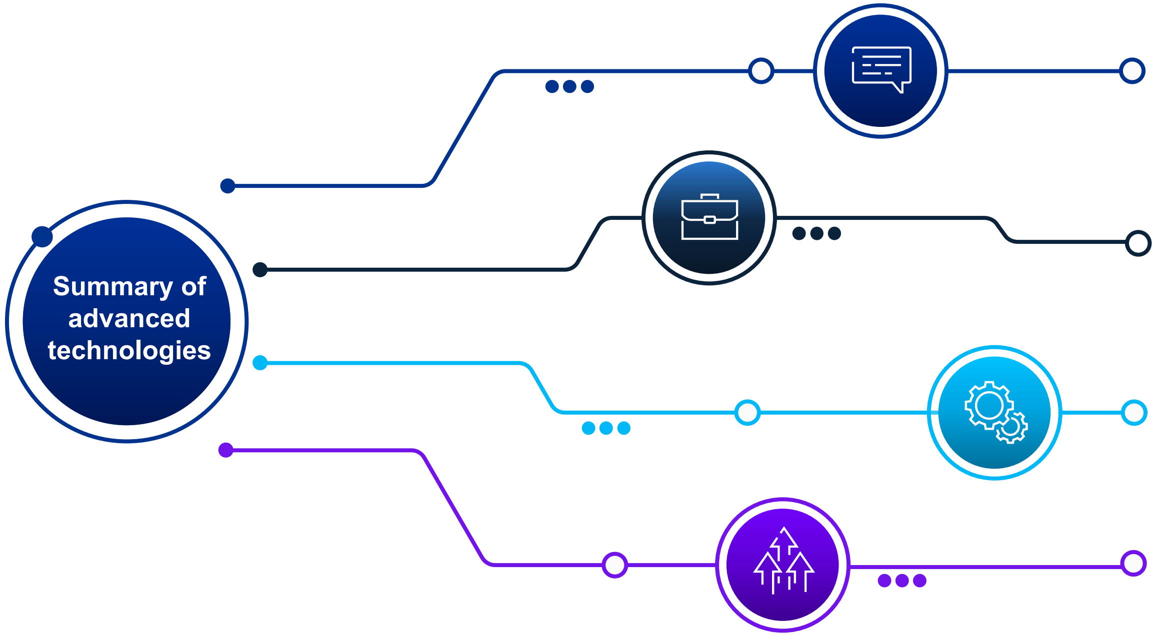
Corrected misstatements

Control deficiencies

Significant deficiencies

Technology highlights

We plan to utilize technology to enhance the quality and effectiveness of the audit.



KPMG Clara Workflow

The KPMG Clara Workflow was utilized as a hub in which all aspects of our audit work was completed.

KPMG Clara for Clients

KPMG Clara for Clients was utilized as a collaboration and share-site tool between KPMG and the Town of Tecumseh.

KPMG Clara DataSnipper

KPMG Clara DataSnipper is an automated vouching tool uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts.

KPMG Clara analytics – AI Transaction Scoring (MindBridge)

KPMG Clara Analytics - AI Transaction Scoring, powered by MindBridge AI, is a tool that applies advanced statistical, machine learning, and rules-based analytics technology to analyze transactions on a more granular level and deliver an even higher quality audit.

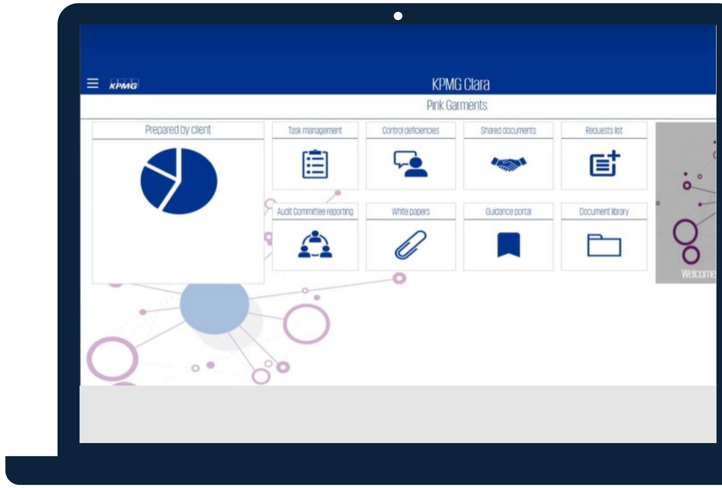
Status

As of November 26, 2024, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Obtaining signed management representation letter
- Receipt of confirmation from the Town's legal counsel
- Completing our discussions with the Town Council
- Obtaining evidence of the Town Council's approval of the financial statements

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

KPMG Clara for Clients (KCfc)



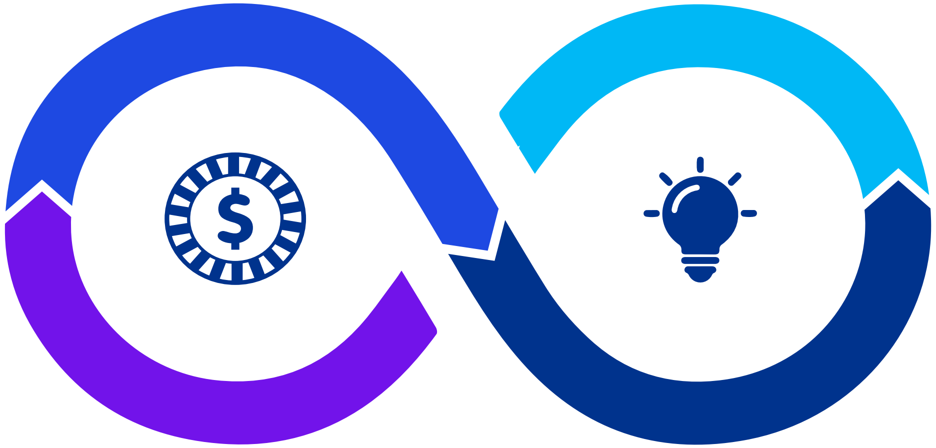
Real-time collaboration and transparency

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

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

Learn more

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

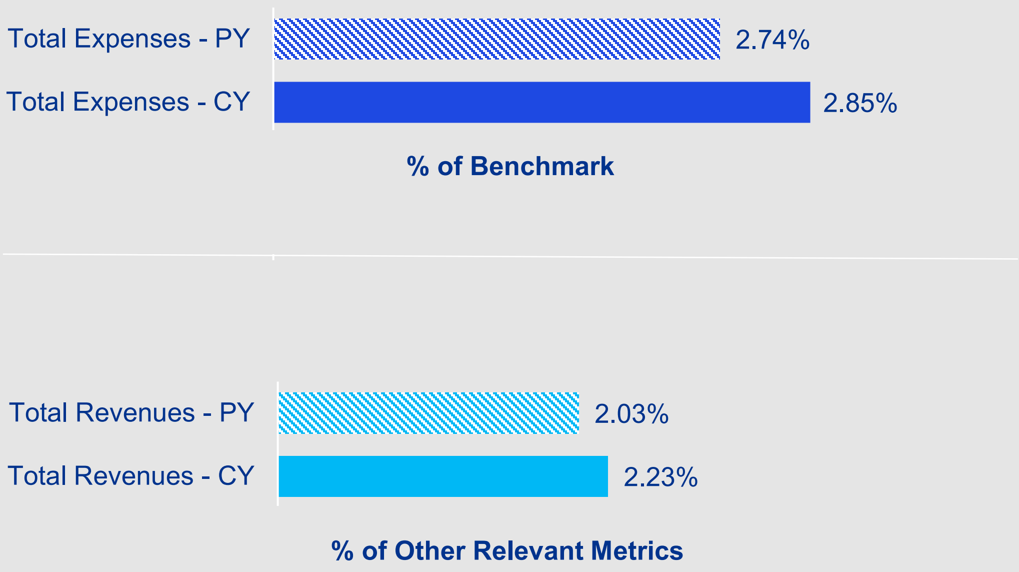
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Materiality

Materiality

$1,100,000

(2022: $1,000,000)



Total Expenses

$38,597,764

(2022: $36,493,160)

Total Revenues

$49,351,315

(2022: $49,207,341)

Note: In setting materiality, KPMG utilizes actual amounts from the prior year's audited financial statements as our benchmark.

Significant risks

Risk of Fraud Within the Financial Statements

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

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

Our response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.
- No issues were noted.

Presumption of the risk of fraud resulting from fraudulent revenue recognition

Why is it significant?

This is a presumed risk.

There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year revenue growth or profit.

Our response

We have rebutted the fraud risk over revenue recognition since there are limited perceived opportunities to commit fraud since revenue transactions do not involve elements of significant judgment. We have also not identified any indicators that management possesses the attitude, character or ethical values that would result in intentional dishonesty. The entity is not a high public profile entity and there are no significant third-party expectations in relation to revenue. As a result, there is no risk of material misstatement of revenue due to fraudulent financial reporting by management.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

Significant risks and results

Asset Retirement Obligations

Significant risk and our response

- The Town adopted Public Accounting Standard PS 3280 – Asset Retirement Obligations (ARO). The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings and remediation of contaminated sites owned by the Town. ARO's are an estimate which are derived from available information and required management to make judgements and assumptions leveraging available data.
- Management performed an assessment of the impact of the new accounting standard on the Town's financial statements, including potential liabilities related to asbestos abatement, remediation of landfills and future removal of equipment such as underground fuel tanks. To generate their assessment, Management worked with Pinchin Ltd. to determine the quantities of contamination present and perform a calculation of remediation costs. As at December 31, 2023, an asset retirement obligation of $2,032,667 has been recognized on the statement of financial position.

We performed the following audit procedures to assess the reasonability of Management's estimate:

- We obtained an understanding of the activities performed by Management to identify the Town's legal obligations associated with the retirement of capital assets, and ensured that all of the recognition criteria have been met to recognize an ARO in the financial statements.
- We obtained Management's most up-to-date calculation of the asset retirement obligation and verified that the estimated ARO costs were reasonable by reviewing the methods, data, and assumptions utilized by their expert in developing the estimate.
- The Town has chosen not to discount or use the present value technique for measurement of the ARO liability, as the timeline for the retirement activities is not well defined and discounting would add an additional layer of substantial uncertainty. KPMG notes that while PS 3280 does not require the present value technique for measurement, it does suggest that it is often the best available technique. We do understand the Town's position for not discounting, as there is uncertainty as to the timing of remediation.

Results

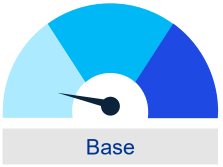
- No issues noted with any of the above procedures.
- Appropriate disclosures have been made in the financial statements for the adoption of the new accounting policy.

Other risks of material misstatement

Areas | **Level of risk due to error** | **Our response**

Employee future benefit obligations

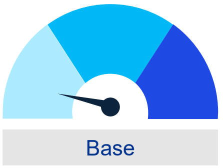
Employee future benefits are a significant estimate in the financial statements. They require the assistance of an external expert to develop the liability annually.



- We reviewed the assumptions provided by Management and the management expert, including the discount rate, valuation method applied, and the qualifications of the Actuary.
- We tested the underlying employee data provided to the Actuary by management to assess the existence and accuracy of the items included.
- We reviewed the financial statement disclosure for conformity with Public Sector Accounting Standards.
- No issues were noted.

Tangible capital assets

Capital expenditures represent a significant investment on the part of the Town and in certain instances, may involve a degree of subjectivity and/or complexity in terms of whether they meet the criteria for capitalization.



- We performed substantive testing over recorded capital expenditures by reviewing source documentation for a sample of items to assess the accuracy of the recorded amounts and ensure appropriate classification of costs (capitalization vs. expense).
- We performed substantive testing over repairs and maintenance expenditures, including reviewing source documentation for a sample of items, to identify any instances where items should be capitalized as opposed to expensed.
- We reviewed financial statement presentation and note disclosure of capital assets and deferred revenues.
- No issues were noted.

Other risks of material misstatement (continued)

Areas	Level of risk due to error	Our response
Other Newly Effective Accounting Standards PS 3450, Financial instruments, PS 2601, Foreign currency translation, PS 1201, Financial statement presentation and PS 3041 Portfolio investments become effective for this year-end.	 Base	• We reviewed Management's documentation prepared regarding the applicability of these new standards and held a discussion with Management regarding the impact of the new standards to the Financial Statements. • We reviewed the disclosure in the financial statements pertaining to these standards to ensure they are compliant with the requirements as set out. • No issues were noted. The impact of these new standards were nil or immaterial to the Financial Statements.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

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

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

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

A deficiency in internal control over financial reporting

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

Significant deficiencies in internal control over financial reporting

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

Control deficiencies – Significant deficiencies

Significant deficiencies in internal control over financial reporting

Description	Status	Potential effects
1	No significant deficiencies in internal control to report.	

Accounting policies and practices

Initial selection

PS 3280 Asset Retirement Obligation Standards was effective for fiscal years beginning on or after April 1, 2022. The adoption of this standard was reflected in the December 31, 2023 financial statements.

Note disclosure has been included in the financial statements for the transition to the new accounting standard. Please see note 2 for additional information relating to the transitional adjustments.

Revised

The new accounting standard, PS 3280, addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings owned by the Town and the remediation of other fuel contamination from underground tanks on property owned by the Town. The standard was adopted on the modified retrospective basis at the date of adoption such that the assumptions used to estimate the Town's asset retirement obligations were applied as of the date of adoption of the standard.

Significant qualitative aspects

The adoption of the Asset Retirement Obligations Standard required management to calculate the value of the obligation as of the date of transition. For application of the Standard, the Town used internal knowledge of the obligations, which was supplemented with professional third party advisors.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content

- Upon adoption of PS 1201 Financial Statement Presentation and PS 3450 Financial Instruments, the Town now presents a statement of remeasurement gains and losses within the financial statements.
- Included in the statement of remeasurement gains and losses are the unrealized gains/losses in investment income and the other comprehensive income/loss from GBEs.

Concerns regarding application of new accounting pronouncements

- The Town's estimate of its asset retirement obligations has been audited by KPMG in accordance with Canadian Auditing Standards. Based on the results of our procedures, no concerns have been identified.
- The financial statements include note disclosure relating to the application of the new accounting standard for asset retirement obligations.
- An emphasis of matter and other matter paragraphs have been added to the audit opinion to bring the readers attention to the change in comparative information as a result of the accounting change.

Significant qualitative aspects of financial statement presentation and disclosure

No matters to report.

Specific topics

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

Matter	Finding
Illegal acts, including noncompliance with laws and regulations, or fraud	No matters to report.
Other information in documents containing the audited financial statements	No matters to report.
Significant difficulties encountered during the audit	No matters to report.
Difficult or contentious matters for which the auditor consulted	No matters to report.
Management's consultation with other accountants	No matters to report.
Disagreements with management	No matters to report.
Related parties	No matters to report.
Significant issues in connection with our appointment or retention	No matters to report.
Other matters that are relevant matters of governance interest	No matters to report.

Services initiated under Town Council's pre-approval policies and procedures

Engagement description	Fee CDN
Audit of the consolidated financial statements of the Corporation of the Town of Tecumseh	$29,000
Audit of the consolidated financial statements of the Corporation of the Town of Tecumseh BIA	$1,200
Strategic support for the implementation of Public Sector Accounting Standard ("PSAS") 3280 Asset Retirement Obligations ("PS 3280")	TBD

Note: Town Council was previously provided with a written description of the nature and scope of each service and details of the proposed fee arrangement.

Pre-approval of services – Additional detail

Audit services

Detailed description of service	Potential effects of the proposed service on independence
• Audit of the consolidated financial statements of the Corporation of the Town of Tecumseh as of December 31, 2023 in accordance with the Public Sector Accounting Standards as of December 31, 2023.	• Such services are provided by the auditor pursuant to statutory or regulatory requirements and are permitted under CPA Code and IESBA independence rules.

Appendices

Appendix 1: Other required communications

Engagement terms

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

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

Appendix 1: Management representation letter

KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor, Ontario N8W 5K8
Canada

December 10, 2024

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of **The Corporation of the Town of Tecumseh** ("the Entity") as at and for the period ended December 31, 2023.

GENERAL:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

RESPONSIBILITIES:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated April 29, 2019, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:

      – the names of all related parties and information regarding all relationships and transactions with related parties;

      – the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

- management;
- employees who have significant roles in internal control over financial reporting; or
- others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements or illegal acts, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

GOING CONCERN:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

10) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

11) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

____

By: Mr. Tom Kitsos, Director Financial Services & Chief Financial Officer

____

By: Ms. Margaret Misek-Evans, Chief Administrative Officer

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

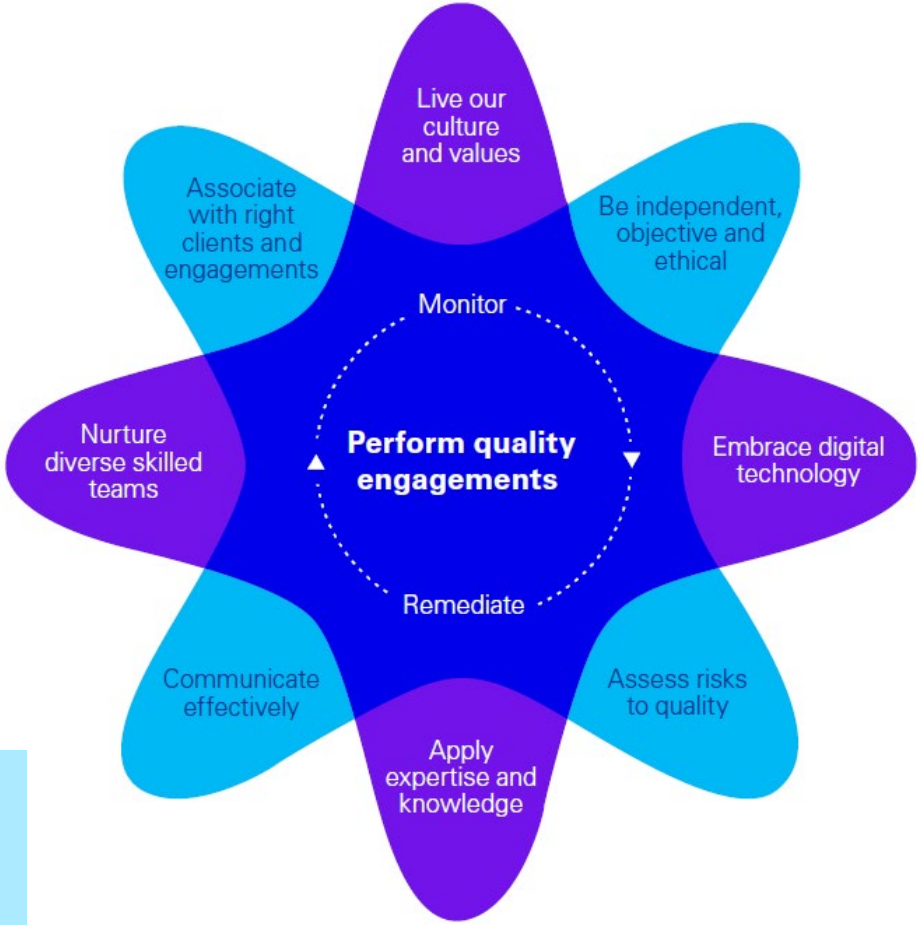
Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Appendix 2: Audit quality - How do we deliver audit quality?

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

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



Doing the right thing. Always.

KPMG 2023 Audit Quality and Transparency Report

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

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

Appendix 3: New accounting standards

Matter	Summary and implications
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 Employee Benefits as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

Appendix 3: New accounting standards

Matter	Summary and implications
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 Financial Statement Concepts and PS 1100 Financial Statement Objectives. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and 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 non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.

Appendix 4: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

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

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix 5: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

Lean in Audit

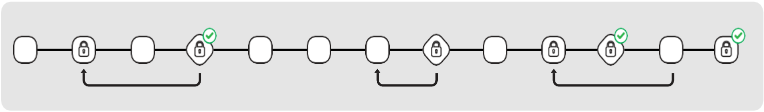
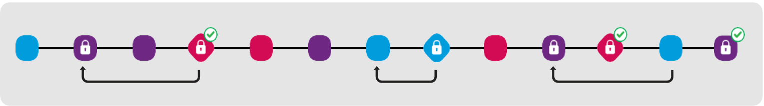
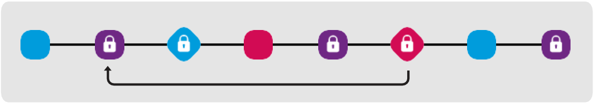
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to working with you to incorporate this approach in your audit.

How it works

Standard Audit	Typical process and how it's audited	
Lean in Audit™	Applying a Lean lens to perform walkthroughs and improve Audit quality while identifying opportunities to minimize risks and redundant steps	
How Lean in Audit helps improve businesses processes	Make the process more streamlined and efficient for all	

Value: what customers want **(maximize)**

Necessary: required activities **(minimize)**

Redundant: non-essential activities **(remove)**

Process controls

Key controls tested

Appendix 5: Audit and assurance insights

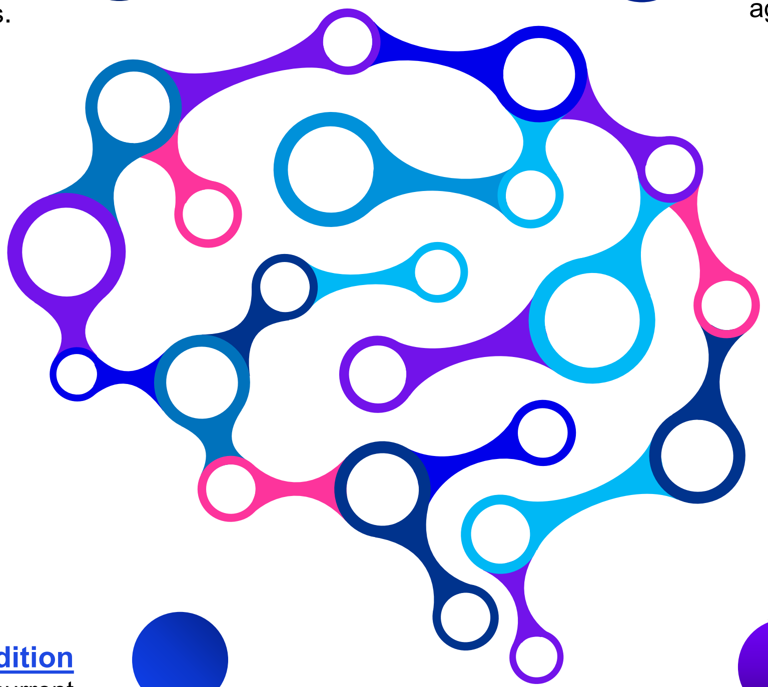
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

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

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

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

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



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

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

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

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

Appendix 6: ESG - Global regulatory reporting standards

Recent Activity[1-6]

EU

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD)
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies
- **There are potentially considerable ESG reporting implications for Canadian entities** – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

US

- SEC's climate rule proposal published in March 2022 would require investor-focused climate disclosures
- The SEC's latest regulatory agenda, published in December 2023, included three items of note:
    - **the climate rule, scheduled to be finalized in April 2024**;
    - a proposal for human capital management disclosures, scheduled for April 2024; and
    - a proposal for corporate board diversity, scheduled for October 2024
- On October 7, 2023, the **California** Governor signed **two climate disclosure laws** that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (**including US subsidiaries of non-US companies**) that meet specified revenue thresholds and do business in California
- Under the climate disclosure laws, certain businesses will be required to disclose **scope 1, 2 and 3 GHG emissions**, with **limited assurance requirements** from 2026 (on FY25 data)

ISSB

- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard)
- The standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption
- Companies will be required to report material sustainability-related financial disclosures for the same period and at the same time as their annual financial statements, subject to temporary transition relief options
- **The Canadian Sustainability Standards Board (CSSB)** has been established with the mandate to develop and support the adoption of the ISSB standards in Canada. The **CSSB expects to release draft requirements in March 2024** for public consultation

CAN

- The CSA proposal published in October 2021 would require investor-focused climate disclosures
- Subsequent to the release of the IFRS Sustainability Disclosure Standards, the **CSA announced** that they intend to conduct further consultations to adopt disclosure standards based on the IFRS Sustainability Disclosure Standards, with **modifications considered necessary and appropriate in the Canadian context**
- Bill S-211, **Canada's new Act on fighting against forced labor and child labour** will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year

1. Refer to our *US Quarterly Outlook* publication for regulatory updates on the proposed SEC climate rules
2. Refer to our *ESRS resource centre* for resources on implementing the ESRSs
3. Refer to our *ISSB resource centre* for resources on implementing the IFRS Sustainability Disclosure Standards
4. Refer to our *guide* which compares the sustainability proposals issued by the ISSB, SEC and EFRAG
5. Refer to our *publication* on California's introduction of climate disclosures and assurance requirements
6. Refer to our *publication* on the impact of EU ESG reporting on non-EU companies

Appendix 7: Continuous evolution

Our investment: $5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

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

Result: A better experience

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

Standardization
+
Automation
+
Centralization

Methodology and Approach

Data and tech enablement
+
Center for Audit Solutions
+
Next-gen auditor

Quality Management System

Enhanced audit quality
+
Increased efficiency
+
Exceptional experiences

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