KPMG

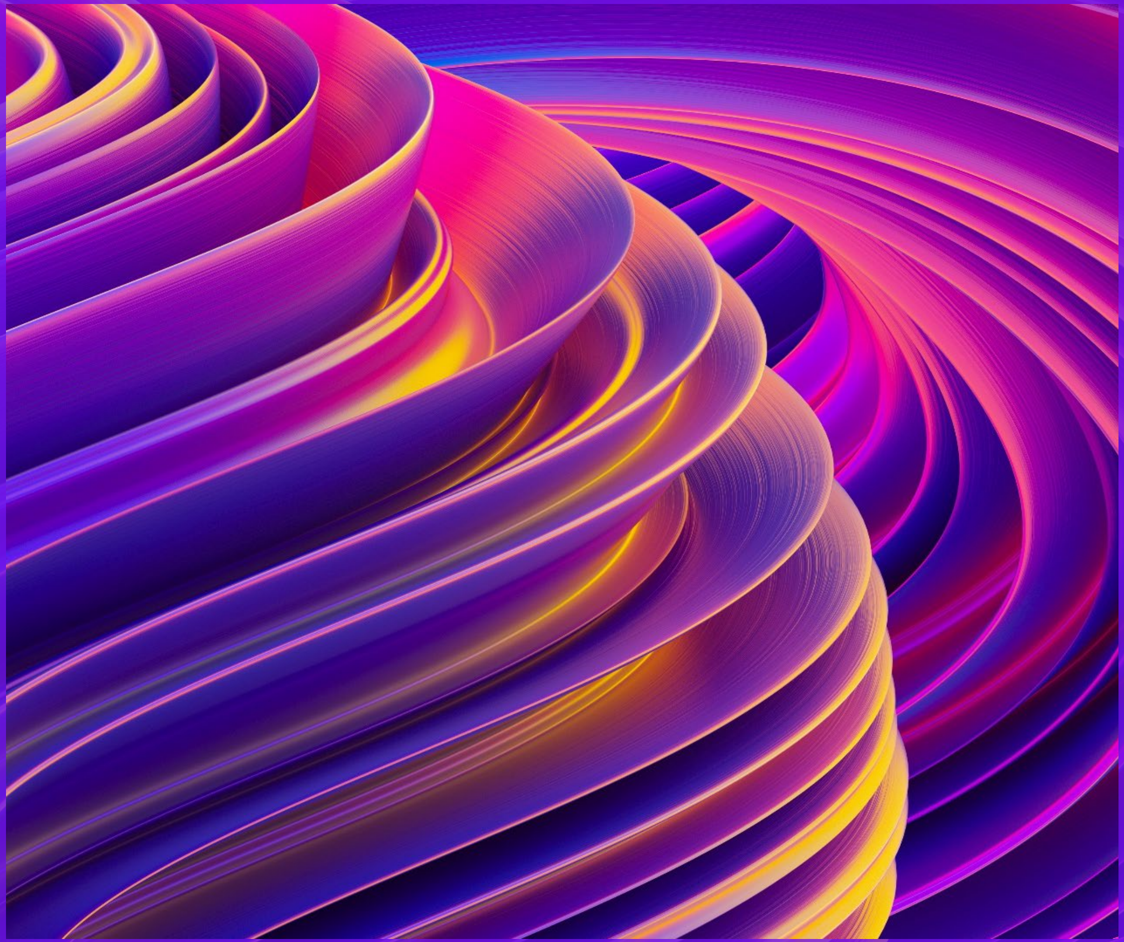
Corporation of the City of Guelph

Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of June 7, 2024, for presentation to Council on June 25, 2024.



kpmg.ca/audit

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The purpose of this report is to assist you, as a member of Council, in your review of the results of our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and 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.

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

No matters to report

Matters to report – see link for details

Status

We have not completed the audit of the consolidated financial statements ("financial statements"), due to certain remaining outstanding procedures, which are highlighted on the 'Status' slide of this report.

Significant changes

Significant changes since our audit plan

- Change to risk assessment – Asset retirement obligation

Risks and results

Significant risks

- Management override of controls

Other risks of material misstatement

- Post-employment benefits
- Tangible capital assets
- Obligatory Reserve Fund Revenue and Deferred Revenue
- Liabilities for contaminated sites
- Tax and user charges revenues
- Payroll and Other operating expenses

Going concern matters

Policies and practices & Specific topics

Significant unusual transactions

Accounting policies and practices

Other financial reporting matters

Uncorrected misstatements

Uncorrected misstatements

Corrected misstatements

Corrected misstatements

Control deficiencies

Significant deficiencies

- There were no significant deficiencies identified during the audit

Technology highlights

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

Summary of advanced technologies

KPMG Clara for Client

KPMG leveraged this tool to facilitate the sharing of information relevant to the audit in a secure and confidential manner.

DataSnipper

KPMG leveraged DataSnipper, an audit tool that uses optical character recognition and robotic process automation to automate vouching procedures, within the audit engagement. It automatically matched specified excel data to the corresponding documents, leaving an audit trail behind for review, enabling us to more efficiently analyze provided supporting documentation.

KCfc Collaboration Site

KCfc is the next generation Audit collaboration solution with new redesigned features to improve the client and engagement team experience. KPMG and management used this tool to effectively share documents.

Confirmation.com

KPMG leveraged Confirmation.com, a platform for audit confirmations, enabling us to receive our confirmations efficiently and allowing us to manage the audit confirmation process effectively from start to finish.

Status

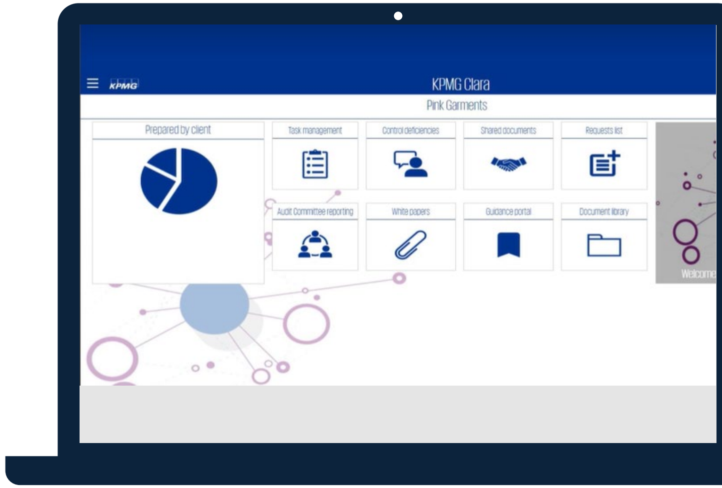
KPMG Clara for Clients (KCfc)

As of June 7, 2024, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Remaining audit procedures to be completed:
  - Asset retirement obligations tie outs and reviews
  - Journal entry testing
- Receipt of legal confirmations
- Completion of consolidation and note tie outs on financial statements
- Completing our final quality control and review procedures
- Completing our discussions with Council
- Obtaining evidence of the Council's approval of the financial statements
- Receipt of the signed management representation letter

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

A draft of our auditor's report is provided in Appendix: Draft Auditor's Report.



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

Significant changes

We have made the following significant changes related to our risk assessment since our audit plan:

Risk assessment

Asset Retirement Obligation

RISK OF **ERROR**

Significant risk	Estimate?	New or changed?
We are focusing on this area due to this being an estimate with significant judgment used by management and management's specialists. Additionally, there is complexity of the accounting guidance. The transition to PS 3280 has required management to retrospectively apply PS 3280 with adjustments to financial information of the comparative year of 2022, which has involved making numerous policy decisions, judgments, and estimates.	Yes	New

Our response

- Our procedures included:
  - Assessed management's accounting position over the new standard and ensured it is appropriate and in compliance with Public Sector Accounting Standards.
  - Tested a sample of obligations to ensure the accuracy and existence of the obligation is appropriate.
  - Tested a sample of assets that have no obligation attached to them to ensure the completeness of the overall obligation.
  - Inspected the journal entries booked to record the initial obligation as at the transition date.
- If there are any findings after the completion of the audit procedures over asset retirement obligations we will report this to you in an update to the audit findings report.

Significant qualitative aspects of the Company's accounting practices

The adoption of the Asset Retirement Obligation standard resulted in increased note disclosures within the financial statements.

Significant risks and results

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

Management Override of Controls

RISK OF FRAUD

Significant risk	Estimate?
There is a risk of a material misstatement due to fraud resulting from management override of controls. 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.	No

Our response

- Our procedures included:
  - We tested the design and implementation of controls surrounding the review of journal entries, and the business rationale for significant entries.
  - Using our KPMG Clara Journal Entry Analysis Tool, we obtained 100% of the journal entries posted during the year.
  - In responding to risks of fraud and management override of controls, we set specific criteria to isolate high risk journal entries and adjustments in order to analyze for further insights into our audit procedures and findings. We focused on journal entries that could possibly be related to override activities.
- If there are any findings after the completion of these audit procedures we will report this to you in an update to the audit findings report.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Post-Employment Benefits

Other risk of material misstatement	Estimate?
Post-employment benefits We are focusing on this area due to this being an estimate with significant judgment used by management and management's specialists. Additionally, there is complexity of the accounting guidance.	Yes

Our response

- Our procedures included:
  - We communicated with management's actuarial specialists.
  - We assessed management's process for identification and making accounting estimates, which are consistent with prior year.
  - We assessed the reasonableness of assumptions used, and we tested the appropriateness of the underlying data, including employee populations.
  - We assessed the discount rate used in calculating the employee future benefits in 2023 of 4.5%, which we considered to be reasonable, and is consistent with similar term borrowing rate.
  - We used the work of the Nexus Actuarial (Actuarial Consultant) in our audit of the accounts and disclosures.
- No issues were noted in the performance of the above procedures.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Tangible Capital Assets

Other risk of material misstatement	Estimate?
Tangible capital assets We are focusing on this area due to the significance of the account balances and the fact that there is a risk of error in inappropriately recognizing costs as either capital or operating.	Yes

Our response

- Our procedures included:
  - We discussed capitalization policies and their application with management.
  - We performed statistical sampling to select tangible capital asset additions and retirements in the year.
  - We tested expense accounts to ensure that items related to tangible capital assets were not inappropriately expensed in 2023.
  - We tested the reasonableness of amortization expense.
  - We have also assessed the financial statement presentation and disclosure of capital assets.
- No issues were noted in the performance of the above procedures.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Obligatory Reserve Fund Revenue and Deferred Revenue

Other risk of material misstatement	Estimate?
Obligatory reserve fund revenue and deferred revenue We are focusing on this area due to revenue recognized from development charge reserve fund is subject to judgment as capital projects must be growth related in nature. Additionally, we will focus on deferred revenue from the federal and provincial governments.	No

Our response

- Our procedures included:
  - Obtained management's continuity schedule for deferred development charges and ensured the spreadsheet was accurate and performed substantive testing over amounts being recognized as revenue.
  - Agreed a sample of development charges collected from developers during the current fiscal year
  - Obtained a sample of costs that related to development charge revenue to ensure they were appropriate, were allocated to the appropriate project, and were "growth-related" in nature.
  - Assessed the appropriateness of accounting for development charges
- No issues were noted in the performance of the above procedures.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Liabilities for contaminated sites

Other risk of material misstatement	Estimate?
Liabilities for contaminated sites We are focusing on this area due to the significance of the account balance and complexity, judgement, and estimate involved.	Yes

Our response

Our procedures included:

- Assessed the appropriateness of the City's internal expert used for determining the contaminated sites liability by assessing their competence, capabilities, and objectivity so we can rely on their work for our audit.
- Focused review of calculations and inputs used in the calculation, such as the discount rate and budgeted expenditures.
- Performed a retrospective review and compared actual expenditures to 2023 expected budgeted expenditures used in the calculation for the liability.
- Compared forecasted expenditures in prior years to the current year forecast for consistency.
- The liability decreased in 2023 to $26M from $28M.

- No issues were noted in the performance of the above procedures.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Taxation and user charges revenues

Other risk of material misstatement	Estimate?
We are focusing on this area due to the magnitude of revenues.	No

Our response

- Our procedures included:
  - Update understanding of various data elements driving the various revenues e.g. rates and users, prior year revenues etc.
  - Developed expectations by recalculations using the various independent inputs, trends, etc. and measure against actuals to evaluate reasonableness.
  - For taxation revenue, obtained MPAC assessment values and by-law enacted tax rates to develop expectations.
  - Investigate outliers and variances outside or predetermined acceptable thresholds.
  - No issues noted in performance of procedures.

Significant qualitative aspects of Guelph's accounting practices

No significant qualitative aspects to note.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Payroll and other operating expenses

Other risk of material misstatement	Estimate?
We are focusing on this area due to the magnitude of these costs in comparison to total expenses.	No

Our response

- Our procedures included:
  - Update understanding of various data elements driving the various expenses.
  - Developed expectations by recalculations using the various independent inputs, trends, etc. and measure against actuals to evaluate reasonableness.
  - Investigate outliers and variances outside or predetermined acceptable thresholds.
  - Performed statistical and attributes sampling and agreed samples to appropriate source documentation.
  - No issues noted in performance of procedures.

Significant qualitative aspects of Guelph’s accounting practices

No significant qualitative aspects to note.

Misstatements

Corrected and Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of corrected and uncorrected misstatements

- KPMG did not identify any misstatements that was above reporting thresholds.

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.

KPMG has not identified any significant control deficiencies as a result of our audit.

Accounting policies and practices

Initial selection

The following new material accounting policies and practices were selected and applied during the period.

- PS 3280 *Asset retirement obligations*
- PS 3450 *Financial instruments*
- PS 2601 *Foreign currency translation*
- PS 3041 *Portfolio investments*

Changes to material accounting policies and practices and the impact on the financial statements will be disclosed in the notes to the financial statements.

For financial instruments, the impact primarily related to investments. Within the new accounting standard all financial instruments, including derivatives, are included on the Statement of Financial Position and are measured amortized cost. In accordance with the provisions of this new standard, as at January 1, 2023, the City assessed that no adjustments needed to be recorded to comply with the standard. Based on our audit procedures, we concur with management's assessment.

The new accounting standard for asset retirement obligations also impacted the financial statements. At adoption, the city chose to apply the modified retrospective basis. There were adjustments to record asset retirement obligation related to the landfill liability, buildings, inactive wells and fuel tanks which will result in increased amortization expenses for the current year and future periods.

The remaining new standards did not have a significant impact on the City’s financial statements.

Accounting policies and practices

Significant qualitative aspects

Discussion about qualitative aspects of material accounting policies and practices

- *Appropriateness:* We have reviewed the accounting policies and practices as a result of the adoption of the aforementioned standards and have concluded that they are appropriate.
- *Management bias:* Our review of management's judgments did not indicate any management bias.
- *Estimates:* We have evaluated the estimates determined by Guelph's specialists and noted no indication of bias on the part of management.
- *Effect on the financial statements or disclosures:* We believe the impact on the 2023 financial statements due to the aforementioned standards has been appropriately recorded and all required disclosures relating to their adoption have been appropriately applied and disclosed.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content	The form, arrangement, and content of the financial statements are appropriate for the size, scope, and industry of the organization.
Concerns regarding application of new accounting pronouncements	The application of the new accounting standards is considered appropriate for the organization.
Significant qualitative aspects of financial statement presentation and disclosure	There are no concerns with respect to the presentation or disclosure of the financial statements; the financial statement presentation and disclosure is considered appropriate for the organization.

Appendices

Draft Auditor's report

Required communications

Management representation letter

Audit quality

Audit and assurance insights

ESG

Technology

Appendix: Draft auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of Council, Inhabitants and Ratepayers of the City of Guelph

Opinion

We have audited the consolidated financial statements of the City of Guelph (the Entity), which comprise:

- the consolidated statement of the financial position as at December 31, 2023
- the consolidated statement of operations for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated results of operations, its changes in consolidated net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements ("Note 2"), which explains that certain comparative information presented for the year ended December 31, 2022 has been restated.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect to this matter.

Other Matter – Comparative Information

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended December 31, 2022 and as at January 1, 2022.

In our opinion, such adjustments are appropriate and have been properly applied.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

(Date)

Appendix: Other required communications

Engagement terms

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

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: Management representation letter(s)

(Letterhead of Client)

KPMG LLP
120 Victoria Street S.
Suite 600
Kitchener, ON N2G 0E1

June 25, 2024
Ladies and gentlemen,

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of City of Guelph ("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 January 19, 2024 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, 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.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Non-SEC registrants or non-reporting issuers:

11) 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).

12) 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,

____

Tara Baker, City Treasurer, GM of Finance

____

Shanna O'Dwyer, Manager, Financial Reporting and Accounting

cc: Council

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.

Related parties

In accordance with Public Sector Accounting Board (PSAB) related party is defined as:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Public Sector Accounting Board (PSAB) a related party transaction is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

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

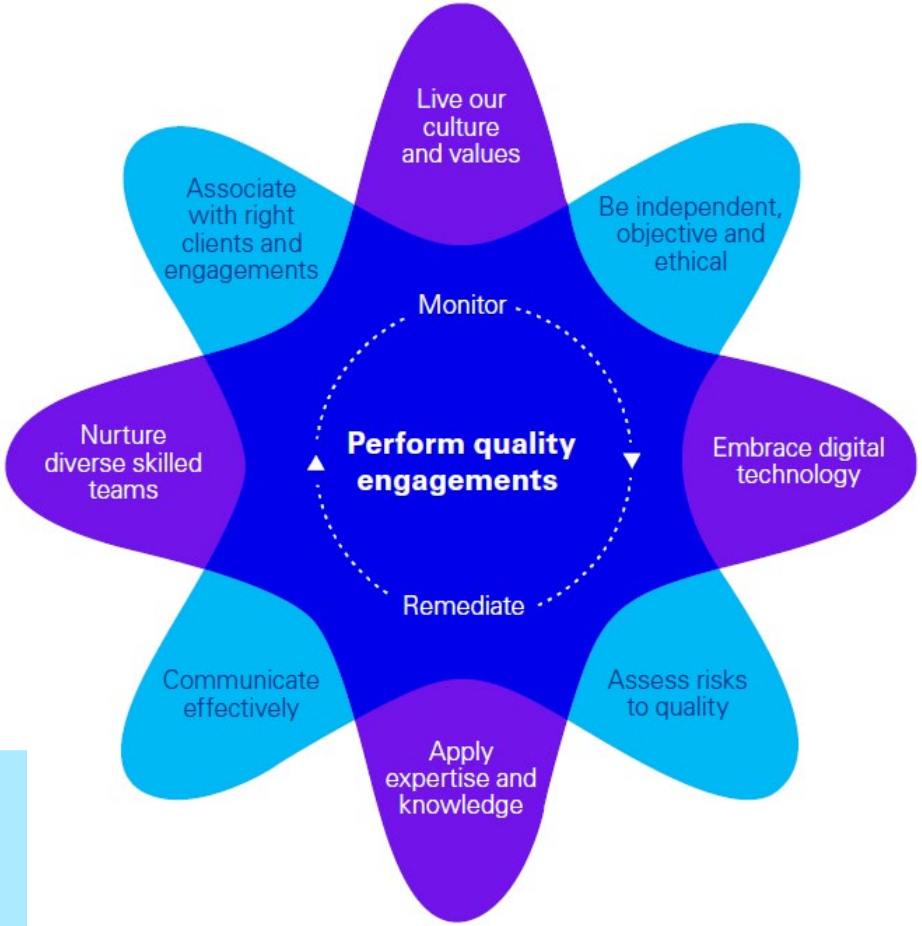
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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

[KPMG 2023 Audit Quality and Transparency Report]

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

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



Doing the right thing. Always.

Appendix: Audit quality - Indicators (AQIs)

The objective of these measures is to provide the Audit Committee and management with more in-depth information about factors that influence audit quality within an audit process. Below you will find the current status of the AQIs that we have agreed with management are relevant for the audit.

Team composition

Experience of the team

- Engagement Partner – 8 years on this engagement
- Engagement Manager – 4 years on this engagement

Technology in the audit

Implementation of Technology in the Audit

- We have implemented the following in the audit:
  - **KPMG Clara for Clients Site ("KCfc")** – secure PBC document sharing site
  - **KPMG Clara Workflow ("KCw")** – new audit workflow to allow us to deliver globally consistent engagements
  - **KPMG Clara Advanced Capabilities – Journal Entry Analysis** – focuses audit effort on journal entries that are riskier in nature
  - **DataSnipper** – Excel based tool, which allows us to automatically match Excel data with underlying source documents and form data extraction from documents with the same layout

Timing of prepared by client (PBC) items

Timeliness of PBC items

All requested PBC items were received in a relative timely manner and were of appropriate quality.

Nothing to report | Some matters to report | Specific matters to report

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

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.

Appendix: ESG - Global regulatory reporting standards

Recent Activity

ISSB[1] and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

US (SEC[2,3] and California[4])

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

EU[5,6]

- 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

1. Refer to our ISSB Resource Centre for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our Defining Issues publication for more information on the SEC's final climate rule
3. Refer to our Defining Issues publication for more information on the SEC's cybersecurity rules
4. Refer to our publication on California's introduction of climate disclosures and assurance requirements
5. Refer to our ESRS Resource Centre for resources on implementing the ESRSs
6. Refer to our publication on the impact of EU ESG reporting on non-EU companies

Appendix: 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

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Automation

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Centralization

Methodology and Approach

Data and tech enablement

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Center for Audit Solutions

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Next-gen auditor

Quality Management System

Enhanced audit quality

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Increased efficiency

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Exceptional experiences

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