KPMG

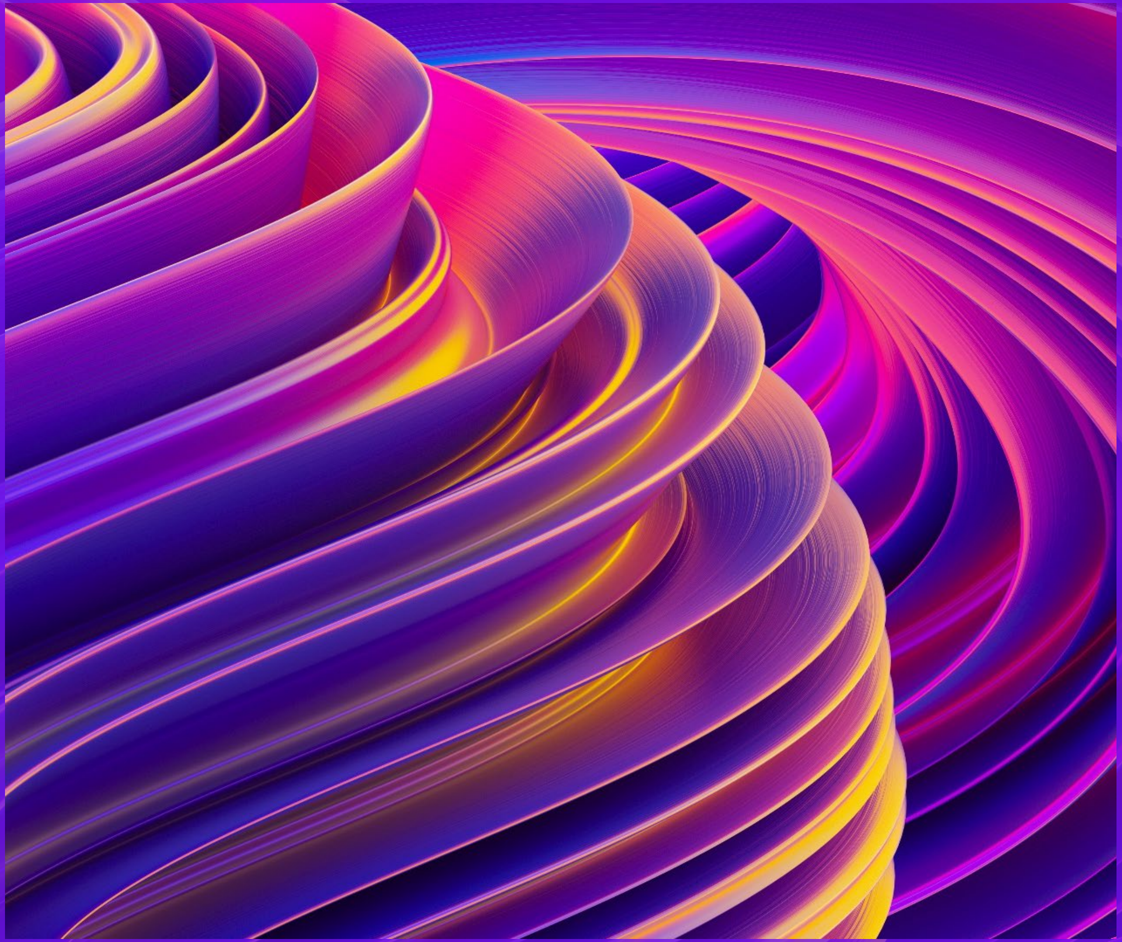
The Corporation of the District of Central Saanich

Audit Findings Report for the year ended December 31, 2024

KPMG LLP

Prepared for the meeting on May 12, 2025

kpmg.ca/audit



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The purpose of this report is to assist you, as a member of the Management and 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 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.

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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

Scope

Our audit of the financial statements of Corporation of the District of Central Saanich (the "District") as of and for the year ended December 31, 2024, was performed in accordance with Canadian generally accepted auditing standards.

Status

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

Materiality

Materiality $850,000

Risks assessment and results

Risk of management override of controls

No issues were noted in our testing over this non-rebuttable significant risk

Significant risks

No significant risks to report beyond those required by professional standards

Other areas of audit focus

Going concern matters

Uncorrected misstatements

Uncorrected misstatements

One uncorrected misstatement was identified. We concur with management's representation that the difference is not material to the financial statements.

Corrected misstatements

Corrected misstatements

No corrected misstatements were identified.

Control observations

Control observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We have provided an update on prior year control observations.

Policies and practices

Accounting policies and practices

Other financial reporting matters

Status

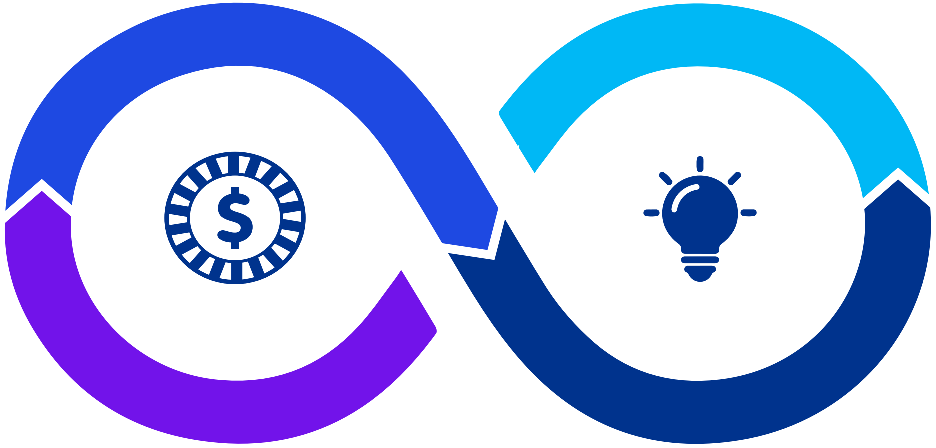
As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Council
- Obtaining evidence of the Council's acceptance of the financial statements
- Obtaining a signed management representation letter

We will update the 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 included in the draft financial statements.

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
$850,000
(2023: $800,000)

Total expenses
$33,570,019
(2023: $31,436,197)

% of Benchmark
2.53%
(2023: 2.54%)

Audit Misstatement Posting Threshold
$42,500
(2023: $40,000)

Significant risks

Area	Why do we focus here	Our planned response
Risk of management override of controls (Significant risk)	Section 240.32 of Canadian Auditing Standards states: “Management is in a unique position to perpetrate fraud because of management's 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 is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.”	Section 240.33 of Canadian Auditing Standards provides a number of required procedures that an auditor must perform at every entity irrespective of the auditor’s assessment of the risk of management override of controls. These include: • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. Our audit methodology embeds these required procedures in our audit approach. No issues were noted as a result of procedures performed.

Significant risks (continued)

The following are inquiries that we are required to make to those charged with governance:

Inquiries regarding risk assessment, including fraud risks

- What is Council's views about fraud risks, including management override of controls? And have you taken any actions to respond to any identified fraud risks?
- Is Council aware of, or has Council identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
  - If so, have the instances been appropriately addressed and how have they been addressed?
- How does Council exercise oversight of the District's fraud risks and the establishment of controls to address fraud risks?

Inquiries regarding organization processes

- Is Council aware of tips or complaints regarding the District's financial? If so, what was the District's responses to such tips and complaints?

Inquires regarding related parties and significant unusual transactions

- Is Council aware of any instances where the District entered into any significant unusual transactions?
- What is Council's understanding of the District's relationships and transactions with related parties that are significant to the District?
- Is Council concerned about those relationships or transactions with related parties? If so, the substance of those concerns?

Other areas of audit focus and results

Revenue and deferred revenue

Our response and findings

- Government transfer revenues comprised of grants from other government sources were tested by way of sampling; a selection of revenue transactions were compared to invoices and cash receipt. We assessed the recognition of government transfers against the recognition principles of public sector accounting standards.
- Analytical procedures were performed over over property tax revenue, permits, licenses and interest revenue, and sale and user fee revenue, developing an independent expectation of the balance and comparing to actual.
- Deferred revenue receipts and disbursements were sample tested to verify that the amounts recognized as an increase met the definition of a liability and disbursements met the required stipulations to be recognized as revenue.
- Management performed an assessment of the impact of adopting PS3400 *Revenue.* This analysis identified that certain revenue streams, primarily permit revenue with multiple inspection points, require recognition of deferred revenue to align with requirements of the new standard. The impact was an increase in deferred revenue and decrease in accumulated surplus of $289,000.
- We noted two grant that was restricted by the Province to be spent on certain eligible expenses (Climate Action Program and the Local Government Housing Initiatives). The District has recognized the full amounts as revenues in 2024, however, has not yet fully spent the grants on eligible expenses. Of the amounts spent, we noted the expenses are in line with restrictions of the grant programs. We recommend the unspent amounts be recognized as deferred revenue rather than as a reserve. The total overstatement of revenue and understatement of deferred revenue is $183,590.

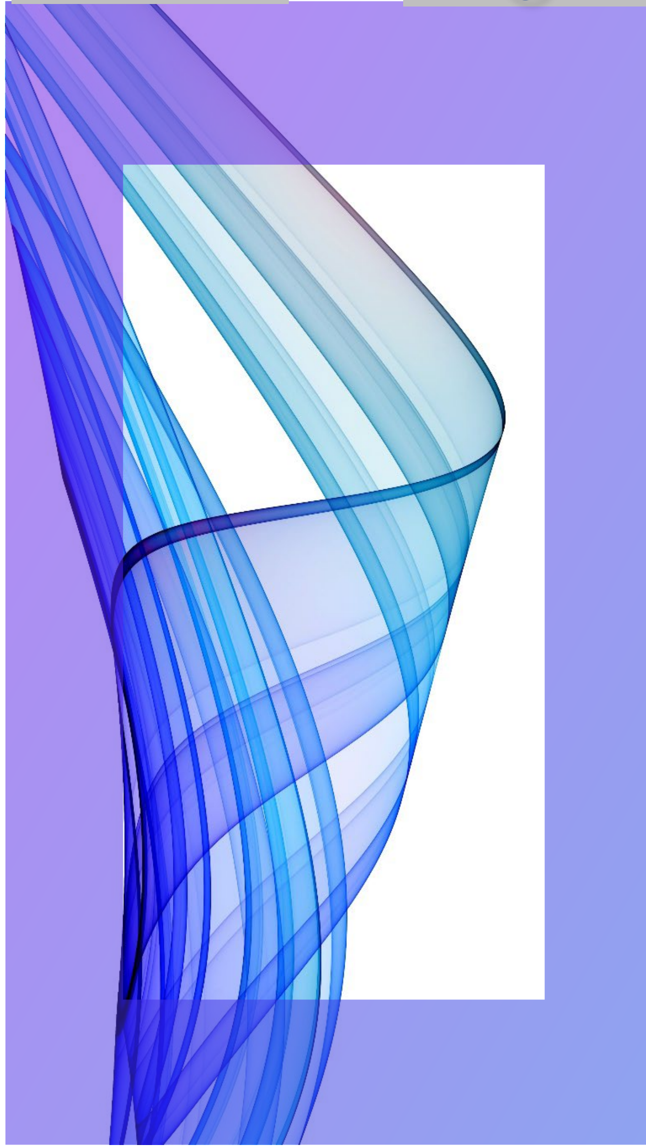
Other areas of audit focus and results

Tangible capital assets

Our response and findings

- We tested a sample of asset additions by agreeing amounts to invoices or other supporting documentation.
- We calculated expected amortization expense based on known amortization rates and compared the expected amortization expense to actual.
- We tested transfers from construction in progress to assets in use and confirmed the transfer occurred in the correct period and to the appropriate asset class.
- We assessed asset retirement obligations for activity impacting recognition and valuation in the year – remediation to reduce future liabilities, new obligations identified and assumptions used in the valuation of estimated liabilities.
- We assessed the impact of the new accounting standard PS3160, *Public Private Partnerships*, and noted no impact as a result of adoption of the new standard in 2024.

There were no issues noted in our testing.



Other areas of audit focus and results

Accounts payable, accrued liabilities and expenses (including payroll)

Our response and findings

- We performed a search for unrecorded liabilities by testing payments made subsequent to year end and assessing the completeness of liabilities and expenses.
- We compared actual expenses and liabilities to expectations taking into account known significant changes in operations and costs.
- We verified the accuracy of accruals to assess their reasonability.
- We compared actual payroll expense to budgeted amounts and investigated significant variances.
- We assessed the disclosures related to employee retirement benefit obligations and agreed amounts and assumptions disclosed to the actuarial report obtained by management.

There were no issues noted in our testing.

Cash, investment and debt

Our response and findings

- We confirmed cash and investment balances held as at December 31, 2024 with the appropriate financial institutions and reviewed bank reconciliations for all key operating accounts to identify and verify any significant period end reconciling items.
- We confirmed debt balances held as at December 31, 2024 with the Municipal Finance Authority and verified the accuracy of related accounts and disclosures.

There were no issues noted in our testing.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure misstatements.

Impact of uncorrected misstatements – Not material to the financial statements

We identified two misstatements as a result of our testing.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Below is a summary of the impact of the uncorrected misstatements:

	Statement of operations	Financial position		
Description	**Annual Surplus (Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening accumulated surplus (Decrease) Increase**
To defer the unspent portion of the Local Government Climate Action Program and Local Government Housing Initiative grants received in the year	(183,590)	-	183,590	-
Total misstatements	**(183,590)**	**-**	**183,590**	**-**

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.

We did not identify any significant deficiencies in internal control over financial reporting.

Control and other observations

Current year other observations

Description	Observation and recommendation	Current year update
Salary allocation to capital projects	Capital investment in the District is increasing and starting in 2024, we noted 3 employees' salaries were added to capital costs of certain capital projects. Pay is allocated based on the total project costs incurred during the year. While this method is a reasonable allocation, as the capital program continues to increase and more information is collected, the District can consider the cost/benefit of more precise methods of tracking employee time, to reflect the amount of time dedicated to specific projects. In addition, if employees spend time on activities other than capital projects, tracking this time can reduce the risk that project costs are overstated.	We recommend management evaluate the cost/benefit and potential allocation methodologies to support the amount of time that is capitalized and the allocation to specific capital projects based on effort expended on each capital project.

Update on prior year other observations

Description	Observation and recommendation	Current year update
Related party relationships and transactions	Effective for fiscal years beginning after April 1, 2017 entities operating under PSAB standards are required to disclose related parties transactions meeting certain criteria. Management are aware of the requirements and KPMG notes that through the Code of Ethics employees and Councillors are aware of their responsibilities, however there are no formal controls in place. KPMG recommends the development of a formal policy supporting the implementation of a declaration of any related parties and related party transactions for members of Council, senior management and their close family members. A register of all identified related parties should be kept and reviewed to support the monitoring of any related party transactions in the period.. **2024 Update** All elected officers and senior management completed their declaration of interest in 2024.	KPMG notes that declarations of interest were completed. However, there is no formal policy to provide guidance for the completion of these disclosures. KPMG continues to recommend the development of a formal policy to provide guidance for and to support enforcement of the completion the disclosures. This should include procedures for management to follow when the policy is not adhered to.

Other financial reporting matters

We also highlight the following:

Significant accounting policies	• Management adopted PS3160 *Public Private Partnership*, PS3400 *Revenue* and PSG-8 *Purchased Intangibles* on January 1, 2024. There were no issues noted as a result of adoption. • There were no significant accounting policies in controversial or emerging areas. • There were no issues noted with the timing of the District's transactions in relation to the period in which they were recorded other than as previously discussed. • There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions. • There were no issues noted with the extent to which the financial statements are affected by non recurring amounts recognized during the period and extent of disclosure of such transactions.
Significant accounting estimates	• There were no issues noted with management's identification of accounting estimates. • There were no issues noted with management's process for making accounting estimates. • There were no indicators of possible management bias. • There were no significant factors affecting the District's asset and liability carrying values.
Significant qualitative aspects of financial statement presentation and disclosure	• There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures. • There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements. • There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

Appendices

1. Required communications
2. Management representation letter
3. Audit quality
4. Current developments
5. Changes to auditing standards
6. Thought leadership and insights

Appendix 1: Required communications

Auditor's report	Engagement letter
Refer to the draft report attached to the financial statements.	The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter.

Independence	Management representation letter
As required by professional standards, we have considered all relationships between KPMG and the Entity that may have a bearing on independence. We confirm that we are independent with respect to the Entity within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation from January 1, 2024 up until the date of this report.	We will obtain from management certain representations at the completion of the audit. In accordance with professional standards, a copy of the representation letter is attached.

Appendix 2: Management representation letter

See attached management representation letter

[Letterhead of Client]

KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria, BC V8W 3Y7
Canada

May 12, 2025

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 District of Central Saanich (“the Entity”) as at and for the period ended December 31, 2024.

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:

- We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 17, 2022, including for:
  - 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.
  - 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.
  - providing you with unrestricted access to such relevant information.

  - providing you with complete responses to all enquiries made by you during the engagement.
  - providing you with additional information that you may request from us for the purpose of the engagement.
  - providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
  - 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.
  - ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
  - 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:

- 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:

- We have disclosed to you:
  - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - 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.
  - all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, short sellers, or others.
  - 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.
  - all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 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:

- We have disclosed to you the identity of the Entity's related parties.
- We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- All related party relationships and transactions/balances have been appropriately accounted for, and disclosed, in accordance with the relevant financial reporting framework.

Estimates:

- 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:

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

Misstatements:

- The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Other information:

- We confirm that the final version of Statement of Financial Information and Annual report will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your required procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 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).
- 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,

Christine Culham, Chief Administrative Officer

Fernando Pimentel, Deputy Director, Finance
Strategic Capital Planning

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.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

c) dissimilar items, transactions or other events are inappropriately aggregated;

d) similar items, transactions or other events are inappropriately disaggregated; and

e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

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.

Attachment II – Summary of Audit Misstatements Schedule(s)

Summary of uncorrected misstatement

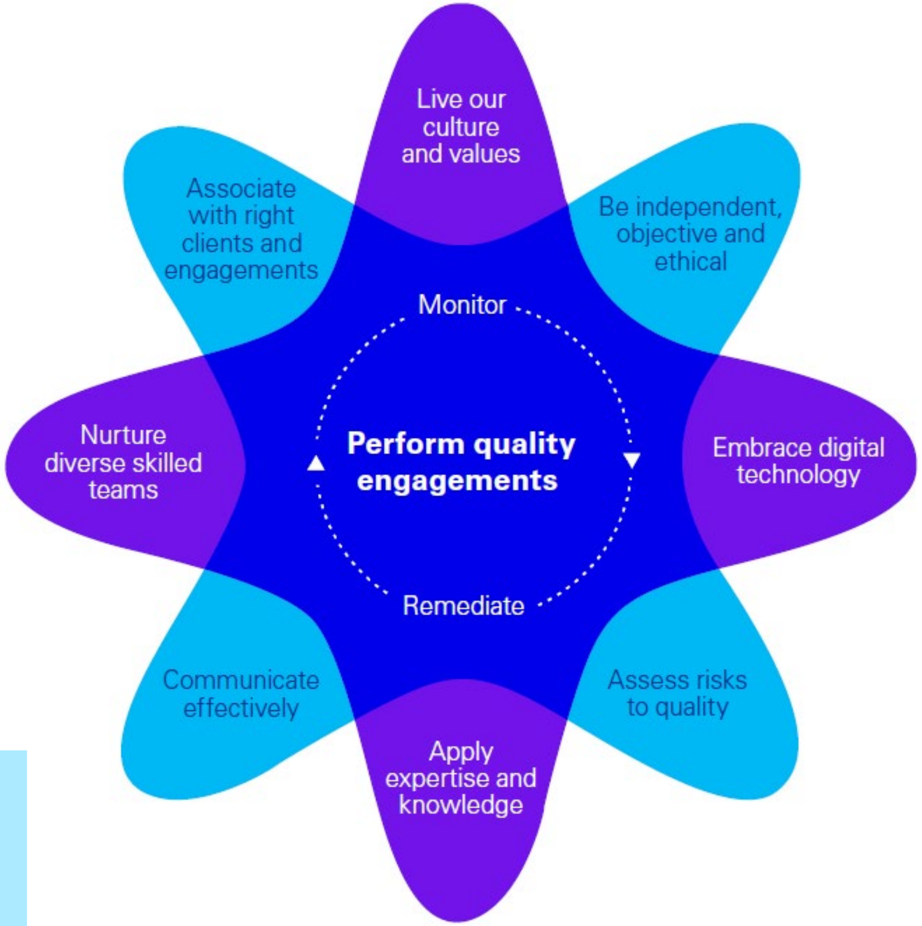
	Statement of operations	Financial position		
Description	**Annual Surplus (Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening accumulated surplus (Decrease) Increase**
To defer the unspent portion of the Local Government Climate Action Program and Local Government Housing Initiative grants received in the year	(183,590)	-	183,590	-
Total misstatements	**(183,590)**	**-**	**183,590**	**-**

Appendix 3: 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 Canada Transparency Report



Doing the right thing. Always.

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 4: Current developments

Changes to accounting standards (continued)

Standard	Summary and implications

Employee Future Benefit Obligations	• The Public Sector Accounting Board has issued proposed new standard PS 3251 *Employee benefits* which would replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*.
	• After evaluating comments received about the July 2021 exposure draft, a new re-exposure draft was released in October 2024. The re-exposure draft continues to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard.
	• The proposed standard 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.
	• The re-exposure draft also proposes that fully funded post-employment benefit plans use a discount rate based on the expected market-based return of plan assets and unfunded plans use a discount rate based on the market yield of government bonds, high-quality corporate bonds or another appropriate financial instrument. A simplified approach to determining a plan's funding status is provided.
	• For most other topics, the re-exposure draft is consistent with the original exposure draft. A few exceptions are:
	    • Deferral provisions – Remeasurement gains and losses will be presented as part of accumulated remeasurement gains and losses.
	    • Valuation of plan assets – Public sector entities may continue to recognize non-transferable financial instruments that meet the definition of plan assets under existing PS 3250 guidance.
	    • Joint defined benefit plans – Defined benefit accounting will be used for measurement of the proportionate share of the plan, instead of previously proposed multi-employer plan accounting which was based on defined contribution plan concepts.
	    • Disclosure of other long-term employee benefits and termination benefits – The re-exposure draft does not include prescriptive disclosure requirements for other long-term employee benefits and termination benefits.
	• The proposed section PS 3251 *Employee benefits* will apply to fiscal years beginning on or after April 1, 2029. Early adoption will be permitted and guidance applied retroactively, with or without prior period restatement.
	• Comments on the re-exposure draft were due on January 20, 2025. The re-exposure draft can be viewed at the following link: Click here

Appendix 4: Current developments

Changes to accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised Conceptual Framework is effective for fiscal years beginning on or after January 1, 2027 with early 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	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after January 1, 2027 to coincide with the adoption of the revised conceptual framework. Early adoption is permitted.
	• The proposed section includes the following:
	  • 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.

Appendix 4: Current developments

Changes to accounting standards (continued)

Standard	Summary and implications
Intangible assets	• The Public Sector Accounting Standards Board has issued proposed new standard PS 3155 *Intangible Assets* which would replace Public Sector Guideline 8 *Purchased Intangibles*. The new standard would be effective for fiscal years beginning on or after April 1, 2030 with early adoption permitted. • The standard will include foundational guidance on acquired and internally generated intangibles. It excludes intangible assets addressed in other public sector accounting standards and other intangible items such as exploration and extraction costs for non-renewable resources or intangible assets related to insurance contracts. • The definition of “intangible assets” requires an intangible resource to be separate and identifiable from goodwill. It also requires that the entity has control over the intangible resource, future economic benefits flow from the intangible resource, and the intangible resource is the result of a past transaction and/or other events. • Internally generated goodwill is not permitted to be recognized as an asset. • An intangible resource is recognized when it meets the definition of an intangible asset and the asset’s cost can be measured in a faithfully representative way. The generation of the asset is classified into a research phase and a development phase. Expenditures from the research phase of an internally generated project are expensed. An intangible asset arising from the development phase can be recognized if it meets certain requirements. • Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired through a non-exchange transaction are measured at fair value as of the date it is acquired. • Comments on the exposure draft are due on May 30, 2025. The exposure draft can be viewed at the following link: Click here
Cloud computing arrangements	• As part of its intangible assets project, the Public Sector Accounting Standards Board is also developing guidance on cloud computing arrangements. To ensure the development of this accounting guidance reflects current practices and needs, a survey has been launched to gather insights. The survey will inform the Public Sector Accounting Board about the types of cloud computing arrangements being encountered, magnitude of costs, key arrangement terms, current accounting policies and unique challenges in practice. • We encourage all entities to complete the survey by May 30, 2025, which is at the following link: Click here

Appendix 5: Changes to auditing standards

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

Effective for current year (periods beginning on or after December 15, 2023)

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Click here for information about CAS 600 from CPA Canada:

Revised CAS 600

Effective for next year (periods beginning on or after December 15, 2024)

ISA 260/CAS 260

Communications with those charged with governance

ISA 700/CAS 700

Forming an opinion and reporting on the financial statements

Click here for information about CAS 260 and CAS 700 from CPA Canada:

Amended CAS 260 and CAS 700

Appendix 6: Thought leadership and insights

2024 Canadian CEO Outlook	KPMG interviewed more than 800 business owners and C-suite leaders across Canada on a variety of topics ranging from their top-of-mind concerns to their acquisition plans, the risks and rewards of artificial intelligence (AI), productivity, the omnipresent threat of cybercrime, and the impact of aging demographics on the workforce. Click here to access KPMG's portal.
Future of Risk	Enterprises are facing an array of reputational, environmental, regulatory and societal forces. To navigate this complex landscape, the C-suite should seek to embrace risk as an enabler of value and fundamentally transform their approach. KPMG's global survey of 400 executives reveals that their top priorities for the next few years are adapting to new risk types and adopting advanced analytics and AI. As organizations align risk management with strategic objectives, closer collaboration across the enterprise will be essential. Click here to access KPMG's portal.
Resilience Amid Complexity	In today's rapidly evolving and interconnected business landscape, organizations face unprecedented challenges and an increasingly complex and volatile risk landscape that can threaten their competitiveness and future survival. We share revealing real-world examples of how companies have overcome their challenges and emerged stronger as the rapid pace of change accelerates and look at the key components of KPMG's enterprise resilience framework and how it is helping these businesses build resilience and achieve their strategic objectives in an increasingly uncertain world. Click here to access KPMG's portal.
Future of Procurement	Procurement is at an exciting point where leaders have the opportunity to recast their functions as strategic powerhouses. In this global report we examine how these forces may affect procurement teams and discuss how procurement leaders can respond – and the capabilities they will need to thrive. Our insights are augmented by findings from the KPMG 2023 Global Procurement Survey, which captured the perspectives of 400 senior procurement professionals around the globe, representing a range of industries. Click here to access KPMG's portal.

Appendix 6: Thought leadership and insights (continued)

Artificial Intelligence in Financial Reporting and Audit

Artificial intelligence (AI) is transforming the financial reporting and auditing landscape, and is set to dramatically grow across organizations and industries. In our new report, KPMG surveyed 1,800 senior executives across 10 countries, including Canada, confirming the importance of AI in financial reporting and auditing. This report highlights how organizations expect their auditors to lead the AI transformation and drive the transformation of financial reporting. They see a key role for auditors in supporting the safe and responsible rollout of AI, including assurance and attestation over the governance and controls in place to mitigate risks.

Click here to access KPMG's portal.

Control System Cybersecurity Annual Report 2024

Based on a survey of more than 630 industry members (13% from government organizations), this report reveals that while the increase in cyberattacks is concerning, organizations have become more proactive in their cybersecurity budgets, focused on prevention, and acknowledging the threat of supply chain attacks. Furthermore, the report highlights a pressing need for skilled cybersecurity professionals in the face of escalating cyber threats. Explore the full report to help gain a clearer understanding of the growing cyber threat landscape and learn how to overcome the roadblocks to progress.

Click here to access KPMG's portal.

Cybersecurity Considerations 2024: Government and Public Sector

In every industry, cybersecurity stands as a paramount concern for leaders. Yet, for government and public sector organizations, the game of digital defense takes on a whole new level of intensity. The reason? The sheer volume and sensitivity of data they manage, which can amplify the potential fallout from any breach. These agencies are the custodians of a vast array of personal and critical data, spanning from citizen welfare to public safety and national security. This article delves into the pivotal cybersecurity considerations for the government and public sector. It offers valuable perspectives on critical focus areas and provides actionable strategies for leaders and their security teams to fortify resilience, drive innovation, and uphold trust in an ever-changing environment.

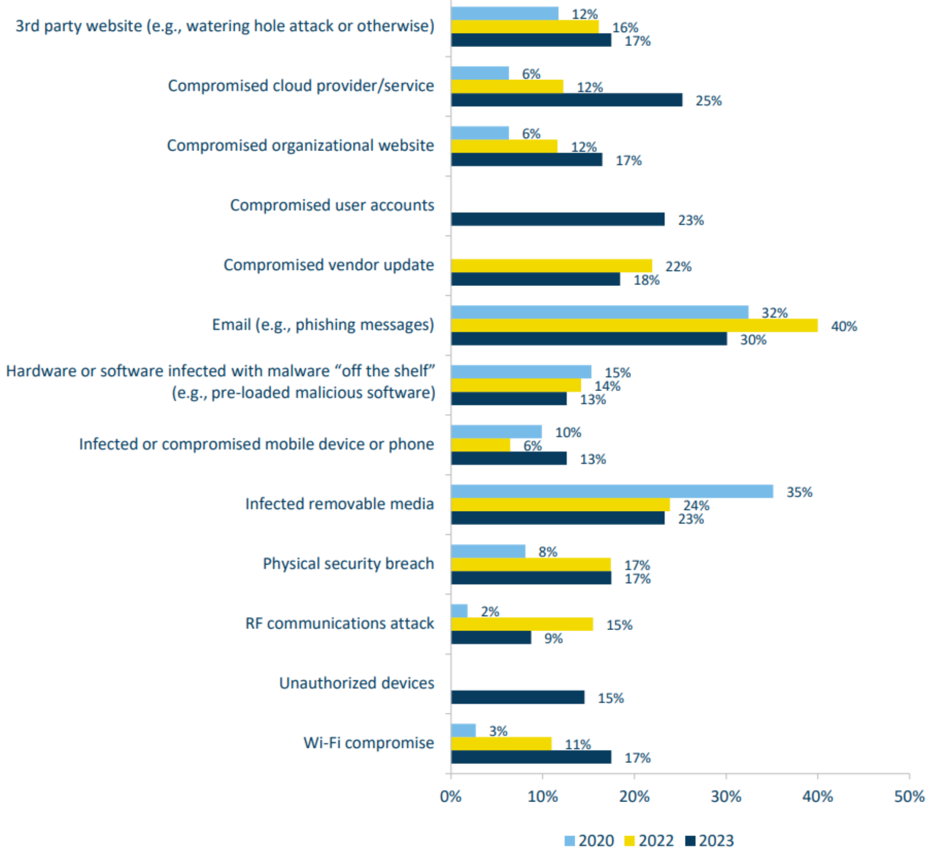
Click here to access KPMG's portal.

Appendix 6: Thought leadership and insights (continued)

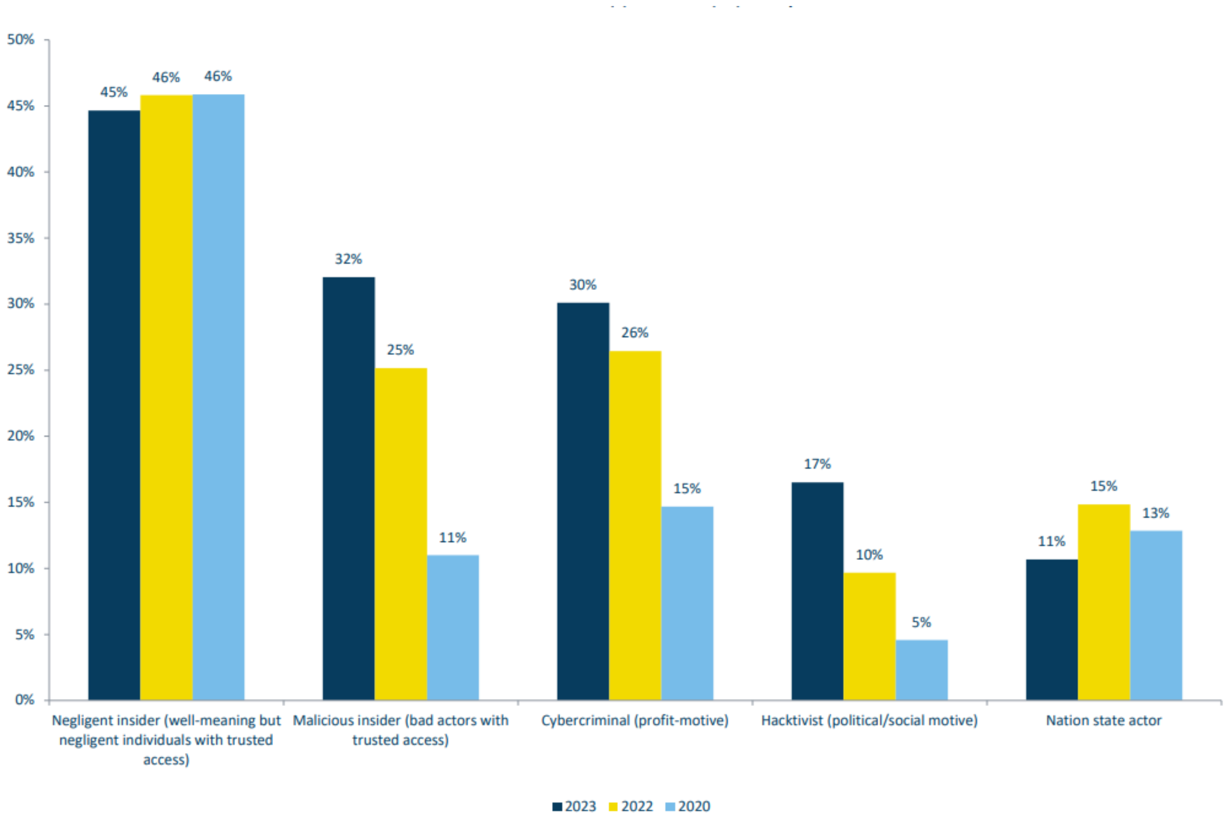
Ransomware in Canada

Canada is the fourth highest victim of ransomware attacks after the US, UK and Malaysia. Where ransomware attacks are successful, the costs can be substantial. COVID-19, lockdown and a shift to remote working has seen a rise in ransomware incidents. Vulnerabilities in people, process and technology controls, due to a shift to remote working over this period, have presented opportunities for cyber criminals.

Trends in types and frequency of cyber incidents



Trends in how cyber incidents arise



Source: The (CS)2 AI-KPMG Control System Cybersecurity Annual Report

Appendix 6: Thought leadership and insights (continued)

AI brings Risks as well as Opportunities

Internal Risks & Considerations

Breaking Confidentiality

Many Generative AI models are built to absorb user-inputted data to improve the model over time. This could lead to exposure of key confidential information

Employee Misuse and Inaccuracies

Models generate responses based on input, so there is a risk of providing false or malicious content. Employees need to be cautious and review AI-generated content with a critical

Talent Implications

Professionals need to be made aware of their role in training and evolving the solution as high- quality output can only be achieved through high- quality, expert queries

Policies and Regulations

As the world's understanding of AI evolves, more policies and regulations will be brought upon by regulators which in turn need to be complied with

External Risks & Considerations

Misinformation, Bias and Discrimination

The model could generate a response containing inappropriate information or language. In cases where the model does not have an accurate response, it may 'hallucinate' with a false response.

Financial, Brand & Reputational Risk

Copying AI-produced information or code into any deliverable or product could constitute copyright infringement leading to legal and reputational harm

Intellectual Property and Copyright

Risks in copyright includes the potential creation of unauthorized plagiarized content, leading to infringement and violations of intellectual property rights

Cybersecurity

Generative AI models could be trained and employed for many cybersecurity attacks such as phishing scams, malware, data poisoning etc.

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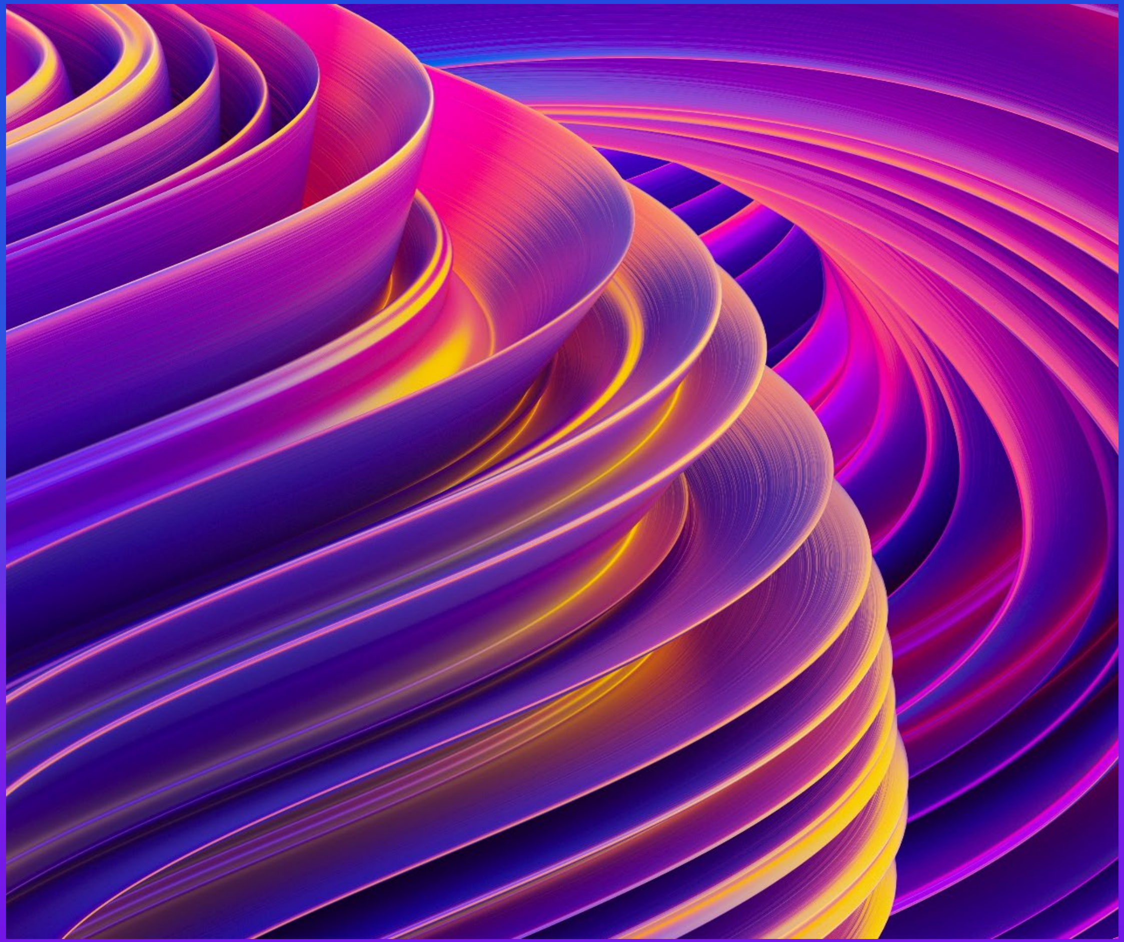

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