ATTACHMENT B

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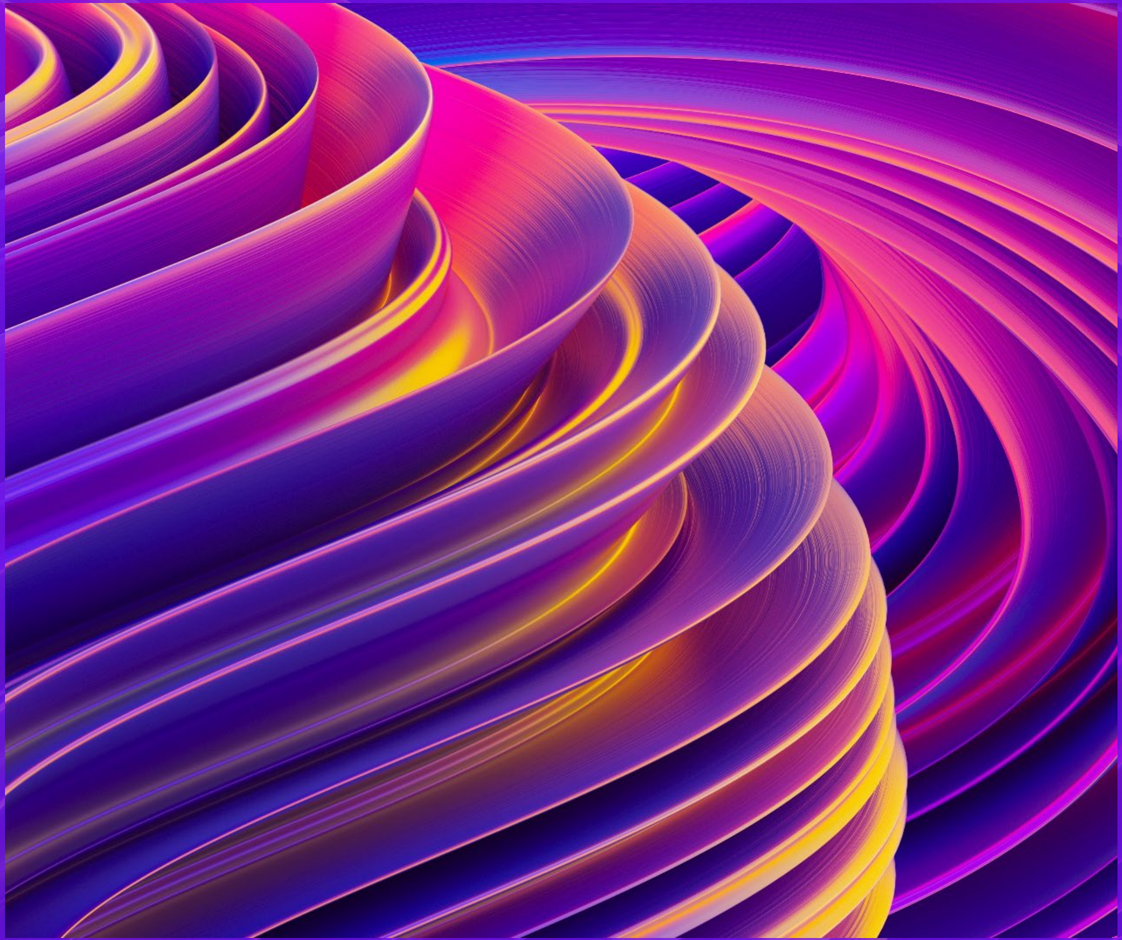
City of Nanaimo



Audit Findings Report
for the year ended December 31, 2024

KPMG LLP

Prepared for the meeting on April 16, 2025

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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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.

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Audit highlights

No matters to report

Matters to report – see link for details

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.

Significant changes

Significant changes since our audit plan

- No change to risk assessment
- No change to audit strategy assessment

Risks and results & Significant unusual transactions

Significant risks

- Presumed risk of management override of controls

Other risks of material misstatement

- Revenue and receivables
- Expenditures other than salaries and benefits
- Salaries and benefits
- Capital assets
- Cash, investments and debt

Going concern matters

Significant unusual transactions

Misstatements - Corrected

Corrected misstatements

There were no corrected misstatements identified

Uncorrected misstatements

Uncorrected misstatements

An uncorrected misstatement was identified by management in the 2023 comparative figures which decreases both accounts receivable and deferred revenue by $785,122.

There is another uncorrected difference related to revenue recognition of a grant in 2023 and 2024 which would decrease revenues and increase deferred revenues in both years.

See the management representation letter in Appendix 1.

Control deficiencies

Control deficiencies

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

Policies and practices & Specific topics

Accounting policies and practices

Other financial reporting matters

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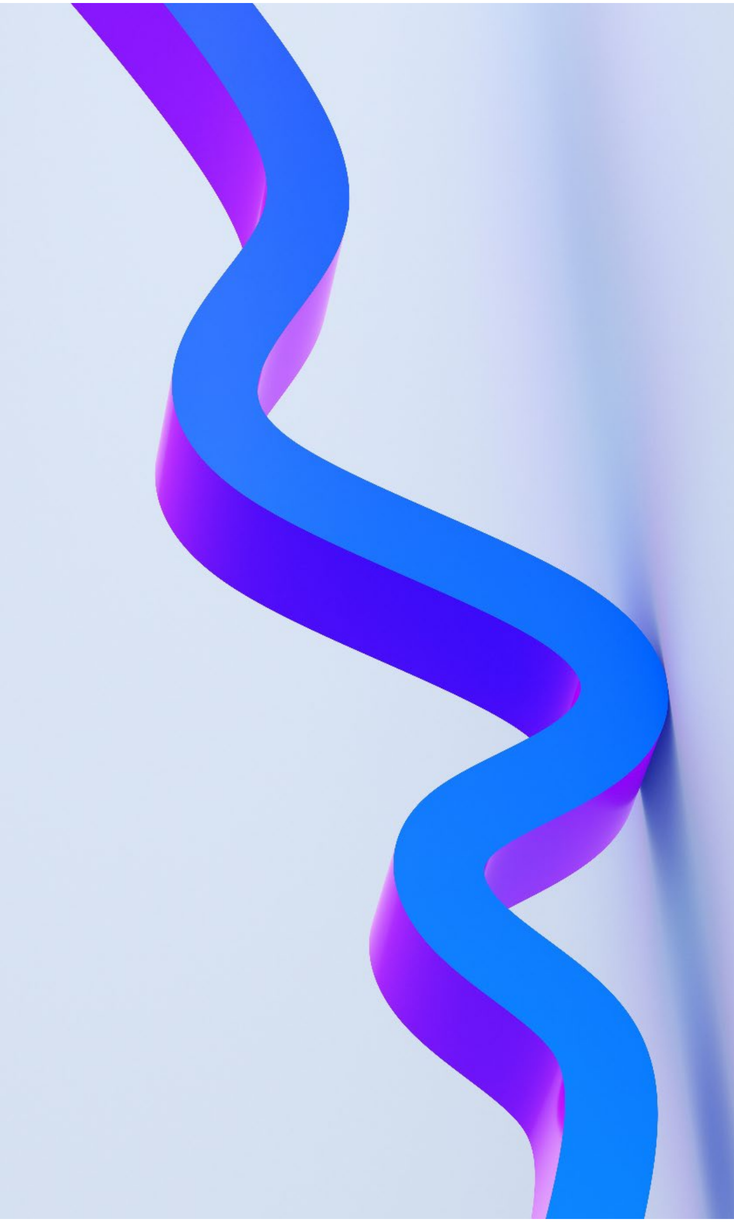
The purpose of this report is to assist you, as a member of the Finance and Audit Committee, in your review of the results of our audit of the financial statements as at and for the period ended December 31, 2024. This report builds on the Audit Plan we presented to the Finance and Audit Committee. This report is intended solely for the information and use of Management, the Finance and Audit Committee and the 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.

Status



As of April 16, 2025 we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Awaiting return of a legal confirmation
- Completing our discussions with the Finance and Audit Committee
- Obtaining evidence of Council's acceptance of the financial statements
- Obtaining a signed management representation letter
- Completing subsequent event review procedures up to the date of Council's acceptance of the financial statements

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

Our auditor's report, a draft of which is included in the draft financial statements, will be dated upon the completion of <u>any</u> remaining procedures.

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Significant risks and results

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

Fraud risk from management override of controls

This is a presumed fraud risk. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities. We have not identified any specific additional risks of management override relating to this audit.

Procedures performed

Our procedures included:

- testing of journal entries and other adjustments
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Significant findings

- We noted no issues as a result of our testing.

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Audit focus areas

We highlight findings in other areas of focus as identified in the Audit Plan as follows

Revenue and receivables

Our response

- We compared revenue balances on a financial statement account level to budget and to prior year.
- We performed analytical procedures over property tax revenue, investment income, and user fees and sales of services.
- We performed substantive testing over government transfers by agreeing revenues to supporting documentation and cash receipt.
- We performed substantive testing over deferred revenue and deferred development cost charges by agreeing to supporting documents and cash receipts for amounts received in the year and by agreeing to related spend to support revenue recognition.
- Management performed an assessment of the impact of adopting PS3400 *Revenue.* This analysis identified that all revenue streams which fall under this new standard were already being accounted for in line with the requirements of the standard. There was no impact on adoption of this standard.

Significant findings

- We reviewed management's treatment of the Local Government Climate Action Plan grants received in current and prior years and noted stipulations related to these grants in accordance with *PS3410 Government Transfers* which would result in a decrease in revenue of $466K in 2024 and $178K in 2023 for the unspent portion of the grant received in the year. See the summary of uncorrected audit differences in the management representation letter in Appendix 1 for details of the proposed adjustments.
- We noted no other issues as a result of our testing.
- Appropriate disclosure has been included in the financial statements regarding the adoption of PS 3400 *Revenue*.
- Management identified an error in the 2023 figures related to an overstatement of parks and recreation accounts receivable and deferred revenues of $785K due to the City's Xplor system recording future bookings in these accounts. As the amounts are not material, no restatement of 2023 comparative information was recorded. We included this error in the summary of uncorrected audit differences.

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Audit focus areas

We highlight findings in other areas of focus as identified in the Audit Plan as follows

Expenditures other than salaries and benefits

Our response

- 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.

Significant findings

- We noted no issues as a result of our testing.

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Audit focus areas

We highlight findings in other areas of focus as identified in the Audit Plan as follows

Salaries and benefits

Our response

- We updated our understanding of the payroll processes.
- We calculated expected payroll expense and payroll accruals based on known staff numbers and salary increases from prior year. In each case, our calculated expectation was within an acceptable range compared to actual payroll expense, or payroll accrual recorded in the financial statements.
- We tested the completeness and accuracy of the underlying payroll data used in the development of our expectation including agreeing amounts to employment contracts.
- We tested the reliability of the underlying data used by the actuary in estimating the liability of future employee benefits.
- We performed a review of assumptions and methods used by the actuary in estimating the liability of future employee benefits to determine if the assumptions and methods used are reasonable and consistent with Public Sector Accounting Standards.

Significant findings

- We noted no issues as a result of our testing.

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Audit focus areas

We highlight findings in other areas of focus as identified in the Audit Plan as follows

Capital assets

Our response

- 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 performed testing over the developer contributed tangible capital assets by obtaining reports of assets contributed during the year and evaluating the amount of revenue and assets recognized.
- 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 verified the accuracy of the commitments disclosure by selecting a sample of contracts and spend to date to evaluate the remaining commitment.
- We discussed with management the impact of adopting PS3160 *Public private partnerships* and PSG-8 *Purchased intangibles.* The City does not have any contracts which fall under the public private partnerships guidelines and does not have any purchased intangibles. There was no impact on adoption of these standards.

Significant findings

- We noted no issues as a result of our testing.

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Audit focus areas

We highlight findings in other areas of focus as identified in the Audit Plan as follows

Cash, investments and debt

Our response

- 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 performed recalculation of related balances and transactions in the financial statements and verified the accuracy of related disclosures.

Significant findings

- We noted no issues as a result of our testing.

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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.

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Appendices

1. Other required communications
2. Audit quality
3. New auditing standards
4. New accounting standards
5. Thought leadership and insights

Appendix 1: Other required communications

Auditor's report	Engagement letter
Refer to the draft report attached to the financial statements.	A copy of the engagement letter and any subsequent amendments has been provided to management.

Independence	Management representation letter
As required by professional standards, we have considered all relationships between KPMG and the City that may have a bearing on independence. We confirm that we are independent with respect to the City 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.	A copy of the management representation letter is included on the following pages.

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[Nanaimo Letterhead]

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

May 5, 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 City of Nanaimo ("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 November 23, 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 Council and committees of the Council 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 whether from group or component management.
- 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.

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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 Annual Report 2024 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.

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Other:

- We confirm that we have provided you with a complete list of service organizations (SO) and sub-service organizations (SSO) and that the relevant complementary user entity controls (CUECs) related to each SO/SSO have been designed and implemented. For the purpose of this representation, a service organization is one as defined in CAS 402.

Assets & Liabilities - General

- The City has satisfactory title to all owned assets.
- We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or signed as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.
- We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.
- All developer contributed assets accepted by the City have been included in the financial statements.

Contractual Agreements:

- The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the City's debt agreements.

Environmental Matters:

- The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

Non-Financial Assets:

- We have reviewed non-financial assets, including tangible capital assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

Employee future benefits:

- The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.
- The significant accounting policies the City has adopted in applying PS 3255, Post-employment benefits, compensated absences and termination benefits (hereinafter referred to as "PS3255") are disclosed in the notes to the financial statements.
- All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and

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included in the determination of pension and post-employment costs and obligations. This includes:

  - pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
  - post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.
  - compensated absences for which it is expected employees will be paid. These benefits include accumulated sick days, and termination benefits.

- The post-employment benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with PS 3255. In particular:
  - each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and
  - the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.
- The assumptions included in the actuarial valuation are those that management instructed Nexus Actuarial Consultants Ltd. ("Nexus") to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-names financial statements, in accordance with PS 3255.
- In arriving at these assumptions, management has obtained the advice of Nexus, but has retained the final responsibility for them.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

Segment Disclosures:

- The City's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework. The operating segment information disclosed in the financial statements is consistent with the form and content of the information used by the City's chief operating decision maker for the purposes of assessing performance and making operating decisions about the City's individual operations. All significant differences in measures used to determine segment income have been appropriately identified and described in the disclosures of segment information in accordance with the relevant financial reporting framework.

Experts/Specialists:

- The information provided by us to Nexus, and used in the work and findings of Nexus, is complete and accurate. We agree with Nexus's findings in evaluating the

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accuracy and completeness of employee future benefits and have adequately considered their qualifications in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to Nexus with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on Nexus's independence and objectivity.

Other:

- Expenditures will be appropriately authorized and actual expenditures will not exceed budgeted expenditures detailed in the budget bylaw.
- All reserve transactions have been appropriately approved, in accordance with applicable legislation and are appropriately credited to or charged against fund balances. Reserve amounts represent only those amounts that are available for use at the City's discretion and do not include restrictions on use by third parties
- All transfers out of statutory reserves have been conducted in accordance with the approved bylaws.

Yours very truly,

____

Dale Lindsay, Chief Administrative Officer

____

Laura Mercer, General Manager, Corporate Services

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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.

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Attachment II – Summary of Audit Misstatements Schedule

Uncorrected audit misstatements 2024

	Statement of operations	Financial position		
Description	**Annual Surplus (Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening accumulated surplus (Decrease) Increase**
To defer unspent LGCAP grant revenue	($465,923)	-	$968,933	($503,010)
Total misstatements	**($465,923)**	**-**	**$968,933**	**($503,010)**

Uncorrected audit misstatements 2023

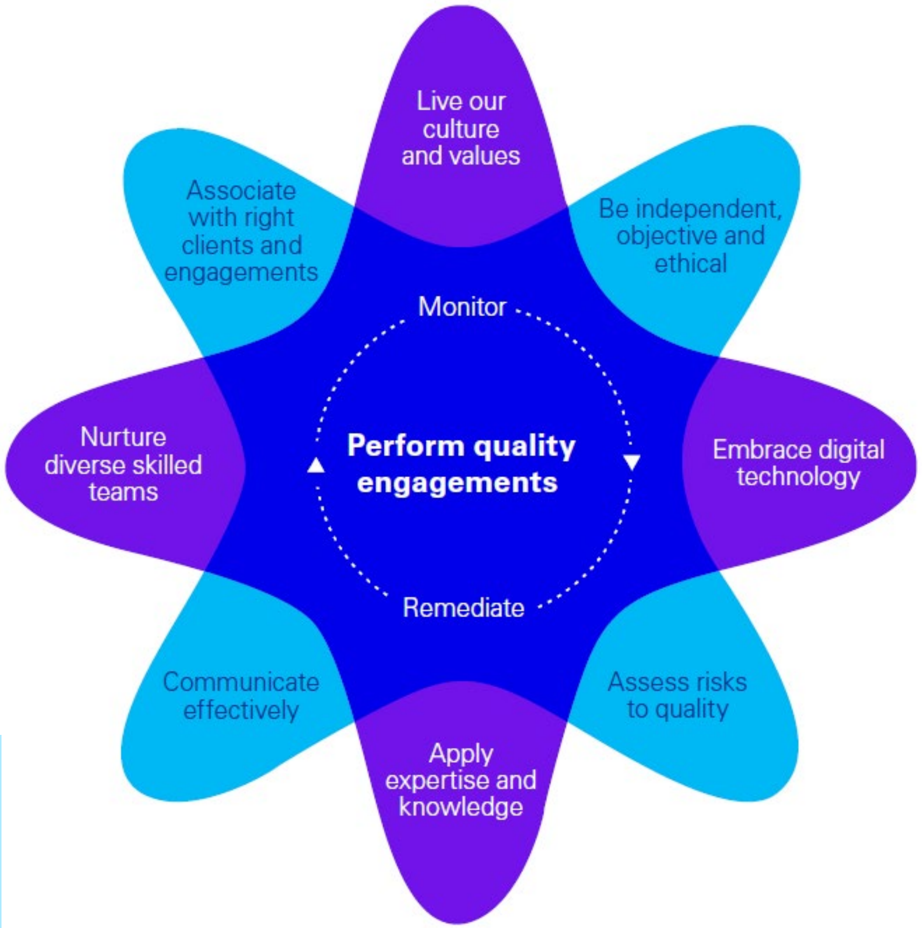
	Statement of operations	Financial position		
Description	**Annual Surplus (Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening accumulated surplus (Decrease) Increase**
To defer unspent LGCAP grant revenue	($177,928)	-	$503,010	($325,082)
To correct overstatement of accounts receivable and deferred revenue	-	($785,122)	($785,122)	-
Total misstatements	**($177,928)**	**($785,122)**	**($282,112)**	**($325,082)**

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

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

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Learn more about our system of quality management and 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.**

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Appendix 3: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 2023

None noted at this time that are applicable to the audit of the City

Effective for 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

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Appendix 4: New accounting standards

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised Conceptual Framework is effective for fiscal years beginning on or after April 1, 2026 with 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 April 1, 2026 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.

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Appendix 4: New accounting standards (continued)

Standard	Summary and implications

Employee Benefits	• 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

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Appendix 4: New 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

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Appendix 5: 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.

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Appendix 5: 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.

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Appendix 5: Thought leadership and insights (continued)

Why the Public Sector Must Take the Lead in Sustainability Reporting	As the world prepares for the implementation of sustainability reporting standards from the International Sustainability Board (ISSB), the need for public sector leadership is pronounced. While governments around the world have collaborated on vital policy and regulatory solutions, they have yet to provide sustainability reporting for their own government reporting entities. This presents a major obstacle to global sustainability ambitions, particularly considering the vast physical infrastructure, non-renewable resources, rare earth elements, water and natural assets controlled by governments around the world. . Click here to access KPMG's portal.
Fighting Modern Slavery in Canadian Supply Chain	The deadline for the first year of reporting under Canada's Fighting Forced Labour and Child Labour in Supply Chains Act (the Act) was May 31, 2024. Under the Act, eligible entities are required to publicly report on steps taken to reduce the risk of forced labour and child labour in their business and supply chain. KPMG in Canada reviewed 5,794 report submissions for the act to identify key takeaways. Click here to access KPMG's portal.
ESG for Cities Webinar Series	Cities and municipalities play a crucial role to drive climate action and resilience measures, acting as stewards for the communities they serve – including their constituents, and public, private and non-profit organizations. With the physical impacts of climate changes – including floods, wildfires and droughts – accelerating in terms of both increased frequency and severity, city and municipal leaders are increasingly considering how they can tackle the multifaced challenge of achieving net zero greenhouse gas (GHG) emissions by 2050. KPMG in Canada's Public Sector and ESG practices completed a three-part national webinar series focusing on the journey to net zero – from strategic planning and stakeholder engagement to the implementation at the asset and operational level, and subsequent reporting obligations. Click here to access KPMG's portal.
Building a Successful Transformation Program	Today's government and public sector organizations have a rapidly evolving customer service relationship with the populations they serve. Canadians are used to finding and accessing information and services easily and conveniently through digital channels. When digital interactions don't meet expectations or become obstacles to program access, service delivery innovation and other stakeholder objectives are not met. Click here to read KPMG's article.

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Appendix 5: Thought leadership and insights (continued)

Unlocking Government's Technology Future

This article is based on data from the KPMG global tech report 2024 which includes the results of a survey of 118 senior government technology executives and decision-makers around the world. It shows that public sector organizations are building – and maintaining – change momentum, particularly in key capabilities such as cloud enablement, cyber security and data and analytics.

Click here to access KPMG's portal.

From Smart to Smarter Cities

Canadian cities are at a pivotal moment, evolving beyond basic "smart" solutions towards integrated, sustainable strategies that address challenges from resource efficiency to community engagement. KPMG's From Smart to Smarter Cities report highlights how Canadian leaders can embrace data-driven approaches and citizen-focused urban planning to reshape their cities.

Click here to access KPMG's portal.

Getting Nature into Financial Reporting

By integrating nature into financial reporting, local governments in Canada can plan for sustainable growth and get ahead of new accounting standards that are on the horizon. The new guide, Getting Nature into Financial Reporting, authored by the University of Waterloo's Intact Centre on Climate Adaptation, and supported by the Standards Council of Canada, KPMG LLP and Natural Assets Initiative, was developed with over 120 experts across the country. The guide outlines how local governments of all sizes can start integrating nature into their financial reports today.

Click here to access KPMG's portal.

AI in Finance

Artificial intelligence is rapidly transforming the finance landscape, moving beyond accounting and making significant inroads into financial reporting, management, planning and analytics. A report from KPMG International reveals that nearly three-quarters of finance teams across diverse industries and company sizes are already using AI to some degree to enhance their financial reporting processes, implementing AI across wider areas of finance, including financial planning, treasury management, risk management and tax operations.

Click here to read KPMG's article.

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Appendix 5: Thought leadership and insights (continued)

Our latest thinking on the issues that matter most to the Committees, Board 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 2025
The key issues driving the audit committee agenda in 2025.

Sustainability Reporting
Resource centre on implementing the new Canadian reporting standards

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Appendix 5: Thought leadership and insights (continued)

KPMG research shows that:

Eighty-seven percent of IT decision makers believe that technologies powered by AI should be subject to regulation.

— Of that group, 32 percent believe that regulation should come from a combination of both government and industry.

— Twenty-five percent believe that regulation should be the responsibility of an independent industry consortium.

Ninety-four percent of IT decision makers feel that firms need to focus more on corporate responsibility and ethics while developing AI solutions.

Source:

Per a study of 300 ITDMs from the UK and the US, conducted by Vanson Bourne on behalf of SnapLogic:

https://www.businesswire.com/news/home/20190326005362/en/AI-Ethics-Deficit-%E2%80%94-94-Leaders-Call

For AI solutions to be transformative, trust is imperative. This trust rests on four main anchors: integrity, explainability, fairness, and resilience. These four principles (enabled through governance) will help organizations drive greater trust, transparency, and accountability.

1. **Integrity** — algorithm integrity and data validity including lineage and appropriateness of how data is used
2. **Explainability** — transparency through understanding the algorithmic decision-making process in simple terms
3. **Fairness** — ensuring AI systems are ethical, free from bias, free from prejudice and that protected attributes are not being used
4. **Resilience** — technical robustness and compliance of your AI and its agility across platforms and resistance against bad actors

1. Develop AI principles, policies and design criteria and establish controls in an environment that fosters innovation, flexibility, and trust while identifying the unique risks associated with AI. In addition, understand the footprint of AI within the organization in order to inventory capabilities and use cases.
2. Design, implement, and operationalize an end-to-end AI governance and operating model across the entire AI development life cycle, including strategy, building, training, evaluating deploying, operating and monitoring AI. Consider the need to set up separate governance committees and councils to address the unique risks and complexities associated with AI and data.
3. Assess the current governance and risk framework and perform a gap analysis to identify opportunities and areas that need to be addressed
4. Design a cross-functional governance committee and framework that deliver AI solutions and innovation through guidelines, templates, tooling and accelerators to quickly yet responsibly deliver AI solutions.
5. Integrate a risk management framework to identify and prioritize business-critical algorithms and incorporate an agile risk mitigation strategy to address cybersecurity, integrity, fairness, and resiliency considerations during design and operation
6. Design and set up criteria to maintain continuous control over algorithms without stifling innovation and flexibility. Consider the need to invest in new capabilities to enable effective governance and risk management enabled through tooling for AI.

home.kpmg/ShapeofAIGovernance

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Appendix 5: 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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