



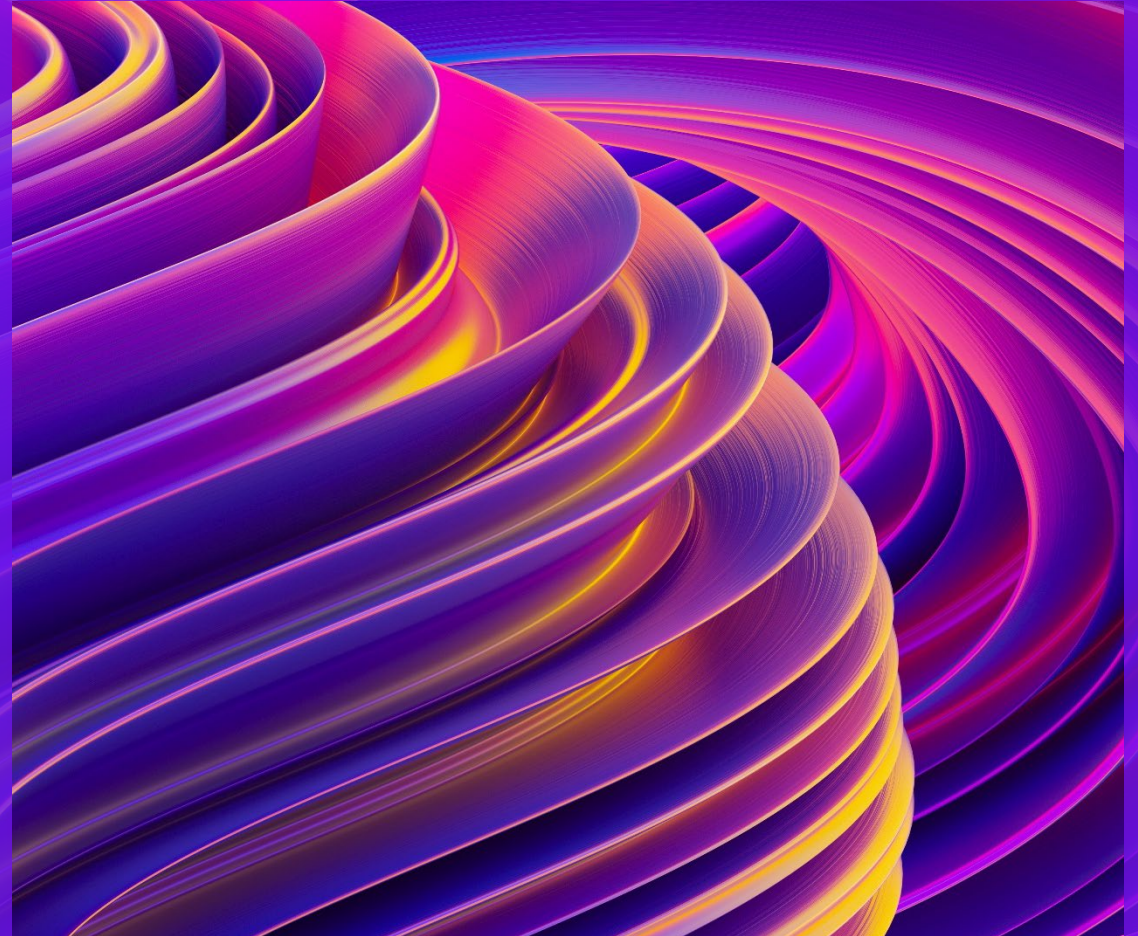
City of Nanaimo

**Audit Findings Report
for the year ended December 31, 2025**

KPMG LLP

Prepared for the meeting on April 15, 2026

kpmg.ca/audit



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Key contacts in connection with this engagement

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Digital use information

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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 

Professional standards require that we request of management and the Audit Committee that all identified audit misstatements be corrected. One misstatement remains uncorrected related to grant revenue recognition which would increase revenue and deferred revenue and decrease opening accumulated surplus.


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 



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, 2025. 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

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 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 any remaining procedures.





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.





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.

Significant findings

- In 2024 we reviewed management's treatment of the Local Government Climate Action Plan grants received and noted stipulations related to these grants in accordance with *PS3410 Government Transfers*. An uncorrected difference was identified in 2024 due to stipulations not yet having been met. As at December 31, 2025 not all stipulations had been met related to this grant and based on the prior year uncorrected difference and transactions in 2025, an uncorrected difference exists which would result in an increase in revenue of \$451K and an increase in deferred of \$518K. 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.





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.





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.





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.

Significant findings

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





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, 2025 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, 2025 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.





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.



Significant accounting policies and practices



Initial selection of significant accounting policies and practices

Nothing to report



Description of new or revised significant accounting policies and practices

Nothing to report



Significant qualitative aspects

Discussion about qualitative aspects of significant accounting policies and practices

- *Evaluation & Conclusion*: Our judgments about the quality, not just the acceptability, of the Entity's significant accounting policies as applied in its financial reporting, including such matters as the consistency of the Entity's accounting policies
- *Appropriateness*: No matters to report
- *Management bias*: No matters to report
- *Estimates*: No matters to report
- *Effect on the financial statements or disclosures*: No matters to report

Appendices

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Other required communications

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Management representation letter

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Audit quality

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Current developments

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Thought leadership and insights





Appendix 1: Other required communications



Auditor's report

Refer to the draft report attached to the financial statements.

Engagement letter

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



Independence

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, 2025 up until the date of this report.

Management representation letter

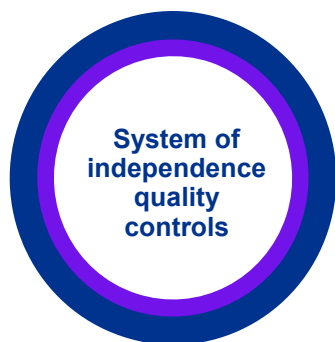
A copy of the management representation letter is included on the following pages.



Appendix 1: Other required communications (continued)

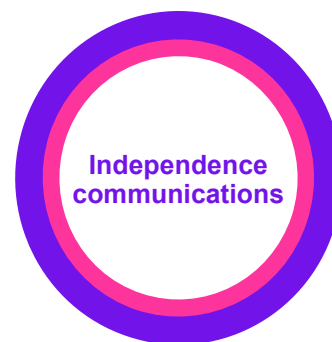
Auditor independence is a shared responsibility and most effective when management, audit committees, and audit firms work together in considering compliance with relevant independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and KPMG each play an important role. We apply the following ethical requirements, including independence requirements, in:

- the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies in Canada (“CPA code”) that are relevant to audits of financial statements of non-reporting issuers; and
- the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA independence rule”) that are relevant to audits of financial statements of non-public interest entities.



The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information before the effective date of transactions or other business changes is necessary to effectively maintain the firm’s independence in relation to:

- New related entities
- Any former KPMG professional who are directors, officers, or employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements.



- We will report to those charged with governance all relationships that may reasonably be thought to bear on our independence, including fees charged, and discuss the potential effects of such relationships on our independence. We will also report the related safeguards that have been applied, as applicable, to eliminate identified threats to independence or reduce them to an acceptable level.
- This communication, if any, will be provided during our year-end communications.





Appendix 1: Other required communications (continued)



Under the newly effective *Narrow-scope Amendments to Canadian Auditing Standard (CAS) 700, Forming an Opinion and Reporting on Financial Statements, and CAS 260, Communication with Those Charged with Governance*, the auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement, including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities.

In accordance with this requirement, we communicate to the Committee that we apply the following ethical requirements, including independence requirements, in:

- the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies in Canada (“CPA Code”) that are relevant to audits of financial statements; and
- the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants that are relevant to audits of financial statements.



Appendix 2: Management representation letter

Please see the following pages for a draft copy of the management representation letter

[City of Nanaimo Letterhead]

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

DATE

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 City”) as at and for the period ended December 31, 2025.

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 the 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.
- providing you with unrestricted access to persons within the City 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 City, 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 City'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 City'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 2025 will be provided to you when available, and prior to issuance by the City, to enable you to complete your required procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- We confirm that the City 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 City 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.

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 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 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

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)

Uncorrected audit misstatements 2025

	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	\$451,077	-	\$517,856	(\$968,933)
Total misstatements	(\$451,077)	-	\$517,856	(\$968,933)

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)



Appendix 3: Our commitment to delivering audit quality

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**.

KPMG is committed to fulfilling our public interest role in providing robust assurance that can benefit investors and other stakeholders.

Businesses are integrating technology in ways once unimaginable. Geopolitical changes and inflationary pressures continue to drive uncertainty, and businesses need to take action to respond to societal threats like climate change.

The pace and scale of change only strengthens our resolve to ensure the quality, consistency and adaptability of our services are fit for this new future. Audit and assurance quality remains the highest priority at KPMG.

Through sustained innovation, we aim to consistently deliver superior audit quality. Across the global organization:

- KPMG firms have implemented a consistent risk-based approach to our system of quality management to drive audit and assurance quality, enabling us to meet the requirements of the International Standard on Quality Management 1 (ISQM 1).
- We are utilising powerful technologies on audit and assurance engagements, including artificial intelligence, and leveraging our alliances with technology leaders such as Microsoft to further enhance quality and provide even more value through deeper analysis of businesses, no matter their size.
- We believe the same level of rigour, quality, consistency and trust that is applied to financial statement information by companies should also apply to ESG reporting. Therefore, across the global organization we have deployed an assurance methodology, KPMG Clara workflow and learning tools to upskill and build teams to provide assurance on ESG reporting that helps our clients build a more sustainable future.

We encourage you to read our Transparency Report to learn more about our system of quality management and our firm's statement on the effectiveness of our SoQM:



[KPMG Canada Transparency Report](#)



Appendix 3: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. We have strengthened the consistency and robustness of our system of quality management to meet the requirements of ISQM 1 (CSQM 1), issued by the International Audit and Assurance Standards Board. Foundational for quality management, KPMG's globally consistent approach to ISQM 1 drives compliance with the standard and our efforts to strengthen trust and transparency with clients, the capital markets and the public we serve.

Aligned with ISQM 1 (CSQM 1), our SoQM meets 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 **Global Quality Framework** outlines how we deliver quality and how every KPMG professional contributes to its delivery.



'**Perform quality engagements**' sits at the core, along with our commitment to continually monitor and remediate to fulfil our quality drivers.



Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.



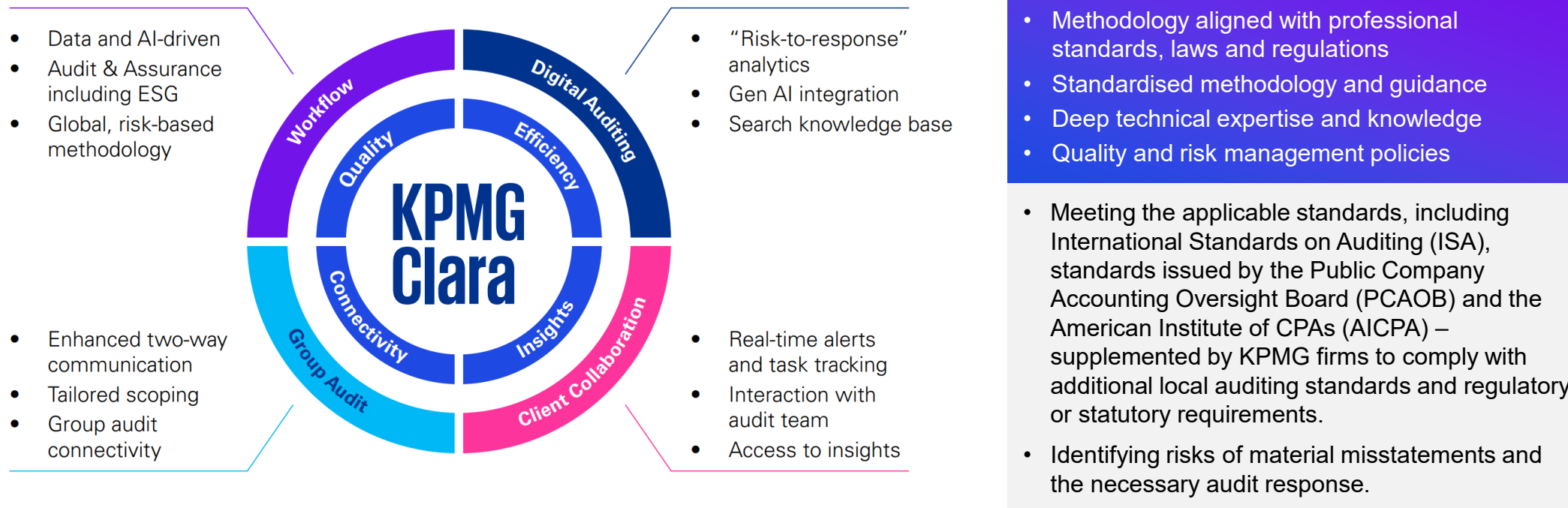
Doing the right thing. Always.



Appendix 3: The KPMG Audit

Globally consistent audit and assurance methodology and tools

As a scalable, intuitive cloud-based platform, KPMG Clara is driving globally consistent execution across all KPMG member firms. It enables delivery of KPMG audit and assurance methodologies through data-enabled workflows, which align with the applicable audit and assurance standards and provide an improved experience to audit and assurance professionals.





Appendix 4: Current developments

Accounting standards

Conceptual Framework for Financial Reporting in the Public Sector

Effective for years commencing 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

Effective for years commencing on or after April 1, 2026 with early adoption permitted.

- The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation*.
- 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.

Example of a Typical Implementation Approach

Phase 1

- Understand the existing financial reporting processes.
- Examine chart of accounts and trial balance.
- Review accounting policy.
- Gap assessment and implementation plan.

Phase 2

- Data gathering and financial data analysis.
- Budget and performance reporting.
- System and software impacts.
- Implementation and compliance adjustments



Appendix 4: Current developments (continued)

Accounting standards (continued)

Employee Benefits

Effective for years commencing on or after April 1, 2029 with early adoption permitted.

- The Public Sector Accounting Board has issued a new standard PS 3251 *Employee benefits* which will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*.
- The standard uses principles from International Public Sector Accounting Standard 39 *Employee benefits* as a basis for the Canadian standard.
- The standard results in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position.
- The standard also requires that fully funded post-employment benefit plans use a discount rate based on the expected market-based return of plan assets and underfunded 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.
- The standard also requires that:
 - Deferral provisions – Remeasurement gains and losses are presented as part of accumulated remeasurement gains and losses.
 - Valuation of plan assets – Upon adoption, public sector entities may continue to recognize non-transferable financial instruments balances that meet the definition of plan assets under existing PS 3250 guidance. This transitional provision does not permit the recognition of additional amount after adoption that do not meet the revised definition of plan assets.
 - Joint defined benefit plans – Defined benefit accounting is used for measurement of the proportionate share of the plan, instead of previously proposed multi-employer plan accounting which permitted accounting based on defined contribution concepts where insufficient information exists to use defined benefit accounting.
 - Disclosure of other long-term employee benefits and termination benefits – The standard does not include prescriptive disclosure requirements for other long-term employee benefits and termination benefits.
- The standard's guidance will be applied retroactively, with or without prior period restatement.



Appendix 4: Current developments (continued)

Accounting standards (continued)

Intangible Assets

Proposed to be effective for years commencing on or after April 1, 2030 with early adoption permitted.

- 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 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.

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 was used 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.



Appendix 5: Thought leadership and insights

Half of Public Servants Turn to AI Raising Risks

KPMG survey finds public sector unready for AI, low literacy, need for digital sovereignty.

While less than a quarter (**22 per cent**) of Canadian public sector organizations have adopted artificial intelligence (AI), half of the public servants who use AI in their jobs rely on publicly available AI tools, exposing governments to potential risks including data privacy and security breaches, intellectual property theft and exposure to biased or inaccurate information that can lead to legal and ethical issues, finds a new KPMG in Canada research.

[Click here for more information](#)

Intelligent Government

The emergence of generative AI, alongside advanced autonomous and agentic systems, is transforming how government and the public sector innovate and operate. Our findings reveal an actionable blueprint for governments and organizations aiming to leverage AI's potential to drive efficiency, reduce time-to-market and improve patient outcomes. This report provides insights into how they can take a value-based approach to AI that helps to accelerate innovation, unlock new growth opportunities, and maximize the impact of their AI investments.

[Click here for more information](#)

KPMG 2025 Canadian CEO Outlook

Our 2025 CEO Outlook survey reveals a compelling paradox: Canadian CEOs are increasingly confident in the growth of their companies and industries, yet their optimism about the Canadian and global economies is waning.

Despite the evolving pressures, CEOs alike are proactively focusing on making their organizations more resilient to external shocks. They are not just reacting to changes, but are actively seeking ways to mitigate external risks, improve productivity and optimize revenue.

[Click here for more information](#)

Midyear Observations on the 2025 Board Agenda

Disruption, volatility, and uncertainty aren't new operating conditions by any means. But the assumptions that have long driven corporate thinking - the role of government, geopolitical norms, and consistency in US policies as administrations change, and the speed of technological advances—are being upended. Few business leaders have experienced the scope, complexity, and combination of issues companies are facing today—and many will earn their stripes in the months ahead.

[Click here for more information](#)

Accelerate

The Canadian business landscape is experiencing profound interconnected geopolitical, technological and sustainability challenges which are causing compound impacts on the balance sheet. The audit committee's role in stewarding their organization towards increased productivity, resilience, and growth has never been more essential.

Our *Accelerate* series strives to provide audit committees with actionable insights and clear guidance for navigating through these interconnected challenges.

[Click here for more information](#)



Appendix 5: Thought leadership and insights (continued)

From Smart to Smarter Cities

Leveraging integration, data and enablement for sustainable and resilient urban transformations.

Cities are reaching a crisis point. City populations are growing. Citizen satisfaction with government services is weakening. And net zero deadlines are looming. Cities recognize that their traditional approaches to city planning, development, management and renewal will not get them to their goals in time. They must become smarter, more integrated, data-driven and enabling.

From Smart to Smarter Cities explores how a focus on becoming more integrated, data-driven and enabling can help city decision-makers, infrastructure leaders and private companies accelerate their smart city agendas.

In this report, professionals from KPMG's global network join with experienced industry and city leaders to unpack these three priorities – integrated, data-driven and enabling – across the lens of the six challenges facing cities today – urban planning, data and privacy, transportation and mobility, sustainability and social equity, governance and oversight, and funding and financing.

[Click here for more information](#)

Blueprint for Livable Economies

Unlocking livability through place-based business cases

Rapid urbanization, climate volatility, fiscal constraint and rising social expectations are exposing the limits of traditional approaches to urban planning and investment. The challenge is not a lack of ambition or funding, but rather how decisions are made, investments are structured and delivery is governed and coordinated. Addressing the gap between investment and outcomes requires cities to move beyond asset-level justification towards integrated, geography-specific portfolios and place-based business cases that reflect how places function and are experienced in practice.

Developed in collaboration by KPMG International, Davos Baukultur Alliance and UN-Habitat, this white paper supports that shift. Drawing on global case studies, executive insight and practical tools, it sets out how public sector leaders can apply a place-based approach using levers already within their control.

At the center of the paper is the *Blueprint for livable economies*, a decision-making framework designed to help city leaders, investors and partners align outcomes, economic pathways and delivery mechanisms.

[Click here for more information](#)



Appendix 5: Thought leadership and insights (continued)

Our latest thinking on the issues that matter most to Boards, Committees 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.

Sustainability Reporting

Resource centre on implementing the new Canadian reporting standards.

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

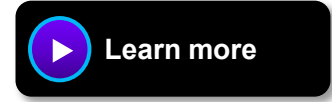




Appendix 5: Thought leadership and insights (continued)

Lean in Audit™

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



What it is

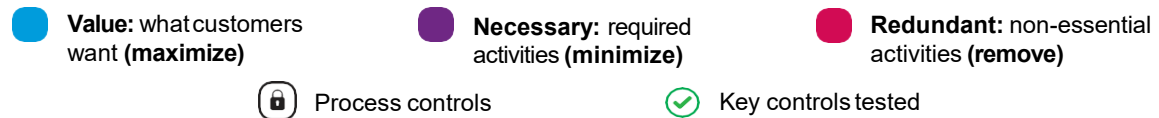
Lean in Audit™ is KPMG’s award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

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

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

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

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





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.

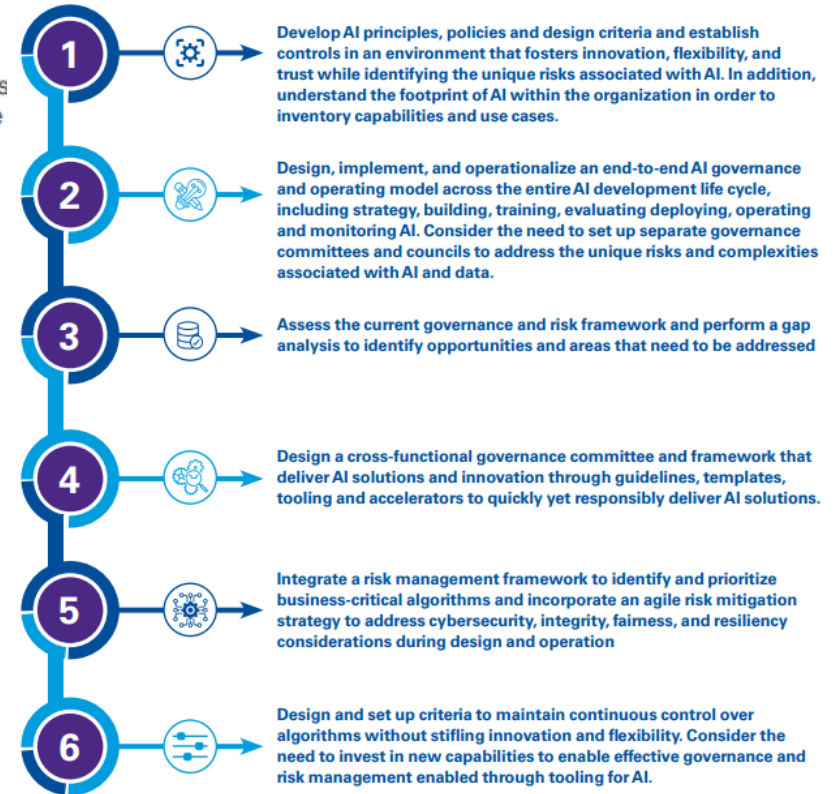
Source:

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



home.kpmg/ShapeofAIGovernance



Appendix 5: Thought leadership and insights (continued)

AI brings Risks as well as Opportunities

Internal Risks & Considerations

External 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



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.



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

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