The City of Ottawa

Audit Planning Report for the year ending December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of February 28, 2024 for presentation to the Audit Committee on March 8, 2024

kpmg.ca/audit

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and City 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 to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Scope

Our audit of the consolidated financial statements (“financial statements”) of The City of Ottawa (“the City”) as of and for the year ending December 31, 2023, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

Audit strategy

Materiality
Group: $110M
City: $80M

Involvement of others

Updates to our prior year audit plan

Audit strategy - group audit

Total	Total assets	Total revenue
Total work performed	98%	77%

Involvement of other KPMG member firms

Involvement of non-KPMG firms

Independence

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

Risk assessment

Presumed Risk of management override of controls

Consolidation process

Presumed risk of fraudulent revenue recognition

Other areas of focus

- Cash and Investments
- Other revenue sources
- Tangible capital assets
- Investments in Government Business Enterprises (GBEs)
- Expenses- salaries and benefits
- Employee benefit liabilities
- Accounts payable, accrued liabilities and expenses
- Commitments and Contingencies
- Long-term debt
- Trust funds (stand alone financial statement audit)
- Sinking fund debt (stand alone financial statement audit)
- Asset retirement obligations

Technology highlights

KPMG Clara

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

Summary of advanced technologies

KPMG Clara workflow
A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

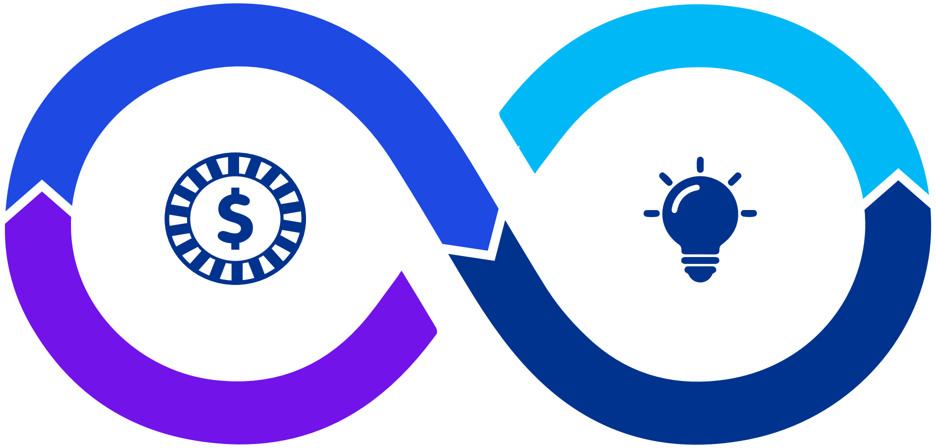
KPMG Clara for clients
Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

KPMG Clara analytics
Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

DataSnipper
DataSnipper is our newest Software Audit Tool that uses optical character recognition and robotic process automation to automate vouching procedures on your engagements.

KPMG Clara AI Transaction Scoring
KPMG Clara Transaction Scoring utilizes AI to score 100% of transactions to highlight medium and high risk transactions, which allows us to focus our testing specific transactions that meet KPMG’s control matrix.

Materiality



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

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

Plan and perform the audit

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

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

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

Evaluate the effect of misstatements

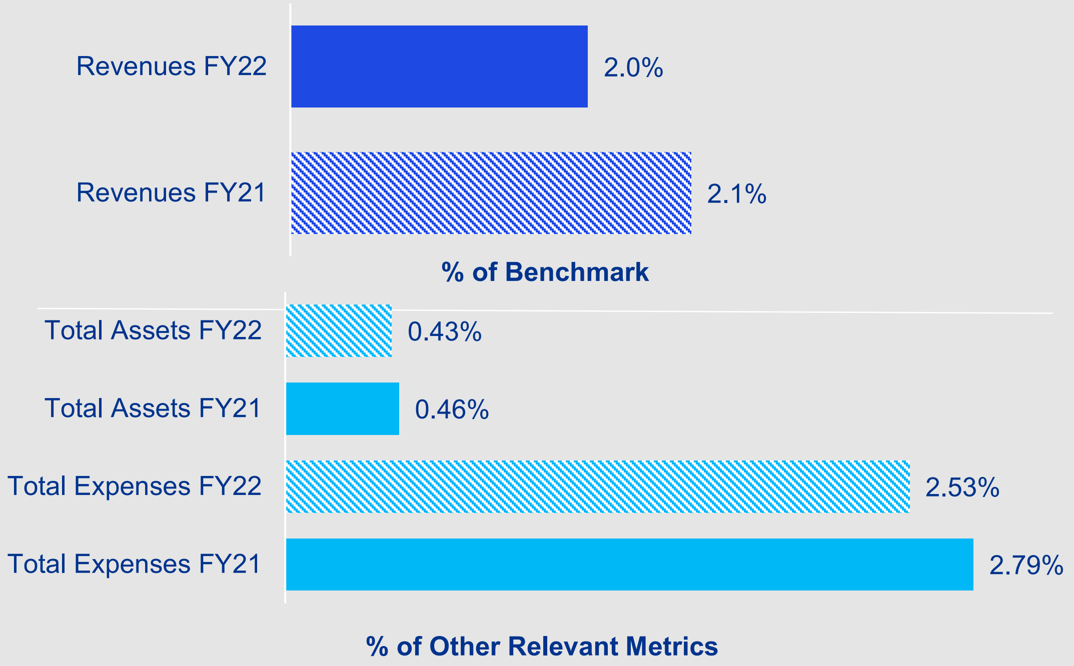
We also ***use materiality*** to evaluate the effect of:

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

Initial Group Materiality

Group Materiality

$110M



Prior Year Actual Revenues

$5.463B

(2021: $5.331B)

Prior Year Total assets

$25.497B

(2021: $23.871B)

Prior Year Total expenses

$4.347B

(2021: $3.943B)

Involvement of others

The following parties are involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
Management's specialists	**Mercer - Employee Future Benefits Actuarial Firm, engaged by the City** Actuary provides the valuation for the employee future benefits obligation. **Normandin Beaudry - Employee Future Benefits Actuarial Firm, engaged by the City** Actuary provides the valuation for the employee future benefits obligation related to legacy plans. **Dillon Consulting – Environmental Science and Engineering, Engaged by the City** Firm provides valuation of landfill closure and post closure liabilities along with the Contaminated sites liability.
KPMG professionals with specialized skill or knowledge	**IT Audit Team** KPMG specialists to evaluate the City's IT environment and IT application controls in place. **Internal Audit, Risk & Compliance Services** KPMG specialists to aid in the evaluation of key business process controls and overarching Entity Level Controls **Life and Pension Actuarial Specialist** KPMG actuarial specialists to evaluate the reasonability of assumptions used by management's actuarial specialists to derive the valuations of the City's employee future benefits, WSIB, and retirement and sick leave benefits obligations and related amortization amounts.

Involvement of others - Continued

The following parties are involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
KPMG professionals with specialized skill or knowledge	**Property & Casualty Actuary** KPMG specialists to evaluate management's process, and risk assessment related to management's self insurance valuation. **KPMG Accounting Advisory** KPMG specialists to aid in implementation of Asset Retirement Obligations (PS 3280).

Updates to our prior year audit plan

New significant risks

No new significant financial reporting risks identified

Other significant changes

Changes in Accounting standards

- PS 3280 Asset Retirement Obligations
- PS 3450 Financial Instruments
- Refer to appendix F for further explanation and appendix G for future changes in accounting standards.

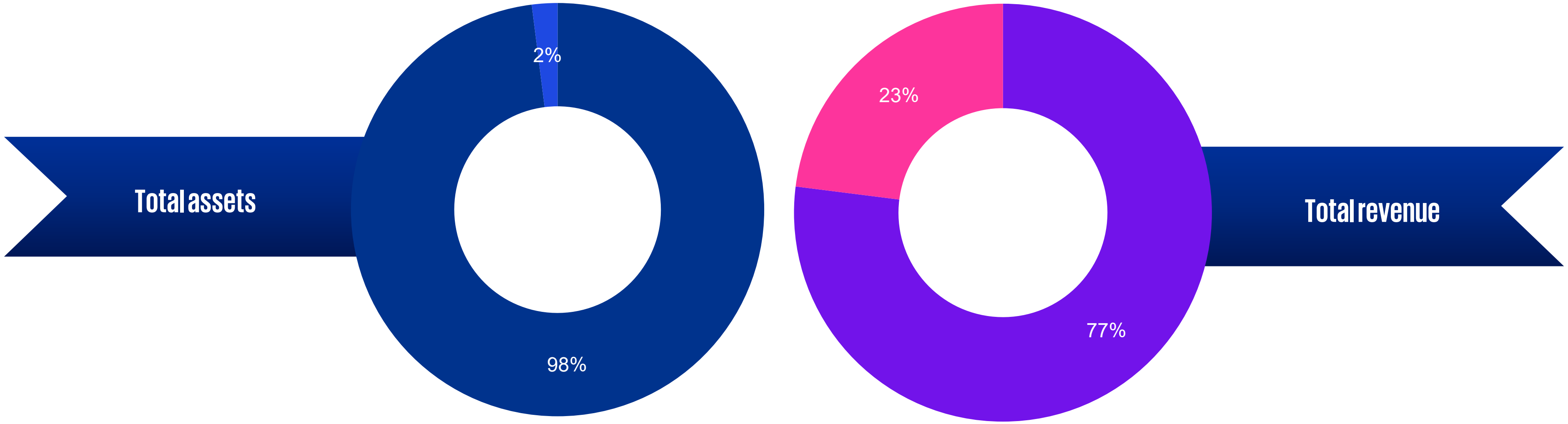
Change in accounting standards

Group audit - Scoping

Breakdown by audit participants

Type of work performed	Total assets	Total revenue
Total full-scope audits	98%	77%
Excluded from direct testing	2%	23%
Total consolidated	**100%**	**100%**

The threshold for individually financially significant component is 10% of total assets or total revenue. The City of Ottawa entities that have not met the threshold for significant components but are audited for statutory requirement are not included in this assessment.



Group audit – Significant components

Nature of the planned involvement in the work of component auditors of significant components:

	Individually financially significant components		Significant due to risk components
	City of Ottawa Non Consolidated	Transit Transpo	Ottawa Hydro
Discuss component's business activities and component's susceptibility to material misstatement	✓	✓	✓✓
Review of reporting including planning and completion highlights memorandums	✓	✓	✓✓
Evaluate the planned procedures to respond to significant risks	✓	✓	✓✓
Involvement in performing tests of controls or substantive tests	✓	✓	✓✓
Review of working papers – on location or remotely	✓	✓	✓✓

✓ PY Involvement ✓ CY Planned Involvement

Group audit - Component auditors

Full-scope audit

Audit participant	Component name	Description of involvement	Materiality	Total assets*	Total revenue*
KPMG Ottawa	City of Ottawa – Non Consolidated	Full scope audit	$80 Million	95.0%	62.9%
KPMG Ottawa	OC Transpo**	Full Scope audit	$40 Million	1.2%	13.6%
KPMG Ottawa	Hydro Ottawa	Full scope audit	$28.5 Million	2.1%	0.3%
			Total full-scope audits	98.3%	76.8%
N/A	*Business Improvement Areas, Boards and other entities included within the City's consolidated financial statements not significant to the group audit opinion*			1.7%	23.2%
			Total Consolidated assets and revenues of the City of Ottawa	**100%**	**100%**

**Figures are derived from identifiable information based on business area for the 2022 fiscal year*

*** Given that OC Transpo does not prepare financial statements, its financial audit will comprise of the audit over its financial account balances*

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF
FRAUD

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

Why is it significant?

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

Our planned response

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

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

Advanced technologies

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

Click to learn more

Significant risks

Consolidation process

RISK OF
ERROR

Significant risk	Estimate?	New or changed?
Risk of material misstatement related to the consolidation process due to complex organizational structure and the manual process (in excel spreadsheets) followed by the City.	No	No

Relevant inherent risk factors affecting our risk assessment

Complexity and volume of transactions within the consolidation process

Our audit approach

- We will evaluate the design and implementation of selected relevant controls in place over the consolidation and financial reporting process.
- We will perform substantive procedures over the consolidation workbooks including material adjustments booked as part of the consolidation process.
- We will involve our IT Audit specialists to gain an understanding of the automated inputs into the consolidation process, as relevant.
- We will gain an understanding of the consolidation process at the City and various elements and inputs for the consolidation. We will obtain supporting schedules to understand the inputs into the consolidation workbook and perform further audit procedures related to these supporting schedules.
- We will perform procedures on the completeness of reporting the City's interest in all entities under its control including those that qualify as Government Business Entities which are accounted for using the modified equity basis and entities subject to joint control, which are accounted for using the proportionate consolidation method
- We will audit the consolidation workbook for accuracy through recalculation and reperformance of the key aspects of consolidation exercise.
- We will test significant manual journal entries by obtaining supporting documentation for the amounts calculated for these manual journal entries.
- We will test consolidation information related to the significant components to source records for these respective significant components. We will obtain financial information of these significant components from the respective component audit teams to ensure we are using the audited information for the purposes of the consolidation.

Significant risks

Presumption of the risk of fraud involving improper revenue recognition

RISK OF **FRAUD**

Significant risk	Estimate?	New or changed?
This is a presumed risk of material misstatement due to fraud. We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (including obligatory) and government transfers.	No	No

Relevant inherent risk factors affecting our risk assessment

Nature, size and composition, subjectivity and susceptibility of misstatement due to management bias of revenue recognition related to Obligatory Deferred Revenue.

Our audit approach

- Our audit approach will consist of obtaining an understanding of the revenue recognition process of deferred obligatory reserves, evaluating the design and implementation of selected relevant controls over the manual journal entries and other adjustments within the process.
- We will be performing substantive procedures on manual journal entries and other adjustments associated with deferred obligatory reserves.
- We will complete a comprehensive audit approach related to the revenue recognition process related to these funds which includes:
    - Obtaining an understanding of the activities over the initiation, authorization, processing, recording and reporting related to deferred revenue (including obligatory reserves).
    - Obtaining the detailed continuity for deferred revenue (including obligatory reserves). Test a sample of cash receipts and revenue recognized using representative sampling techniques.
    - Obtaining the supporting documentation related to the samples tested for the cash receipts and revenue recognized and assess the support to ensure that recognition for revenue is in accordance with the PSAS.

Advanced technologies

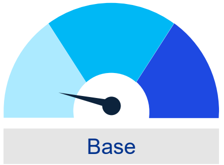
Our **KPMG Clara DataSnipper** is an automated vouching tool that uses advanced Optical Character Recognition to automatically vouch unstructured data like invoices and contracts with a click of a button! This tool will be used throughout the audit allowing our teams to focus more attention on areas of higher risk.

Click to learn more

Other risks of material misstatement

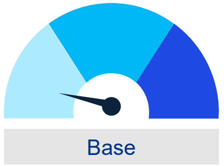
Areas | **Level of risk due to error** | **Our planned response**

Cash and Investments



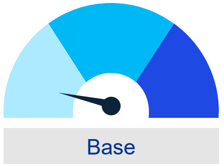
- Perform testing over manual and automated controls related to bank and investment reconciliation process.
- Perform test of details over significant reconciling items for cash and investments.
- Perform substantive test of details over additions and disposals of investments and for any derivative financial instruments included in City's financial statements.
- Perform substantive test of details over financial reporting transition to PS 3450
- Obtain supporting documentation regarding the investment income earned on deferred revenue to ensure appropriate revenue recognition.
- Obtain confirmations from third parties.
- Review of financial statement note disclosure in line with the Public Sector Accounting Standards (PSAS).

Other revenue sources



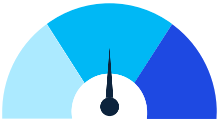
- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting of other revenue.
- Obtain the City-prepared calculation of other revenue balances and perform test of details using a combination of substantive analytical and representative sampling approaches. We plan to use KPMG Clara AI Transaction Scoring to perform risk assessment and substantive testing procedures over revenues. Refer to Appendix: KPMG Clara AI Transaction for details.

Expenses – salaries and benefits



- Perform testing over manual and automated controls related to payroll process.
- Vouch a sample of employees' salary and benefit expense to payroll information.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Tangible capital assets	 Elevated	• Perform testing over manual and automated controls related to recording costs to the relevant capital projects. • Perform substantive test of details over additions and disposals using a representative sample. • Obtain the amortization policy, verify the mathematical accuracy of amortization and assess reasonableness of the estimated useful lives in use to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives. • Review assets under construction to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis. • Obtain an understanding of asset write-downs during the year and the rationale behind these write-downs. • Review of financial statement note disclosure in line with the PSAS.
Investments in Government Business Enterprises (GBEs)	 Base	• Obtain a listing and assessment of the GBEs as prepared by management of the City including any changes from prior year, including impairment assessment. • Obtain support for adjustments made to the investments in GBEs including income from operations, dividends received, distributions to City and any other adjustments. • Review financial statement disclosures in accordance with PSAS.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Employee benefit liabilities	 Base	• Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuaries engaged by the City (preparer of the estimate), and the historical accuracy of the estimates. • Obtain an update on the actuarial valuation prepared by management's expert (actuaries engaged by the City) for the year ended December 31, 2023. • Perform audit procedures on method, data and, assumptions used by actuary and management to address the CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to employment benefit liabilities. • Engage KPMG actuarial specialists to complete audit procedures related to assumptions used by management and management's expert • Review financial statement disclosures in accordance with PSAS.
Accounts payable, accrued liabilities and expenses	 Base	• Perform search for unrecorded liabilities. • Examine significant accrued liabilities for existence, accuracy and completeness and to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure requirements related to accrued liabilities. • We plan to use KPMG Clara AI Transaction Scoring to perform risk assessment and substantive testing procedures over operating expenses. Refer to Appendix: KPMG Clara AI Transaction for details.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Commitments and contingencies	Elevated	• Perform a detailed review of Council Meeting minutes. • Directly communicate with the internal legal counsel (and external as necessary) to ensure significant contingent liabilities are appropriately disclosed and/or recorded. • Significant findings review with management during planning and completion stage of the audit engagement.
Asset retirement obligations	Base	• Obtain management's final assessment of ARO, including support for the calculation of any recorded liability related to future costs associated with legal obligations that will be incurred upon retirement of a controlled tangible asset. • Obtain an understanding of the activities performed by management to identify the legal obligations associated with retirement of tangible capital assets. Ensure that all of the recognition criteria have been met to recognize an ARO in the financial statements. • Assess the costs that have been included in ARO liability based on information available to management and provided by any external experts. • Assess the presentation of ARO in the financial statements and ensure that the financial statements include appropriate note disclosure related to the adoption of the new standard.
Sinking fund debt	Base	• Obtain and review any amendments to the agreement for the sinking fund debt issued by the City and obtain confirmation of the sinking fund debt as at year-end. • Perform audit procedures on the actuarial requirement to achieve planned growth to pay the debt. • Review the accounting treatment and the related disclosures in accordance with PSAS.

Key milestones and deliverables

Oct – Dec 2023

Planning & Risk Assessment

- Audit planning discussion timing:
  - November 29, 2023

Jan - March 2024

Interim work

- Understanding of certain business processes, completion of walkthroughs and Design and implementation of certain controls
- Understanding and testing of entity level controls over the entity's Control Environment, Risk Assessment, Monitoring and Communication aspects.
- Risk assessment communications and discussions with Managers, members of council
- Testing of various General IT Controls and automated Controls

April - June 2024

Final Fieldwork & Reporting

- Final Fieldwork
  - April 1 – May 31, 2024
- Closing meetings: June 2024
- Approval of financial statements: June 2024

July 2024

Debrief

- Debrief meeting: July 2024

This timing is tentative. Final timing is being discussed with management.

Independence: Proposed Fees

The following services have been approved by management as part of our engagement letter:

Audit services	Legal entity	Fee: CDN (estimated)	Fee structure
Audit services relating to the 2023 fiscal year end consolidated financial statements of the City of Ottawa	City of Ottawa	$341,750*	Fixed
Audit services relating to the 2023 fiscal year end Business Improvement Areas/Mall authority	Various	$100,000	Fixed
Audit services relating to the 2023 fiscal year end Sinking fund and Superannuation Fund	City of Ottawa	$ 20,000	Fixed
Audit services relating to the OC Transpo Pension Fund and Benefit Trust Fund	City of Ottawa	$ 20,000	Fixed
Audit services relating to Audits of single financial statements, or special purpose reporting	City of Ottawa	$117,000	Fixed

*Inclusive of transition impact

The services above are not prohibited, and threats to our independence, if any, resulting from the provision of the services will be eliminated or reduced to an acceptable level. Further details on the services and the assessment of the potential effects on our independence are included on the slides that follow.

Appendices

A — Required communications

B — Use of technology

C — Audit Quality

D — New auditing standards

E — KPMG Clara AI Transaction Scoring

F — Newly effective accounting standards

G — Future changes in accounting standards

H — Insights

I — Environmental, Social & Governance (ESG)

Appendix: Engagement letter

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Ottawa, ON K2P 2P8
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Telephone 613 212 5764
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The City of Ottawa
110 Laurier Avenue West
Ottawa, Ontario
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November 8, 2023

Dear Sir/Madam:

Further to the contract between the City of Ottawa (the “City”) and KPMG LLP (“KPMG”) for External Auditing Services, more properly set out in the City of Ottawa Request for Proposal No. 34423-94620-P01 and the initial Purchase Order 4510xxxx, which specifically incorporates the KPMG Terms and Conditions, (hereinafter collectively referred to as the “Contract”), the parties have agreed KPMG shall perform certain audits and other work as set out below in this Engagement Letter (collectively, the “Engagement Letter”). That work will be performed according to the Contract and the terms set out herein. The terms and conditions of the Contract shall take precedence over this Engagement Letter to the extent of any inconsistency. This Engagement Letter shall be interpreted in accordance with the terms and conditions of the Contract. This Engagement Letter shall be incorporated into and form part of the Contract and become legally binding on both parties upon receipt and written acceptance by KPMG of a Purchase Order 4510xxx issued by the City. KPMG shall respond to such Purchase Order within a commercially reasonable timeframe.

The purpose of this letter is to outline the terms of our engagement to audit the annual consolidated financial statements (“financial statements”) of the City of Ottawa (“the Entity”), commencing for the period ending December 31, 2023.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing.

Financial Reporting Framework for the Financial Statements

The annual financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the “financial reporting framework”).

The annual financial statements will include an adequate description of the financial reporting framework.

Management's Responsibilities

Management responsibilities are described in Appendix – Management’s Responsibilities.

An audit does not relieve management or those charged with governance of their responsibilities.

Auditor’s Responsibilities

Our responsibilities are described in Appendix – Auditor’s Responsibilities.

If management does not fulfill the responsibilities above, we cannot complete our audit.

Auditor’s Deliverables

The auditors’ report(s) will be in writing and the expected content of our auditors’ report(s) is provided in Appendix – Expected Form of Report. However, there may be circumstances in which a report may differ from its expected form and content.

In addition, if we become aware of information that relates to the financial statements after we have issued our audit report , but which was not known to us at the date of our audit report, and which is of such a nature and from such a source that we would have investigated that information had it come to our attention during the course of our audit, we will, as soon as practicable:
(1) communicate such an occurrence to those charged with governance; and (2) undertake an investigation to determine whether the information is reliable and whether the facts existed at the date of our audit report. Further, management agrees that in conducting that investigation, we will have the full cooperation of the Entity’s personnel. If the subsequently discovered information is found to be of such a nature that: (a) our audit report would have been affected if the information had been known as of the date of our audit report; and (b) we believe that the audit report may have been distributed to someone who would attach importance to the information, appropriate steps will be taken by KPMG, and appropriate steps will also be taken by the Entity, to advise of the newly discovered facts and the impact to the financial statements.

Additional Responsibilities regarding “Other Information”

“Other information” is defined in professional standards to be the financial or non-financial information (other than the financial statements and the auditors’ report thereon) included in the “annual report”. An “annual report” is defined in professional standards to comprise a document or combination of documents. Professional standards also indicate that:

- an annual report is prepared typically on an annual basis in accordance with law, regulation or custom (i.e., is reoccurring)
- an annual report contains or accompanies the financial statements and the auditors’ report thereon
- an annual report’s purpose is to provide owners (or similar stakeholders) with information on the Entity's:
    - operations; and/or
    - financial results and financial position as set out in the financial statements.

The City of Ottawa will provide to us copies of the draft annual report (in English and French) for KPMG’s review prior to the annual report being published by the City. Management of the City of Ottawa bears the primary responsibility to ensure the annual report contains no misrepresentations. We will review the report for consistency between the annual consolidated financial statements and other information contained in the annual report, and to determine if the consolidated financial statements and our Auditor’s Report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the consolidated financial statements, we will advise management and those charged with governance as appropriate.

Additional Responsibilities regarding Translation Services

The Entity requires the following documents translated from English into French:

- The annual, consolidated financial statements of the City of Ottawa

The documents referred to above are and shall remain the responsibility of management and under no circumstances does KPMG assume any responsibility over its content whether in English or in French.

More specifically, management is responsible to:

- designate a competent individual to review, approve and assume responsibility for the underlying subject matter of the documents translated from English into French and their compliance with local regulations (where relevant),
- make all decisions relating to the information subject to translation,
- evaluate the adequacy and results of the literal translation of the documents referred above from English to French, and
- accept responsibility for the results of the literal translation of the documents referred above from English to French.

Our services consist of the literal translation of the documents referred above from English to French.

We will begin our work on a date to be agreed and upon receipt of a copy of this engagement letter. We will discuss and agree a planned engagement and deliverable timeline upon commencement of the engagement.

We disclaim any responsibility or obligation to update or revise our literal translation of the documents referred above if the English version of the documents referred to above are subsequently amended.

Fees

The Contract provides our fees for professional services to be performed under this Engagement Letter.

****

We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

KPMG LLP

Andrew C. Newman, FCPA, FCA

I have the authority to bind KPMG LLP.

Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

****

The terms of the engagement set out are as agreed:

Name and Title ________________________________

Date (dd/mm/yy) ________________________________

Signature ____________________________________

I have the authority to bind The City of Ottawa

KPMG

Appendix – Management's Responsibilities

Management acknowledges and understands that they are responsible for:

(a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.

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

- the names of all related parties and information regarding all relationships and transactions with related parties
- the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors, and committees of the board of directors that may affect the financial statements. All significant actions are to be included in such summaries.

(c) providing us with unrestricted access to such relevant information.

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

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

(f) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain evidence.

(g) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

(i) ensuring that internal auditors providing direct assistance to us, if any, will be instructed to follow our instructions and that management, and others within the entity, will not intervene in the work the internal auditors perform for us.

(j) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that, as required by professional standards, we may disclaim an audit opinion when management does not provide certain written representations required.

Appendix – Auditor's Responsibilities

Our function as auditors of the Entity is:

– to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above

– to report on the annual financial statements

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

– identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control

– obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks

– form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained

– communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. The form (oral or in writing) and the timing will depend on the importance of the matter and the requirements under professional standards.

Appendix – Expected Form of Report

INDEPENDENT AUDITORS' REPORT

To the City of Ottawa

Opinion

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

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

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

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

Basis for Opinion

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

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

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

[Date]

These Terms and Conditions are an integral part of the accompanying engagement letter or proposal from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The term "Entity" used herein has the meaning set out in the accompanying engagement letter or proposal. The term "Management" used herein means the management of Entity.

1. DOCUMENTS AND LICENSES.

a. All working papers, files and other internal materials created or produced by KPMG in relation to this engagement and all copyright and intellectual property rights therein are the property of KPMG. However, upon payment of all fees under the Contract, all final reports under the retainer are the property of the City of Ottawa.

b. Only in connection with the services herein, Entity hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of Entity solely for presentations or reports to Entity or for internal KPMG presentations and intranet sites. Further, Entity agrees that KPMG may list Entity as a customer in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "Client is an Audit, Advisory, and/or Tax client of KPMG LLP").

2. ENTITY'S RESPONSIBILITIES.

a. Entity agrees that all management responsibilities will be performed and all management decisions will be made by Entity, and not by KPMG.

b. Entity's provision of documents and information to KPMG on a timely basis is an important factor in our ability to issue any reports under this Engagement Letter. KPMG is not responsible for any consequences arising from Entity's failure to deliver documents and information as required.

c. To the extent that KPMG personnel are on Entity's premises, Entity will take all reasonable precautions for their safety.

d. Entity understands and acknowledges that KPMG's independence may be impaired if any KPMG partner, employee or contractor accepts any offer of employment from Entity.

e. Except as required by applicable law or regulation, Entity shall keep confidential the terms of this Engagement Letter, and such confidential information shall not be distributed, published or made available to any other person without KPMG's express written permission. Provided however that the Entity's obligations to comply with the Municipal Freedom of Information and Protection of Privacy Act, R.S.O. 1990. c. M.56, do not constitute a breach of the Engagement.

f. Management agrees to promptly provide us with a copy of any comment letter or request for information issued by any securities or other regulatory authority in respect of information on which KPMG reported, including without limitation any continuous disclosure filings.

3. FEE AND OTHER ARRANGEMENTS.

a. KPMG's estimated fee is based in part on the quality of Entity's records, the agreed-upon level of preparation and assistance from Entity's personnel, and adherence by Entity to the agreed-upon timetable. KPMG's estimated fee also assumes that Entity's financial statements and/or other financial information, as applicable, are prepared in accordance with the relevant financial reporting framework or the relevant criteria, as applicable, and that there are no significant changes to the relevant financial reporting framework or the relevant criteria, as applicable; no significant new or changed accounting policies; no significant changes to internal control; and no other significant issues.

b. Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, Entity and KPMG agree to revise the estimated fee. Disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

c. KPMG's invoices are due and payable upon receipt. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing any applicable report and/or consent.

d. Fees for any other services will be billed separately from the services described in this Engagement Letter and may be subject to written terms and conditions supplemental to those in the Engagement Letter.

e. Canadian Public Accountability Board ("CPAB") participation fees, when applicable, are charged to Entity based on the annual fees levied by CPAB.

4. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS; STORAGE AND USE OF INFORMATION.

b. Certain information (including information relating to time, billing and conflicts) collected by KPMG during the course of the engagement may be used, retained, processed and stored outside of Canada by KPMG, KPMG International member firms or third party service providers or subcontractors providing support services to KPMG for administrative, technological and clerical/organizational purposes, including in respect of client engagement acceptance procedures and maintaining engagement profiles; and to comply with applicable law, regulation or professional standards (including for quality performance reviews). Such information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is used, retained, processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG may also share information with its legal advisers and insurers for the purposes of obtaining advice. In the event that KPMG, KPMG International member firms or third party service providers or subcontractors receive a request to disclose information in accordance with laws applicable in the jurisdiction in which the information is used, retained, processed or stored, KPMG shall, if and to the extent that it can lawfully do so, provide the Entity with prompt written notice of that fact so that the Entity may seek a protective order, confidential treatment or other appropriate remedy. In such event, KPMG shall contractually require its member firms and third party service providers to only, disclose the portion of the information that is legally required to be furnished and shall, contractually require its member firms and third party service providers to, exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information

c. Entity acknowledges that KPMG aggregates anonymous information from sources including the Entity for various purposes, including to monitor quality of service, and Entity consents to such use. KPMG may also use Entity's information to offer services that may be of interest to Entity.

5. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of the engagement. Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at www.kpmg.ca. . Entity acknowledges that (i) it will obtain any consents required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice to those individuals whose personal information may be collected, used and disclosed by KPMG hereunder of the potential processing of such personal information outside of Canada (as described in Section 4 above). KPMG's Privacy Officer noted in KPMG's privacy policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

6. THIRD PARTY DEMANDS FOR DOCUMENTATION AND INFORMATION / LEGAL AND REGULATORY PROCESSES.

a. Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to acknowledge that KPMG or a foreign component auditor which has been engaged in connection with an assurance engagement ("component auditor") may from time to time receive demands from a third party (each, a "third party demand"), including without limitation (i) from CPAB or from professional, securities or other regulatory, taxation, judicial or governmental authorities (both in Canada and abroad), to provide them with information and copies of documents in KPMG's or the component auditor's files including (without limitation) working papers and other work-product relating to the affairs of Entity, its subsidiaries and affiliates, and (ii) summons for production of documents or information related to the services provided hereunder; which information and documents may contain confidential information of Entity, its subsidiaries or affiliates. Except where prohibited by law, KPMG or its component auditor, as applicable, will advise Entity or its affiliate or subsidiary of the third party demand. Entity acknowledges, and agrees to cause its subsidiaries and affiliates to acknowledge, that KPMG or its component auditor, as applicable, will produce documents and provide information in response to the third party demand, without further authority from Entity, its subsidiaries or affiliates.

b. KPMG will use reasonable efforts to withhold from production any documentation or information over which Entity asserts privilege. Entity must identify any such documentation or information at the time of its provision to KPMG by marking it as "privileged". Notwithstanding the foregoing, where disclosure of such privileged documents is required by law, KPMG will disclose such privileged documents. If and only if the authority requires such access to such privileged documents pursuant to the laws of a jurisdiction in which express consent of Entity is required for such disclosure, then Entity hereby provides its consent.

c. Entity agrees to reimburse KPMG for its professional time and any disbursements, including reasonable legal fees and taxes, in responding to third party demands.

d. Entity waives and releases KPMG from any and all claims that it may have against KPMG as a result of any disclosure or production by KPMG of documents or information as contemplated herein.

e. Entity agrees to notify KPMG promptly of any request received by Entity from any third party with respect to the services hereunder, KPMG's confidential information, KPMG's advice or report or any related document.

7. Connecting to the Entity's IT Network; Email and Online File Sharing and Storage Tools.

a. Entity authorizes KPMG personnel to connect their computers to the Internet while at the Entity's premises for the purpose of conducting normal business activities; however KPMG and its personnel are not permitted to connect to the Entity's IT Network. .

b. Entity recognizes and accepts the risks associated with communicating electronically, and using online file sharing, storage, collaboration and other similar online tools to transmit information to or sharing information with KPMG, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Entity assumes all responsibility or liability in respect of the risk associated with the use of the foregoing, and agrees that KPMG is not responsible for any issues that might arise (including loss of data) as a result of Entity using the foregoing to transmit information to or otherwise share information with KPMG and, in the case of online tools other than email, KPMG's access to and use of the same in connection with obtaining Entity information and documents.

8. Limitation On Warranties.

THIS IS A SERVICES ENGAGEMENT. KPMG WARRANTS THAT IT WILL PERFORM SERVICES HEREUNDER IN GOOD FAITH WITH QUALIFIED PERSONNEL IN A COMPETENT AND WORKMANLIKE MANNER IN ACCORDANCE WITH APPLICABLE INDUSTRY STANDARDS. SUBJECT TO SECTION 14, KPMG DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS OR CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES, REPRESENTATIONS OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

9. Limitation on Liability and Indemnification.

a.

b.

c. Subject to Section 14: (i) in no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, liabilities, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs); (ii) in any Claim arising out of the engagement, Entity agrees that KPMG's liability will be several and not joint and several; and (iii) Entity may only claim payment from KPMG of KPMG's proportionate share of the total liability based on degree of fault.

d. For purposes of this Section 9, the term KPMG shall include its subsidiaries, its associated and affiliated entities and their respective current and former partners, directors, officers, employees, agents and representatives. The provisions of this Section 9 shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

10. Consent to the Use of the KPMG Name or KPMG Report.

Except as otherwise specifically agreed in this Engagement Letter, KPMG does not consent to:

i. the use of our name or our report in connection with information, other than what we have reported on as part of this Engagement Letter or our report thereon, that contains, incorporates by reference, or otherwise accompanies our report or our name;

ii. the use of our report in languages other than English and French;

iii. the use of our report in connection with an offering document or other securities filing, including continuous disclosure filings; or

iv. the use of our name or our report in connection with the interim financial statements (or other interim financial information) or any statement by the Entity regarding the services that we provided on the interim financial statements or other interim financial information.

Any communication, report, statement or conclusion on the interim financial statements may not be included in, or otherwise referred to in any public document or public oral statements except when the interim review conclusion contains a modified conclusion, in which case our interim review report will accompany the interim financial statements.

If the Entity wishes to obtain KPMG's consent regarding the matters above or other matters not otherwise specifically covered by this Engagement Letter, we will be required to perform procedures as required by applicable professional standards, and such procedures would be a separate engagement and subject to separate engagement terms.

11. Alternative Dispute Resolution.

Any dispute or claim between the parties arising under or relating to this Engagement Letter or the services provided hereunder (the "Dispute") shall be submitted to non-binding mediation. If mediation is not successful within 90 days after the issuance by a party of a request for mediation, then the Dispute shall be referred to and finally resolved by arbitration under the Arbitration Rules of the ADR Institute of Canada in force at that time. The Seat of Arbitration shall be the province where KPMG's principal office performing this engagement is located. The language of the arbitration shall be English. The Arbitral Tribunal shall be made up of a single Arbitrator. The arbitration award shall be final, conclusive and binding upon the parties, and not subject to appeal.

12. Potential Conflicts of Interest.

a. KPMG is or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that, without further notice or disclosure to Entity, KPMG may: (i) accept or continue such engagements on matters unrelated to KPMG's engagement for Entity; and (ii) provide advice or services to any other person or entity making a competing bid or proposal to that of Entity whether or not KPMG is providing advice or services to Entity in respect of Entity's competing bid or proposal.

b. In accordance with professional standards, KPMG will not use any confidential information regarding Entity in connection with its engagements with other clients, and will establish confidentiality and other safeguards to manage conflicts, which may include, in KPMG's sole discretion, the use of separate engagement teams and data access controls.

c. In no event shall KPMG be liable to Entity, or shall Entity be entitled to a return of fees or disbursements, or any other compensation whatsoever as a result of KPMG accepting or continuing a conflicting engagement in accordance with the terms of this Engagement Letter.

d. Entity agrees that KPMG may, in its sole discretion, disclose the fact and nature of its engagement for Entity to (i) KPMG International member firms to inform conflict searches, and (ii) to the extent reasonably required in order to obtain the consent of another entity or individual in order to permit KPMG to act for such entity or individual, or for Entity, in connection with the engagement or any future engagement.

e. In the event that circumstances arise that place KPMG into a conflict of interest as between Entity and a pre-existing client, which in KPMG's sole opinion cannot be adequately addressed through the use of confidentiality and other safeguards, KPMG shall be entitled to immediately terminate the engagement with Entity, without liability.

f. Other KPMG International member firms are or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that (i) it will not assert that other KPMG International member firms are precluded from being engaged by those other entities or individuals, and (ii) those engagements of other KPMG International member firms do not conflict with KPMG's engagement for Entity.

13. Lobbying.

Unless expressly stated in this Engagement Letter, KPMG will not undertake any lobbying activity, as that term is defined in all applicable federal, provincial and municipal lobbyist registration statutes and regulations, in connection with the engagement. In the event that KPMG and Entity agree that KPMG will undertake lobbying activity in connection with the engagement, such agreement shall be set out in an amendment to this Engagement Letter.

14. SEVERABILITY.

The provisions of these Terms and Conditions and the accompanying proposal or engagement letter shall only apply to the extent that they are not prohibited by a mandatory provision of applicable law, regulation or professional standards. If any of the provisions of these Terms and Conditions or the accompanying proposal or engagement letter are determined to be invalid, void or unenforceable, the remaining provisions of these Terms and Conditions or the accompanying proposal or engagement letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall remain valid and in effect and be enforceable and binding on the parties to the fullest extent permitted by law.

15. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law).

16. LLP STATUS.

KPMG is a registered limited liability partnership (“LLP”) established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial LLP legislation.

17. INDEPENDENT LEGAL ADVICE.

Entity agrees that it been advised to retain independent legal advice at its own expense prior to signing this Engagement Letter (including without limitation with respect to Entity’s rights in connection with potential future conflicts) and agrees that any failure on its part to retain such independent legal counsel shall not affect (and it shall not assert that the same affects) the validity of the provisions of this Engagement Letter.

18. SURVIVAL.

All sections hereof other than Section 7(a) shall survive the expiration or termination of the engagement.

Appendix A: Other required communications

CPAB communication protocol

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

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

Required inquiries

Professional standards require that during the planning of our audit, we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.

Such inquiries are completed with both management and those charged with governance throughout our audit timing.

Appendix B: KPMG Clara

Streamlined client experience

And deeper insights into your business, translating to a better audit experience.

Secure

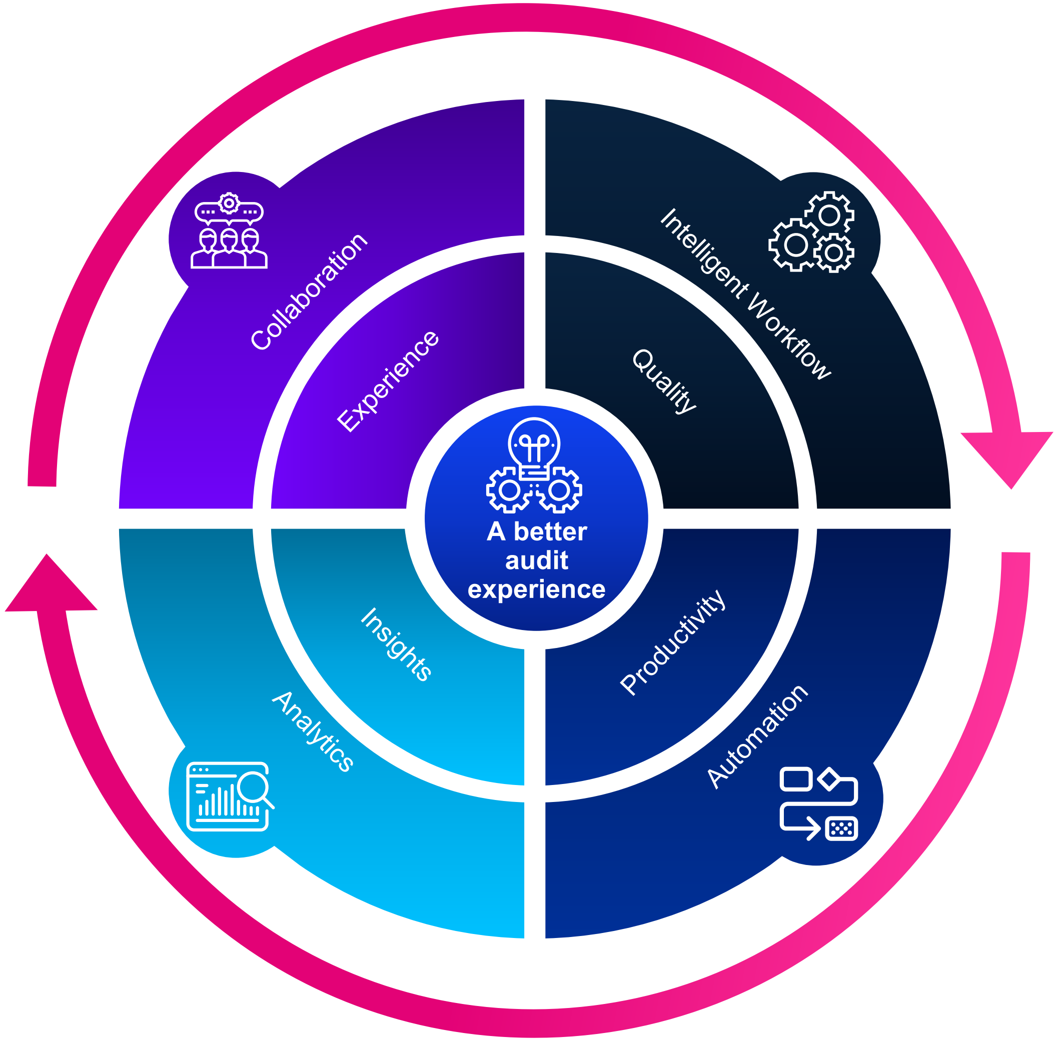
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix C: 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.

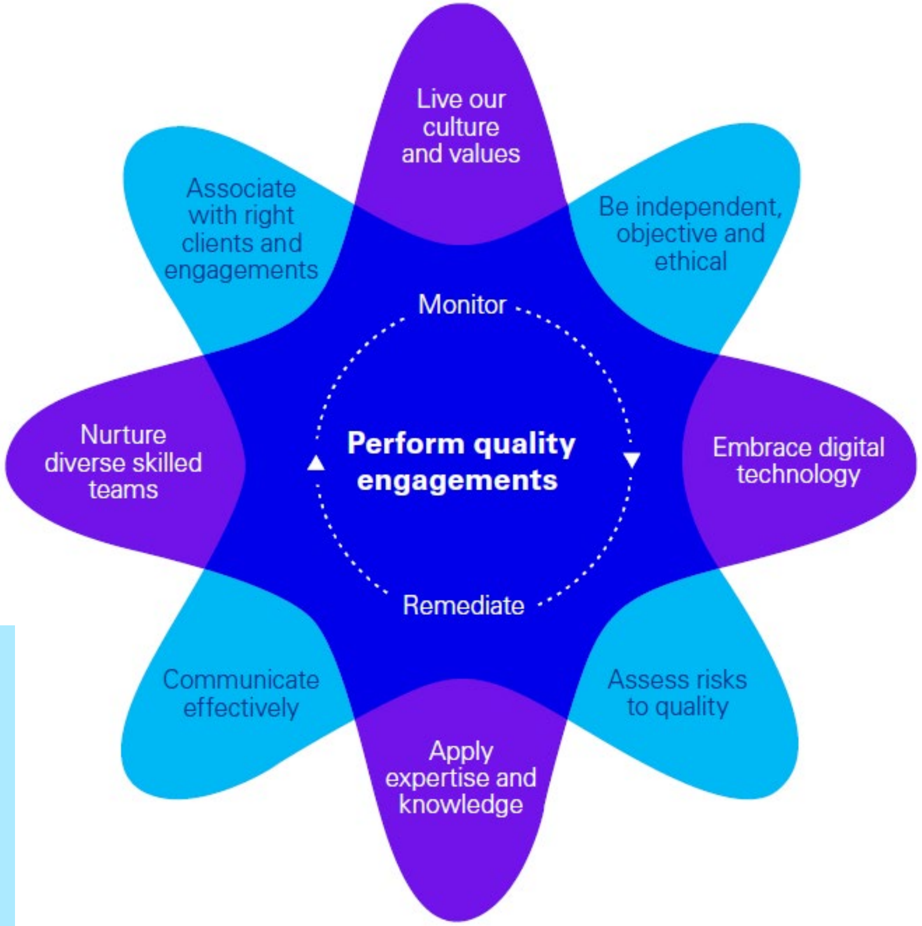
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

KPMG 2022 Audit Quality and Transparency Report

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

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



Appendix D: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements – Modernizes the approach to quality management and requires the engagement partner and engagement team to be proactive in managing and achieving quality.

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements – Works in establishing quality objectives, identifying and assessing quality risks while formulating a firm wide approach.

ISQM2/CSQM2

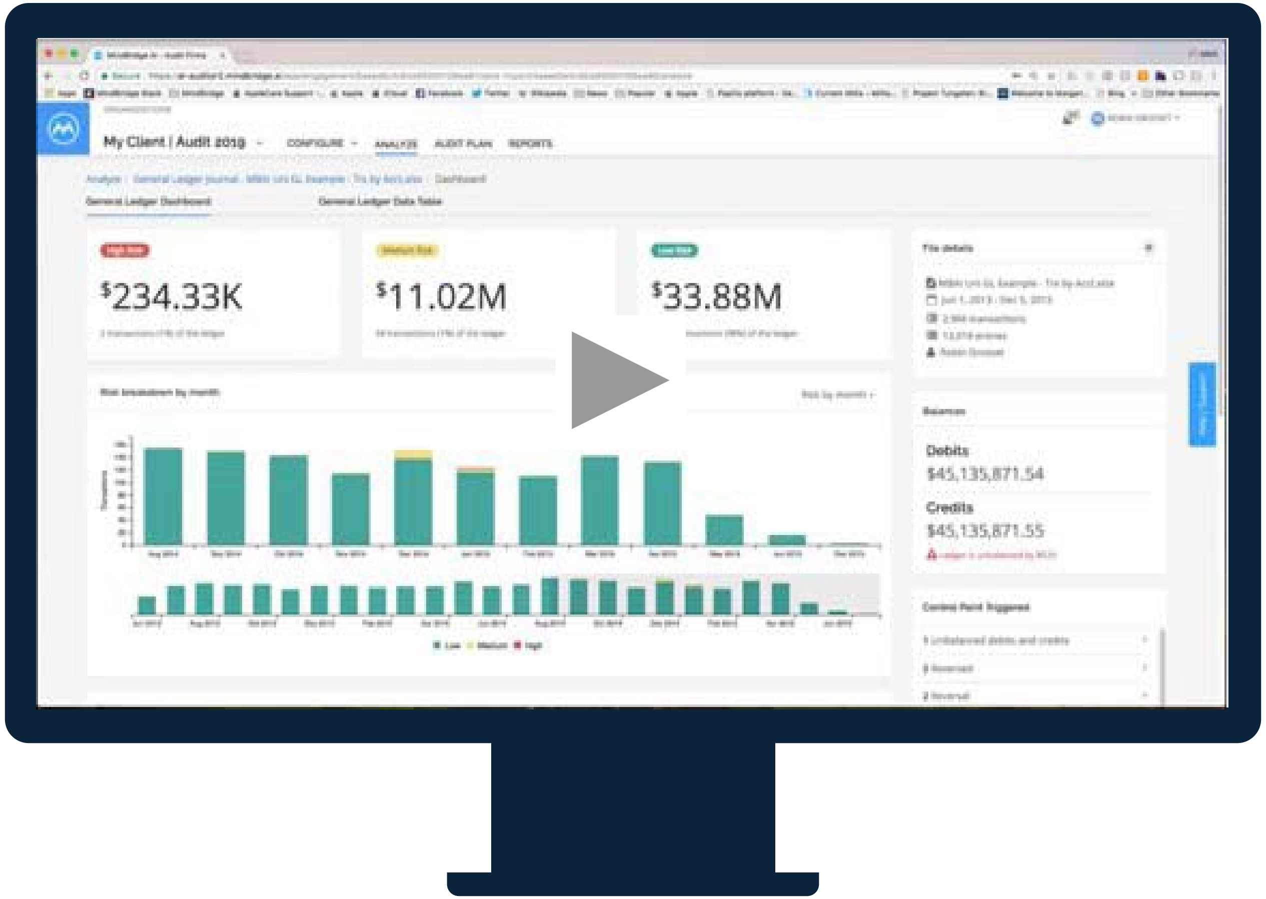
Engagement quality reviews – Extends the scope of engagements subject to a Engagement Quality (EQ) review, strengthens the eligibility criteria for an individual to be appointed an EQ Reviewer, and enhances the EQ reviewer's responsibility.

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements – Revises the definition of a component and more emphasis is placed on the risk of material misstatement at the assertion level of the group financial statements that are associated with the component.

Appendix E: KPMG Clara AI Transaction Scoring



Description

KPMG Clara AI Transaction Scoring is a tool that applies advanced statistical, machine-learning, and rules-based analytics technology to analyze transactions on a more granular level and deliver an even higher audit quality. Transaction scoring simultaneously tests each transaction through a mix of control points, machine learning algorithms, and statistical scenarios to assign a risk score and bucket your entire population. This allows our team to focus primarily on transactions with the highest risk, while giving you positive assurance over the remaining population.

100% testing of transactions

Performs risk assessment and substantive testing procedures simultaneously over 100% of the transactions that are in scope for audit procedures.

Enhanced testing approach

Reduces the need for additional corroborating evidence on lower risk items and enables more meaningful discussions with management.

Increased audit quality

Drives audit quality by directing our focus to higher risk areas and meaningful outliers.

Anomaly detection

Finding the needle in the haystack has never been more easy, by using machine learning algorithms to detect transactions which don't follow the norm.

Appendix F: Newly Effective Accounting Standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022 *(City's Current year end of December 31, 2023)*.
	• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
	• The asset retirement obligations ("ARO") standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
	• As a result of the new standard, the public sector entity will:
	  • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
	  • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements.

Appendix F: Newly Effective Accounting Standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	• The new standards PS 3450 Financial instruments, PS 2601 Foreign currency translation, PS 1201 Financial statement presentation and PS 3041 Portfolio investments are effective for fiscal years beginning on or after April 1, 2022 (City's current year end of December 31, 2023). • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. • Hedge accounting is not permitted. • A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. • PS 3450 Financial instruments was amended subsequent to its initial release to include various federal government narrow-scope amendments.

Appendix G: Future Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023 *(City's December 31, 2024 year-end).* • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted *(City's December 31, 2024 year-end).* • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix G: Future Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023 *(City's December 31, 2024 year-end).* • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier 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.

Appendix G: Future Changes in accounting standards (continued)

Standard	Summary and implications

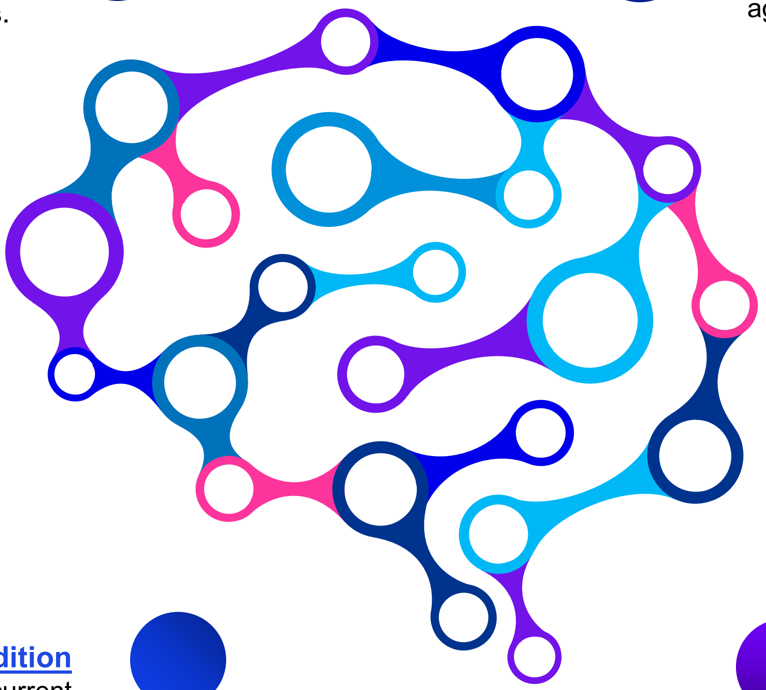
Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be 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.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix G: Future Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section 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. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix H: Audit and assurance insights

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



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Leading insights to help board members maximize boardroom opportunities

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Audit Committee Guide – Canadian Edition

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Accelerate 2023

The key issues driving the audit committee agenda in 2023.

Momentum

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

KPMG Climate Change Financial Reporting Resource Centre

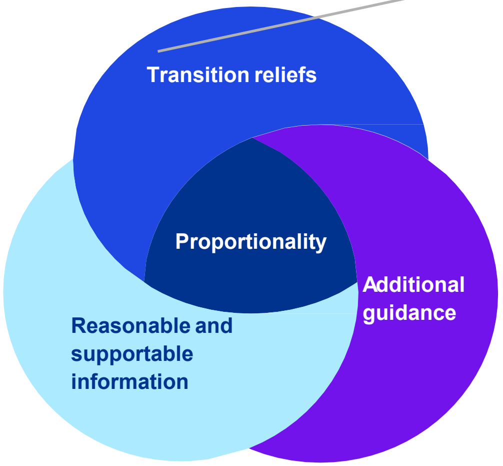
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News

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

Appendix I: ESG - Suite of optional transition reliefs

In response to practical concerns, the standards allow for transition reliefs, applicable only in the first year of application



Climate-first option

Allows entities to report only on climate-related risks and opportunities

Timing of sustainability reporting

Allows entities to report sustainability-related financial disclosures after their financial statements, but by Q2 interim reporting

Disclosing scope 3 GHG emissions

Relief from disclosing scope 3 greenhouse gas (GHG) emissions

Presenting comparative information

Allows entities an additional year to report comparative information

If climate-first option is elected, only climate-related comparative information is required in the second year of application

Using the GHG Protocol

Relief from using the GHG Protocol Standards to measure greenhouse gas emissions for entities that currently use a different methodology

Appendix I: ESG - Questions to start getting ready

01

When could they affect you?

- Effective for annual reporting periods beginning on or after January 1, 2024 (pending adoption decisions in Canada)
- If not adopted, entities may still choose to adopt the standards voluntarily

02

Where will the information be disclosed?

- It depends – the standards currently do not specify a single location
- The ISSB is committed to focus on integration in reporting

03

What if you've already adopted other frameworks?

- Map how the standards differ from current frameworks used (i.e., conduct a reporting gap assessment)
- Focus on matters that affect your entity's prospects and consider what will impact an investor's assessment of those prospects
- Consider where additional data is needed

04

Will they require scenario analysis?

- Entities will need to use scenario analysis when describing their assessment of climate resilience (i.e., analyze the impact of different climate-related risks and assumptions)
- The ISSB will provide guidance on the analysis that will be appropriate for different types of entities

05

Will your reporting need assurance?

- Assurance requirements are not within the remit of the ISSB
- In Canada, regulators may choose to require assurance – similar to what has been directed in the EU and proposed by the SEC
- Regardless of regulatory assurance requirements, entities will need to ensure they have processes and controls in place to produce robust and timely information

06

What do they mean for broader sustainability reporting?

- The standards are part of an evolution from fragmented, voluntary frameworks to authoritative standard setting
- Reporting to meet public policy and other needs is likely to continue as a separate strand of reporting

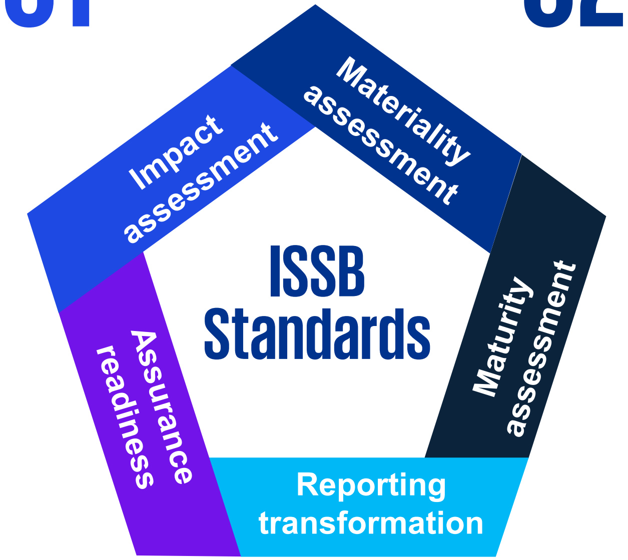
Appendix I: ESG - What do you need to do now?

01 Understand the Impact

- Research and understand current and emerging requirements
- Understand when, where and how this will impact your company

02 Determine what is material

- Determine which topics are relevant to report on
- Decide what information is material about those topics



05 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation
- Undergo an assurance readiness assessment with your auditor
- Rectify issues ahead of the formal assurance process (when and if mandated in Canada).

03 Assess maturity

- Assess maturity of processes, the control environment, data model and policies related to ESG
- Understand the current distribution of roles and available knowledge and capacity

04 Transform reporting

- Design the future state of your sustainability reporting
- Deploy your target operating model, including training as well as support for change management

Appendix I: ESG - Regulatory updates

Recent Activity[1,2,3]

EU (EFRAG)

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop draft European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the CSRD
- There are considerable ESG reporting implications for non-EU based entities - scope includes non-EU entities or groups with significant operations in the EU
- In June 2023, the European Commission released a series of proposed changes to the draft ESRSs. The most significant amendments to the proposals are:
  - General disclosures under the ESRS will remain mandatory. Other ESRS disclosures will be subject to a materiality assessment;
  - Additional phase-in relief for all entities; and
  - Amendments aiming to improve interoperability with international standards and to align with other European legislation
- The EU is expected to adopt the final standards in August 2023

SEC

- Proposal published in March 2022 would require investor-focused climate disclosures
- In June 2023, the SEC released its updated regulatory agenda, which listed a final climate rule to be issued in October 2023
- The SEC's updated regulatory agenda also included various other ESG-related items, including a final rule on cybersecurity risk governance and proposals on corporate board diversity and human capital disclosures

OSFI B-15

- In March 2023, OSFI published its final guideline *B-15 Climate Risk Management*. The requirements will be effective fiscal year-end 2024 for Domestic Systemically Important Banks and Internationally Active Insurance Groups headquartered in Canada, and fiscal year-end 2025 for all other in-scope federally regulated financial institutions (FRFIs)
- FRFIs will be required to report climate-related financial disclosures no later than 180 days after fiscal year-end
- Final disclosure expectation and/or timing of implementation of OSFI-specified prudential cross-industry and industry-specific metrics to be determined at a later date
- Assurance not required at this time, but FRFIs should work towards a future state in which external assurance is expected

CSA

- Proposal published in October 2021 would require investor-focused climate disclosures
- In October 2022, the CSA stated that it continues to actively consider international developments and how they may impact or inform its proposed climate-related disclosure rule

What about the CSSB?

- The CSSB's mandate is to develop and support the adoption of international sustainability standards in Canada
- In April 2023, the CSSB's first-ever chair and initial members were appointed

1. Refer to our US Quarterly Outlook publication for regulatory updates on the proposed SEC climate rules
2. Refer to our publication ESRS resource centre for developments on the proposed ESRSs
3. Refer to our guide which compares the sustainability proposals issued by the ISSB, SEC and EFRAG

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