

AGENDA – AUDIT COMMITTEE MEETING

Monday, May 2, 2022 – 6:00 PM

Limestone Education Centre

220 Portsmouth Avenue, Kingston, ON

Virtual Link: <https://bit.ly/LDSBAuditMay2>

PRIVATE SESSION – 5:30 PM

**In accordance with the Education Act, Section 207(2) a meeting of a committee of a board including a committee of the whole board, may be closed to the public when the subject under consideration involves,*

- a) The security of the property of the board;*
- b) The disclosure of intimate, personal or financial information in respect of a meeting of the board or committee, an employee or prospective employee of the board or a pupil or his or her parent or guardian;*
- c) The acquisition or disposal of a school site;*
- d) Decisions in respect of negotiations with employee of the board; or*
- e) Litigation affecting the board.*

1. MOTION TO MOVE INTO PRIVATE SESSION

2. DECLARATION OF CONFLICT OF INTEREST

3. FOR INFORMATION

3.1 MULTI-YEAR INTERNAL AUDIT PLAN, GENEVIEVE SEGU, REGIONAL INTERNAL AUDIT MANAGER AND PASQUALE L'ORFANO (PAGES 3-6)

4. REPORT TO PUBLIC SESSION

PUBLIC MEETING - 6 PM

Acknowledgement of Territory: “The Limestone District School Board is situated on the traditional territories of the Anishinaabe and Haudenosaunee. We acknowledge their enduring presence on this land, as well as the presence of Métis, Inuit and other First Nations from across Turtle Island. We honour their cultures and celebrate their commitment to this land.”

5. ADOPTION OF AGENDA

6. DECLARATION OF CONFLICT OF INTEREST

7. PRIVATE SESSION REPORT

8. REPORTS FOR INFORMATION

8.1 REGIONAL INTERNAL AUDIT UPDATE, GENEVIEVE SEGU, REGIONAL INTERNAL AUDIT MANAGER & PASQUALE L’ORFANO, INTERNAL AUDITOR (PAGES 7-8)

8.2 2021-2022 AUDIT PLANNING REPORT, LORI HUBER, KPMG, EXTERNAL AUDITOR (PAGES 9-69)

9. OTHER BUSINESS

10. OTHER MEETINGS

September 12, 5:30 pm

November 7, 5:30 pm

May 1, 2023, 5:30 pm

11. ADJOURNMENT

Limestone District School Board

Limestone District School Board is situated on traditional territories of the Anishinaabe & Haudenosaunee.

<p>Subject:</p> <p>Presented by:</p> <p>Meeting Date:</p>	<p>Regional Internal Audit Update – Public Session</p> <p>Geneviève Segu, Regional Internal Audit Manager</p> <p>Pasquale L’orfano, Internal Auditor</p> <p>May 2nd, 2022</p>									
<p>Purpose</p>	<p>To provide the Audit Committee with an update from the Regional Internal Audit Manager (RIAM) on the progress of the 2021-22 RIAT work.</p> <p>This report links with Regulation 361/10 in relation to the Audit Committee’s duties to the Internal Auditor 9(3) and the Board’s Internal Controls 9(2).</p>									
<p>Content</p>	<p>2021-2022 Regional Internal Audit Plan Update</p> <p>The Audit Committee approved the 2021-22 Audit Plan at the September 13, 2021 meeting. The following presents an update on the engagements:</p> <table border="1" data-bbox="430 913 1485 1757"> <thead> <tr> <th data-bbox="430 913 630 997">Status</th> <th data-bbox="630 913 1252 997">Audit & Scope</th> <th data-bbox="1252 913 1485 997">Schedule</th> </tr> </thead> <tbody> <tr> <td data-bbox="430 997 630 1528"> <p>In Progress</p> </td> <td data-bbox="630 997 1252 1528"> <p>Critical Positions Engagement</p> <p>This engagement aligns with the preliminary region-wide Strategic Risk Assessment which identified Succession Planning as one of the top risks in the portfolio.</p> <p>The scope is to provide Management with a current state assessment/inventory of all positions, outside of the schools. Each position is critical, key, support or specialist.</p> </td> <td data-bbox="1252 997 1485 1528"> <p>November 2021: Meet with HR to discuss timing, objective and scope of work.</p> <p>Spring 2022: started fieldwork</p> <p>September 2022: report to Audit Committee</p> </td> </tr> <tr> <td data-bbox="430 1528 630 1757"> <p>Not initiated</p> </td> <td data-bbox="630 1528 1252 1757"> <p>Safe Schools</p> <p>This engagement focuses on capacity, processes and systems in place to communicate, identify, protect and respond to issues relating to student’s health, with a</p> </td> <td data-bbox="1252 1528 1485 1757"> <p>May 2022: Meet with Management to discuss scope.</p> </td> </tr> </tbody> </table>	Status	Audit & Scope	Schedule	<p>In Progress</p>	<p>Critical Positions Engagement</p> <p>This engagement aligns with the preliminary region-wide Strategic Risk Assessment which identified Succession Planning as one of the top risks in the portfolio.</p> <p>The scope is to provide Management with a current state assessment/inventory of all positions, outside of the schools. Each position is critical, key, support or specialist.</p>	<p>November 2021: Meet with HR to discuss timing, objective and scope of work.</p> <p>Spring 2022: started fieldwork</p> <p>September 2022: report to Audit Committee</p>	<p>Not initiated</p>	<p>Safe Schools</p> <p>This engagement focuses on capacity, processes and systems in place to communicate, identify, protect and respond to issues relating to student’s health, with a</p>	<p>May 2022: Meet with Management to discuss scope.</p>
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		<p>focus on well-being, mental health and bullying.</p> <p>This engagement has been performed and well received by other RIATs in the province.</p>	
	In Progress	<p>Follow-up Procedures</p> <p>RIAT continues to follow-up on the remaining recommendations, as they come due.</p>	<p>Ongoing</p> <p>September 2022: Final Report to Audit Committee</p>
	As Needed	<p>Management Request Engagement</p> <p>To cover any important items that may be required to during the school year.</p>	<p>None Requested</p>
Recommendation	That the Limestone District School Board Audit Committee receives for information the May 2 nd , 2022 RIAT update.		

Limestone District School Board

Audit Planning Report
for the year ending August 31, 2022

KPMG LLP

Licensed Public Accountants

Prepared as of April 11, 2022 for the Audit Committee
meeting on May 2, 2022

kpmg.ca/audit

KPMG



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KPMG contacts

The contacts at KPMG in connection with this report are:



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Our refreshed Values

What we believe



Integrity

We do what is right.



Excellence

We never stop learning and improving.



Courage

We think and act boldly.



Together

We respect each other and draw strength from our differences.



For Better

We do what matters.

Executive summary

The purpose of this Audit Planning Report is to assist you, as a member of the Audit Committee, in your review of the planning of our audit of the consolidated financial statements (the “financial statements”) of Limestone District School Board (the “Board”) as at and for the year ending August 31, 2022. As members of the Audit Committee, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

Audit quality

See Appendix 2 for how we deliver audit quality and how you can measure our audit quality.

Newly effective accounting / auditing standards

There are no new relevant accounting or auditing standards that will impact the August 31, 2022 year-end. Refer to Appendix 3 for current developments in Public Sector Accounting Standards.

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenue, accumulated surplus and total expenses. We have determined materiality to be \$7,500,000.

See page 2.

Audit risks

Our audit is risk-focused. In planning our audit, we have not identified areas of financial reporting where significant risks of material misstatement may arise. Other areas of focus include:

- Cash
- Grants including receivables and deferrals
- Capital assets and deferred capital contributions
- Accounts payable and accrued liabilities
- Employee benefit liability
- Long-term debt
- Financial reporting

See pages 4 to 5.

Proposed fees

Proposed fees for the main annual audit of the financial statements are \$46,000.

See page 9.

This report to the Audit Committee is intended solely for the information and use of Management, the Audit Committee, the Board of Trustees 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 to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Materiality



Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality).

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total expenses, total revenue and accumulated surplus	
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$7,500,000	\$7,500,000
Benchmark (the metric that is <i>most</i> relevant to the users)	Based on approximate total expenses for the year ended August 31, 2021. This benchmark is consistent with the prior year.	\$265,000,000
% of Benchmark	The corresponding percentage for the prior year's audit was 2.9%	2.8%
Other Relevant Metric	Based on approximate total revenue for the year ended August 31, 2021.	\$274,000,000
% of Other Relevant Metric	The corresponding percentage for the prior year's audit was 2.8%.	2.7%
Performance Materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$5,625,000.	\$5,625,000
Audit Misstatement Posting Threshold (AMPT)	Set at 5% of materiality, threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$375,000.	\$375,000

Materiality has been set consistent with prior years based on approximate expenses in the prior year.

We will report to the Audit Committee:

-  Corrected audit misstatements
-  Uncorrected audit misstatements

Audit risks

Significant risk - professional requirements	Why is it significant?
Presumption of the risk of fraud involving improper revenue recognition	We have not identified any risk of material misstatement resulting from fraudulent revenue recognition.
Significant risk - professional requirements	Why is it significant?
Presumption of the risk of fraud risk from management override of controls.	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 audit approach	
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 and evaluating the business rationale of significant unusual transactions. We will also make inquiries of Senior Management and the Audit Committee related to their awareness of fraud risk factors of the Board and whether the Board is currently dealing with any suspected, alleged or known fraudulent activity.	

Audit approach

Relevant factors affecting our risk assessment

Prior year misstatements 

Volume of transactions 

Estimate 

Areas of focus	Our audit approach
Cash	<ul style="list-style-type: none"> – Confirmation with third parties for cash & bank balances – Review of bank reconciliations and vouch significant reconciling items to supporting documentation – Review of restrictions and disclosures
Grants Accounts and grants receivable Deferred revenue	<ul style="list-style-type: none"> – Perform substantive analytical procedures over revenues and related accounts – Evaluate revenue recognition, revenue restrictions, deferral and presentation considerations – Vouch a selection of revenue transactions to supporting documentation to verify restrictions, if any – Direct confirmation of amounts received and receivable from the Ministry – Significant additions to and disbursements from deferred revenue vouched to supporting documentation – Ensure purpose-specific restrictions are recognized and accounted for appropriately
Tangible capital assets Deferred capital contributions	<ul style="list-style-type: none"> – Significant additions / disposals vouched to supporting documentation – Assessment of assets for write-down – Amortization of deferred capital contributions recalculated – Examination of supporting documentation related to restriction of funds intended for capital asset additions and treatment of proceeds from any disposed capital assets
Temporary borrowing Long-term liabilities Interest expense	<ul style="list-style-type: none"> – Confirmation of debt balances with third parties – Reasonability of interest expense on long-term debt including the interest accrual as at year-end
Accounts payable and accrued liabilities Non-payroll expenses	<ul style="list-style-type: none"> – Perform substantive analytical procedures over payables and non-payroll expenses – Significant accruals vouched to supporting documentation – Search for unrecorded liabilities – Evaluate completeness and valuation of the liability for contaminated sites, if any

Audit approach (continued)

Areas of focus	Our audit approach
Salaries and benefits Employee benefit liability	<ul style="list-style-type: none"> – Test and evaluate design and operating effectiveness over controls related to payroll monitoring controls – Significant payroll-related accruals recalculated and vouched to supporting documentation – Perform substantive analytical procedures over salaries and benefits, and related accounts – Receipt and analysis of the actuarial report to independently verify employee future benefit accruals – We will review the assumptions used in the valuations and perform audit procedures on the underlying employee data provided to the actuary in the year of full valuation
Accumulated surplus	<ul style="list-style-type: none"> – Review of Board of Trustee and Audit Committee meeting minutes and legal correspondence – Direct communication with external legal counsel to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded – Significant findings review with management
Contingencies and commitments	<ul style="list-style-type: none"> – Review by the engagement team of the financial statements prepared by the Board’s management to ensure the disclosure is consistent with current public sector accounting, disclosure requirements, as well as industry practice

These areas of audit focus may be revised because of new transactions or events at the Board, or changes in systems, people or structure, and/or the results of our audit procedures. KPMG will assess throughout the audit whether there are any activities that are outside the normal operations for the Board and will perform additional procedures if necessary. We will communicate any changes to the Audit Committee in our Audit Findings Report.

Additional audit-related work

KPMG will perform the following services in addition to the audit of the consolidated financial statements of the Board, either as a required deliverable per the engagement letter, or per request from the Board.

Additional audit work required to support our audit opinion on the financial statements

N/A	At this time, KPMG has not identified any additional, one-time audit procedures required to support our audit opinion of the consolidated financial statements. Any additional audit work identified during our audit will be discussed with Management and communicated to the Audit Committee in the Audit Findings Report.
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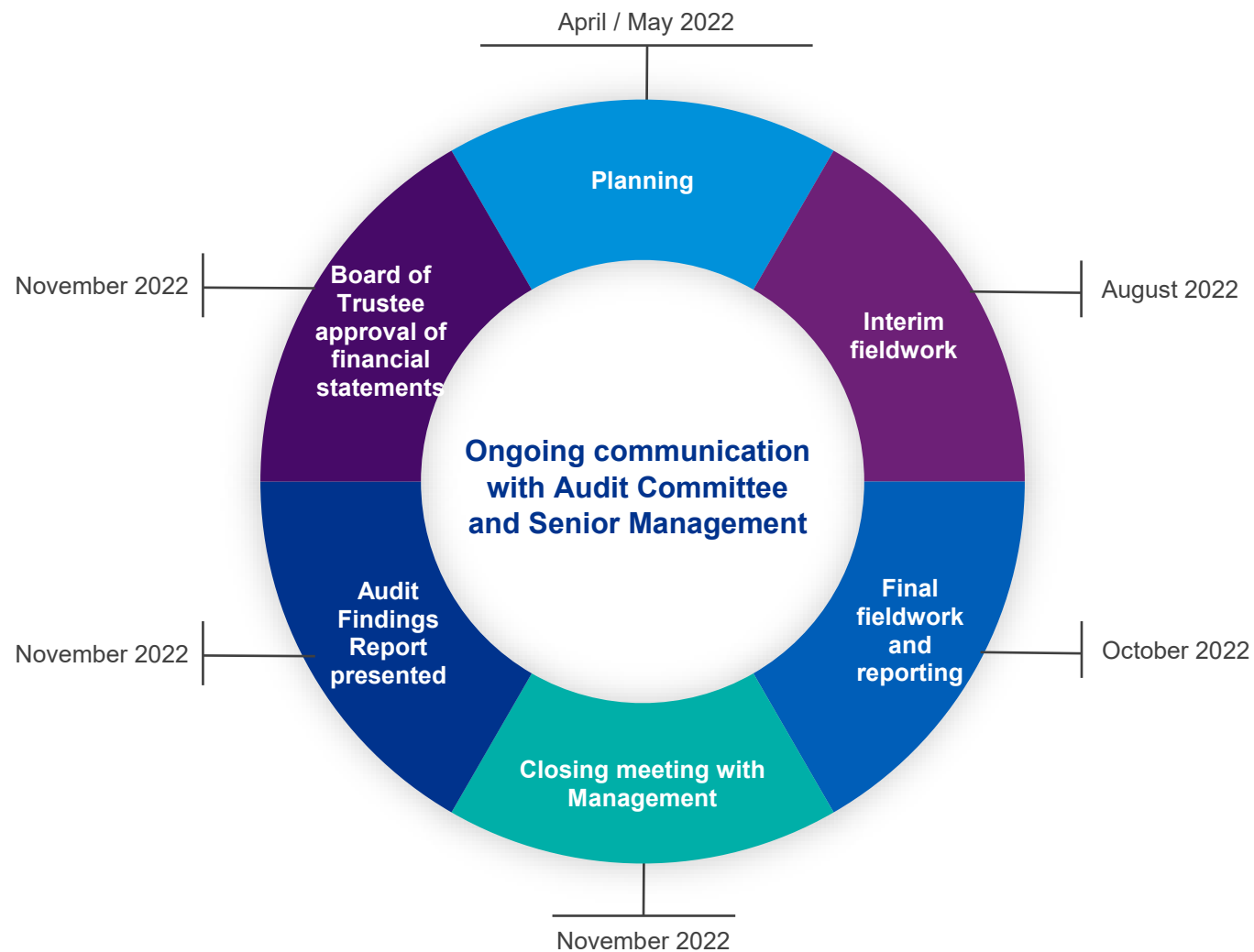
Other audit-related activities

School generated funds	KPMG will perform an analysis utilizing computer-assisted audit techniques on fund balances followed by discussion with management.
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Additional requested audit-related work

7th Month Agreed Upon Procedures	KPMG will prepare the Accountants' Report with respect to the period September 1, 2021 to March 31, 2022 7-month procedures as required by the Ministry of Education in May 2022.
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Key milestones and deliverables



Highly talented and experienced team

Team member	Background / experience	Discussion of role
 <p>Lori Huber, CPA, CA, LPA Lead Audit Engagement Partner Tel: 613-541-7320 lahuber@kpmg.ca</p>	<p>Lori has more than 20 years of public accounting experience, including extensive expertise auditing public sector and non-profit organizations including two local school boards. Lori's experience involves leading all aspects of audit planning, control and reporting.</p>	<ul style="list-style-type: none"> – Lori will be responsible for the quality and timeliness of our work and the conclusions reached by the engagement team. – She will provide the overall direction for audit and related services and will have frequent and direct contact with the Board. – Lori will help ensure the entity receives the full benefit of our audit and specialist resources on a timely and effective basis.
 <p>Anoop Sebastian Michael, CPA, CGA, FCCA (UK) Audit Manager Tel: 613-541-7327 anoopmichael@kpmg.ca</p>	<p>Anoop is a Manager and has experience working with a variety of public sector and not-for-profit audit clients including school boards and Limestone District School Board specifically.</p>	<ul style="list-style-type: none"> – Anoop will work closely with Lori in developing and executing the audit strategy. – He will be responsible for the overall engagement and project management including direct supervision and management of the audit, the development of the detailed audit approach in consultation with Lori, the identification of financial reporting and operational efficiency issues, as well as review of the audit.
 <p>Jesse Collins Audit Senior Accountant Tel: 613-541-7497 jessecollins@kpmg.ca</p>	<p>Jesse is a Senior Accountant in the audit practice and has successfully completed her professional examinations. Jesse has four years of experience working with a variety of public sector and not-for-profit audit clients including Limestone District School Board.</p>	<ul style="list-style-type: none"> – Jesse will also be responsible for the direct supervision of the audit, including the execution of the detailed audit approach in consultation with Lori and Anoop and the identification of financial reporting and operational efficiency issues, as well as review of the audit. – Jesse will be your main point of contact throughout the remote audit fieldwork.
 <p>Steve Hu, CISA, CPA, CA Senior Manager, IT Audit Tel: 613-212-3732 stevehu@kpmg.ca</p>	<p>Steve specializes in providing IT audit and Data & Analytics services to organizations in various industries (higher education, municipal and federal government, not-for-profit, private and public companies). As a leader for IT audit and a designated Digital Champion for KPMG Canada, Steve assists audit teams across Eastern Canada in implementing IT audit and D&A within their financial statement audits.</p>	<ul style="list-style-type: none"> – Steve will assist the audit team in our understanding of the Board's significant IT systems. – Steve will also provide guidance on Data & Analytics in the audit, as needed.

Proposed fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management based on our most recent proposal dated October 31, 2021.

Estimated fees	Current period (budget)	Prior period (actual)
Audit of the annual consolidated financial statements	\$46,000	\$45,500
Agreed Upon Procedures for the 7-Month period ended March 31, 2022t	\$8,300	\$8,150

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter. The following factors could cause a change in our fees:

- Significant changes to the relevant financial reporting framework
- Significant new or changed accounting policies or application thereof
- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- New audit standards or requirements arising as a result of changes in audit standards
- Changes in the timing of our work
- Other significant issues (e.g. cyber security breaches)
- Any accounting advice

Appendices

Content

Appendix 1: Required communications

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

Appendix 3: Current Developments

Appendix 4: Audit and Assurance Insights

Appendix 5: Accelerate Report

Appendix 1: Required communications

Report	Engagement terms
A draft report will be provided at the completion of the audit which will highlight the form and content of the report.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as attached.
CPAB Communication Protocol	Representations of management
<p>The reports available through the following links were published by the Canadian Public Accountability Board to inform Administrative Policies Committees and other stakeholders about the results of recent quality inspections in Canada:</p> <ul style="list-style-type: none">• <u>Audit Quality Insights Report: 2020 Annual Audit Quality Assessments</u>• <u>CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic</u>• <u>CPAB Audit Quality Insights Report: 2020 Interim Inspection Results</u>	We will obtain from management certain representations at the completion of the audit.
Matters pertaining to independence	Control deficiencies
At least once annually, we will confirm our independence with respect to our role as external auditors of the Board.	On a timely basis, identified significant deficiencies will be communicated to the Audit Committee. Other control deficiencies identified that do not rise to the level of a significant deficiency will also be communicated to the Audit Committee in writing at the completion of the audit.



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Mr. Craig Young
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Limestone District School Board
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Ms. Laurie French
Audit Committee Chair
Limestone District School Board
220 Portsmouth Avenue
Kingston ON K7M 0G2

April 11, 2022

Dear Mr. Young and Ms. French:

The purpose of this letter is to outline the terms of our engagement to audit the consolidated annual financial statements ("financial statements") of Limestone District School Board ("the Entity"), commencing for the year ending August 31, 2022.

This letter supersedes our previous letter to the Entity dated April 21, 2021.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions and any exhibits, attachments and appendices hereto and subsequent amendments form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

Financial Reporting Framework for the Financial Statements

The financial statements will be prepared and presented in accordance with the basis of accounting described in note 1 of the consolidated financial statements (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 A – Management's Responsibilities](#).

An audit of the annual financial statements does not relieve management or those charged with governance of their responsibilities.



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.

Based on discussions with management, there are no documents, or combination of documents, expected to meet the definition of an “annual report” under professional standards.

Auditor’s Deliverables

Unless otherwise specified, our report will be in writing and the expected content of our report are provided in [Appendix C – 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 information we reported on after we have issued our report, but which was not known to us at the date of our 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 engagement, 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 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 report would have been affected if the information had been known as of the date of our report; and (b) we believe that the 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 information we reported on.

Income Tax Advisory Services

Our deliverables regarding income tax advisory services are described in [Appendix D – Income Tax Compliance and Advisory Services](#).

Fees

[Appendix E – Fees for Professional Services](#) to this letter lists 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

Lori Huber, CPA, CA, Licensed Public Accountant
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
613-541-7320

klh

Enclosure

The terms of the engagement set out are as agreed:

Name and Title _____

Date (dd/mm/yy) _____

Name and Title _____

Date (dd/mm/yy) _____



Appendix A – Management’s Responsibilities

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the annual 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:
 - i. the names of all related parties and information regarding all relationships and transactions with related parties
 - ii. the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of board of trustees, and committees of the board of trustees 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) 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 B – Auditor’s Responsibilities

Auditor’s responsibilities regarding the audit of the financial statements

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 C – Expected Form of Report

INDEPENDENT AUDITORS' REPORT

To the Trustees of The Limestone District School Board

Opinion

We have audited the consolidated financial statements of The Limestone District School Board (the Entity), which comprise:

- the consolidated statement of financial position as at August 31, 2022
- consolidated statements of operations and accumulated surplus for the year then ended
- the consolidated statement of changes 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 consolidated financial position of the Entity as at end of August 31, 2022, and its consolidated results of operations, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with the basis of accounting as described in note 1 to the financial statements.

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.

Emphasis of Matter – Basis of Presentation

We draw attention to note 1 to the financial statements which describes the basis of accounting used in the preparation of these financial statements and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.



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 the basis of accounting as described in note 1 to the financial statements 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

Kingston, Canada

Date



Appendix D –General Tax Advisory Services

This letter details the general tax advisory services to be provided to the Limestone District School Board (“the Entity”) for the year ending August 31, 2022 and in the future. If there are tax services to be delivered outside the scope of those described in this letter, we will require a separate engagement letter for those services.

General tax advisory services

Our advice generally falls under one of the following situations:

- 1) On an ongoing basis, we will provide advisory services of a general nature relating to various income, capital, payroll and indirect tax matters as they arise. This type of service generally arises on a periodic basis as a result of preliminary inquiries made by you. In rendering these services, it is important to recognize that the advice provided is dependent on the detail of the information provided and the environment in which it is rendered. When professional judgment suggests written confirmation of the facts and advice is necessary, we will draft the appropriate correspondence to ensure the appropriate standard of care is met by all parties.
- 2) Periodically, you will seek detailed advice from us in connection with a specific transaction or undertaking you are contemplating. In such a situation, our advice will be based on the information provided to us. It is the responsibility of the Entity to ensure we are provided with all the information necessary in order for us to render the advice sought. Our tax advice will most likely be communicated to you, or your designate, in writing.

Our tax advisory services, both written and oral, will be based on the facts and assumptions submitted to us. We will not independently verify this information. Inaccuracy or incompleteness of the information could have a material effect on our conclusions.

To be of greatest assistance to the Entity, we should be advised in advance of any proposed transactions. If such matters exceed the scope of this engagement letter, we will issue additional engagement letters to confirm the particular scope and terms.



Appendix E – Fees for Professional Services

Regarding our audit as described in this letter, the Board and KPMG agree to an estimated fee of \$46,000 for this service based on our most recent fee proposal dated October 31, 2021.

Our fees will be billed as the work progresses for this service.

KPMG will notify management should there be any risk that the engagement cannot be completed within the original fee quoted due to change in scope or unforeseen circumstances.

In subsequent periods, we will agree our estimated fees with the Entity before we commence the delivery of any service.

Interest on overdue invoices as described in the Assurance Terms and Conditions (“Fee and Other Arrangements”) shall be (1)% per month, calculated and compounded monthly (effective annual rate of (12.683)%).



Appendix F – COVID-19 Rider

1. During the engagement, each party shall keep the other party reasonably informed of any events which:
 - i. relate to the notifying party and the COVID-19 situation;
 - ii. are not existing or reasonably foreseeable at the date of this agreement; and
 - iii. will materially and adversely affect the notifying party's ability to perform its obligations under the engagement.
2. Each party will implement mitigation measures to enable the Services to be performed so far as reasonably practicable in the circumstances, including:
 - i. reducing travel (particularly international travel) and in-person meetings to the minimum necessary level;
 - ii. at the party's premises, implementing such infection control procedures as are recommended or required by official bodies in the applicable location;
 - iii. implementing internal corporate policies which permit and encourage individual remote working, and technical systems to enable individual remote working; and
 - iv. implementing telepresence, audio conference, videoconference, and other systems for collaborative working.

If, as a result of the global COVID-19 virus situation, performance by a party of its obligations under the engagement are rendered impossible or impracticable, the time for performance of such obligations shall be extended by such period as is reasonable in the circumstances, PROVIDED THAT the party in question is complying, and continues to comply, with its obligations pursuant to paragraphs 1 and 2 above.



**TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS
(PRIVATE COMPANY CLIENTS)**

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 Engagement Letter supersedes all written or oral representations on this matter. 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.

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.

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. Our professional fees are also subject to an additional charge to cover information technology infrastructure costs and administrative support of our client service personnel. 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. Amounts overdue are subject to interest. 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.

a. KPMG is a member firm of the KPMG International Cooperative ("KPMG International"). Entity acknowledges that in connection with the provision of services hereunder, KPMG may use the services of KPMG International member firms, as well as other third party service providers or subcontractors, and KPMG shall be entitled to share with them all documentation and information related to the engagement, including Entity's confidential information and personal information ("information"). KPMG may also: (i) directly, or using such aforementioned KPMG International member firms, third party service providers or subcontractors, perform data analytics in respect of the information; and (ii) retain and disclose to KPMG International member firms the information to share best practices or for knowledge sharing purposes. In all such cases, such information may be used, retained, processed, or stored outside of Canada by such KPMG International member firms, other third party service providers or subcontractors, and 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 represents that such KPMG International member firms, other third party service providers or subcontractors have agreed or shall agree to conditions of confidentiality with respect to Entity's confidential information, and that KPMG is responsible to ensure their compliance with those conditions. Any services performed by KPMG International member firms or other third party service providers or subcontractors shall be performed in accordance with the terms of this Engagement Letter, but KPMG remains solely responsible to Entity for the delivery of the services hereunder. Entity agrees that any claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or other third party service providers or subcontractors referred to above.

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.

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 represents and warrants 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.



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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 Entity's IT Network and the Internet via the Network while at the Entity's premises for the purpose of conducting normal business activities.

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. Subject to Section 14: (i) Entity agrees that KPMG shall not be liable to Entity for any actions, damages, claims, fines, penalties, complaints,

demands, suits, proceedings, liabilities, costs, expenses, or losses (collectively, "Claims") in any way arising out of or relating to the services performed hereunder for an aggregate amount in excess of the lesser of one million dollars (\$1,000,000) or two times the fees paid by Entity to KPMG under the engagement; and (ii) on a multi-phase engagement, KPMG's liability shall be based on the amount actually paid to KPMG for the particular phase that gives rise to the liability.

b. Subject to Section 14, in the event of a Claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Entity will indemnify and hold harmless KPMG from all such Claims, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

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 another language, or the use of our report in connection with information that we reported on that has been translated into another language, or the use of our name in connection with information that we reported on that has been translated into another language;

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



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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

1. TERMS AND CONDITIONS.

a. These Terms and Conditions are an integral part of the accompanying Proposal or Engagement Letter from KPMG that identifies the engagement to which they relate.

b. In the event of conflict between the Proposal or Engagement Letter and these Terms and Conditions, these Terms and Conditions shall prevail unless specific reference to a provision of the Terms and Conditions being varied is made in the Proposal or Engagement Letter. Other capitalized words in these Terms and Conditions shall have the meanings given to them in the Proposal or Engagement Letter.

2. SERVICES.

KPMG will use reasonable efforts to complete the performance of the services within any agreed-upon time-frame. It is understood and agreed that KPMG's services may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and made by, Client. KPMG will not perform management functions or make management decisions for Client. Nothing in these Terms and Conditions or Engagement Letter (or Proposal) shall be construed as precluding or limiting in any way the right of KPMG to provide services of any kind or nature whatsoever to any person or entity as KPMG in its sole discretion deems appropriate.

3. CLIENT RESPONSIBILITIES.

a. Client agrees to cooperate with KPMG in the performance of the services under the Engagement Letter and shall provide or arrange to provide KPMG with timely access to and use of the personnel, facilities, equipment, data and information necessary for KPMG to perform the services under the Engagement Letter. To the extent that KPMG personnel are on Client premises, Client will take all reasonable precautions for the safety of KPMG partners and employees at Client premises. Client shall be responsible for the performance of its employees and agents and for the accuracy and completeness of all data and information provided to KPMG

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.

for purposes of the performance by KPMG of its services hereunder. The Proposal or Engagement Letter may set forth additional responsibilities of Client in connection with the engagement. Client acknowledges that Client's failure to perform these obligations could adversely impact KPMG's ability to perform its services.

b. Client agrees that Client, and not KPMG, shall perform the following functions: (i) make all management decisions and perform all management functions; (ii) designate an individual who possesses suitable skill, knowledge and experience, preferably within senior management, to oversee the performance of the services under the Engagement Letter, and to evaluate the adequacy and results of such services; (iii) accept responsibility for the results of such services; and (iv) establish and maintain internal controls over the processes with which such services are concerned, including, without limitation, monitoring ongoing activities.

c. Client acknowledges and agrees that KPMG will, in performing the services, base its conclusions on the facts and assumptions that Client furnishes and that KPMG may use data, material, and other information furnished by or at the request or direction of Client without any independent investigation or verification and that KPMG shall be entitled to rely upon the accuracy and completeness of such data, material and other information. Inaccuracy or incompleteness of such data, material and other information furnished to KPMG could have a material effect on KPMG's conclusions.

d. Client acknowledges that information made available by it, or by others on Client's behalf, or otherwise known to partners or staff of KPMG who are not engaged in the provision of the services hereunder shall not be deemed to have been made available to the individuals within KPMG who are engaged in the provision of the services hereunder. Client undertakes that, if anything occurs after information is provided by Client to KPMG to render such information untrue, unfair or misleading, Client shall promptly notify KPMG.



4. REPORTING.

a. All oral and written communications by KPMG to Client with respect to the engagement, including, without limitation, drafts and those communications occurring prior to the execution of the Engagement Letter will be subject to the terms and conditions of the Engagement Letter and these Terms and Conditions. During the performance of the services, KPMG may supply oral, draft or interim advice, reports or presentations but in such circumstances KPMG's written advice or final written report shall take precedence. No reliance should be placed by Client on any oral, draft or interim advice, reports or presentations. Where Client wishes to rely on oral advice or oral presentation, Client shall inform KPMG and KPMG will provide documentary confirmation of the advice concerned.

b. Subsequent to the completion of the engagement, KPMG will not update its advice, recommendations or work product for changes or modification to the law and regulations, or to the judicial and administrative interpretations thereof, or for subsequent events or transactions, unless Client separately engages KPMG to do so in writing after such changes or modifications, interpretations, events or transactions occur.

5. WORKING PAPERS AND USE OF REPORTS; USE OF NAME AND LOGO

a. KPMG retains all rights in all methodologies, know-how, knowledge, applications and software developed by KPMG either prior to or during the engagement. KPMG also retains all rights (including, without limitation, copyright) in all reports, written advice and other working papers and materials developed by KPMG during the engagement. Unless contemplated by the Engagement Letter, all reports and written advice are confidential and intended solely for Client's internal use (or the use of Client's management, as applicable) to assist with this specific matter or transaction, and, where applicable, government taxation authorities, and are not for general use, circulation or publication. Such reports and written advice shall not be edited, referred to, circulated, reproduced, distributed, published, made available, used for any other purpose or relied upon by any other person without KPMG's express written permission and on such terms and conditions as KPMG may require in its sole discretion. If such permission is given, Client shall not publish any extract or excerpt of KPMG's written advice or report or refer to KPMG without providing the entire advice or report at the same time. Notwithstanding the foregoing, Client may disclose in whole any report or written advice given to Client by KPMG hereunder solely to Client's legal and professional advisors for the purposes of Client seeking advice in respect of the transaction or matter to which the engagement relates, provided that when doing so Client informs such advisors that: (i) disclosure by them (except as permitted herein) is not permitted without KPMG's prior written consent; and (ii) KPMG accepts no responsibility or liability to such advisors in connection with such reports or written advice. Subject to the restrictions of Section 6, KPMG is entitled to use or develop the knowledge, experience and skills of general application gained through performing the engagement.

b. Client shall not refer to KPMG or use KPMG's name or logo in any manner or medium without the prior written permission of KPMG in each instance, which permission may be unreasonably withheld by KPMG.

c. The contents of this Section 5 may be reproduced in any report or written advice of KPMG, in whole or in part, at KPMG's sole discretion. Any failure of KPMG to include any such language shall not derogate from the obligations set out in this Section 5.

6. CONFIDENTIALITY.

a. Except as described in Section 5 above, Client will treat in confidence any information provided by KPMG to Client, including but not limited to KPMG methodologies, know-how, knowledge, application or software, and will not use or disclose any such confidential information of KPMG to others.

b. Except as expressly set forth herein, KPMG will treat as confidential all proprietary information and personal information obtained from Client in the course of the engagement.

c. The restrictions in subsections 6 (a) and (b) above shall not apply to any information that: (i) is required by law or professional standards applicable to KPMG to be disclosed; (ii) that is in or hereafter enters the public domain; (iii) that is or hereafter becomes known to Client or KPMG, as the case may be, without breach of any confidentiality obligation; or (iv) that is independently developed by KPMG.

d. KPMG shall be entitled to include a description of the services rendered in the course of the engagement in marketing and research

materials and disclose such information to third parties, provided that all such information will be rendered anonymous and not subject to association with Client.

e. KPMG shall be entitled to share all information with all other member firms of KPMG International Cooperative ("KPMG International"). KPMG may also use such information to offer services that may be of interest to Client. KPMG may retain and may disclose to other KPMG International member firms, subject to terms of this Section 6, such information required for compliance with applicable professional standards or internal policies or for quality reviews or to share best practices.

f. Professional standards require KPMG personnel performing any audit or assurance services for clients to discuss or have available to them all information and materials that may affect the audit or assurance engagement. Client authorizes, if Client is or becomes an assurance Client, KPMG personnel performing services under the engagement to make available to the KPMG assurance engagement team and other KPMG personnel, the findings, observations and recommendations from the engagement and agrees that KPMG may use all such findings, observations and recommendations in KPMG's assurance engagement.

g. Except as required by applicable law or regulation, Client shall keep confidential the existence and terms of the Proposal or the Engagement Letter (as applicable) and these Terms and Conditions. Such confidential information shall not be distributed, published or made available to any other person without KPMG's express written permission. Further, for purposes of the services described in the Engagement Letter only, the Client 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 Client solely for presentations or reports to the Client or for internal KPMG presentations and intranet sites.

7. PERSONAL INFORMATION CONSENTS AND NOTICES.

Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at www.kpmg.ca. KPMG may be required to collect, use and disclose personal information about individuals during the course of the engagement. Client represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in Section 8 below) to all individuals whose personal information is disclosed to KPMG.

8. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS.

Personal and/or confidential information collected by KPMG during the course of the engagement may be used, processed and stored outside of Canada by KPMG, KPMG International member firms providing services hereunder, KPMG subsidiaries, affiliates and related parties or third party service providers to provide professional services and administrative, analytical and clerical support and to comply with applicable law, regulations and professional standards. Client also understands and agrees that KPMG aggregates Client's information with information from other sources for the purpose of improving quality and service, and for use in presentations to clients and non-clients, in a form where such information is sufficiently de-identified so as not to be attributable to Client. KPMG represents to Client that each KPMG International member firm; KPMG subsidiary, affiliate and related party and third party service provider providing services hereunder has agreed or shall agree to conditions of confidentiality with respect to Client's information to the same or similar extent as KPMG has agreed pursuant to Section 6. Further, KPMG is responsible to Client for causing such KPMG subsidiaries, affiliates, related parties and third party service providers to comply with such conditions of confidentiality, and KPMG shall be responsible to Client for their failure to comply and failure of each KPMG International member firm providing services hereunder to comply with its obligations of confidentiality owed to KPMG. Any services performed by KPMG subsidiaries, affiliates, related parties and third party service providers shall be performed in accordance with the terms of the Engagement Letter, including Section 6, but KPMG shall remain responsible to Client for the performance of such services and services performed by each KPMG International member firm providing services hereunder. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the



information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. 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.

9. TAXES/BILLING/EXPENSES/FEES.

a. All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. Any such taxes or duties shall be assumed and paid by Client without deduction from the fees and charges hereunder.

b. Bills will be rendered on a regular basis as the engagement progresses. Our professional fees are also subject to a technology and support charge to cover information technology infrastructure costs and administrative support of our client service personnel which are not included in our client service personnel fee. The technology and support fee covers costs such as our client service personnel computer hardware and customized KPMG software, telecommunications equipment, client service professional administrative support, IT programming, professional services and other client support services. Other direct out-of-pocket costs, such as travel, will be charged separately based on our actual costs. For certainty, Client acknowledges that to the extent a subsidiary, affiliate or related party of KPMG is engaged by KPMG to assist KPMG in providing the services hereunder, Client may receive bills from such subsidiary, affiliate or related party of KPMG for such services. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.

c. Without limiting its rights or remedies, KPMG shall have the right to halt or terminate entirely its services until payment is received on past due invoices.

d. In the event that the engagement is terminated and Client proceeds to complete the transaction or financing within 18 months from the termination date, then the full amount of any Completion Fee shall be payable on closing of the transaction or the completion of financing, regardless of whether KPMG provided further service.

10. 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. 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.

11. LIMITATION ON LIABILITY.

a. Client agrees that KPMG shall not be liable to Client for any actions, damages, claims, fines, penalties, complaints, demands, suits, proceedings, liabilities, costs, expenses, or losses (collectively, "Claims") in any way arising out of or relating to the services performed hereunder for an aggregate amount in excess of the fees paid by Client to KPMG under the engagement. On a multi-phase engagement, KPMG's liability shall be based on the amount actually paid to KPMG for the particular phase that gives rise to the liability.

b. In the event of a Claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Client will indemnify and hold harmless KPMG from all such Claims, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

c. 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). In any Claim arising out of the engagement, Client agrees that KPMG's liability will be several and not joint and several. Client 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 11, 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 11 shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

12. LEGAL PROCEEDINGS.

a. Client agrees to notify KPMG promptly of any request received by Client from any court or applicable regulatory authority with respect to the services hereunder, KPMG's confidential information, KPMG's advice or report or any related document.

b. If KPMG is required by law, pursuant to government regulation, subpoena or other legal process to produce documents or personnel as witnesses arising out of the engagement and KPMG is not a party to such proceedings, Client shall reimburse KPMG at standard billing rates for professional time and expenses, including, without limitation, reasonable legal fees, expenses and taxes incurred in responding to such compelled assistance.

c. **If Client requests that KPMG produce documents or personnel as witnesses in any proceedings in any way related to the engagement or services provided by KPMG hereunder and KPMG is not a party to such proceedings, KPMG may agree to produce documents or personnel as witnesses on such terms and conditions as KPMG may, in its sole discretion, determine. Without limiting the generality of the foregoing, Client shall reimburse KPMG at standard billing rates for professional time and expenses, including, without limitation, reasonable legal fees, expenses and taxes, incurred in responding to such Client requests.**

d. **Client acknowledges that KPMG may from time to time receive requests or orders from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to provide them with information and copies of documents in KPMG's files including, without limitation, working papers and other work-product relating to Client, which information and documents may contain confidential information of Client. Except where prohibited by law, KPMG will advise Client of the request or order. Client hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from Client.**

Client must mark any document over which it asserts privilege as "privileged". When such an authority requests access to KPMG's working papers and other work-product relating to Client's affairs, KPMG will, on a reasonable efforts basis, refuse access to any document over which Client has expressly informed KPMG at the time of delivery that the Client asserts privilege (by the Client marking such document as "privileged" as contemplated in the foregoing sentence). Notwithstanding the foregoing, where disclosure of 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 the Client is required for such disclosure, then Client hereby provides its consent.

Where privileged Client documents are disclosed by KPMG as contemplated above, KPMG is directed to advise the authority that Client is permitting disclosure only to the extent required by law and for the limited purpose of the authority's exercise of statutory authority. KPMG is directed to advise the authority that Client does not intend to waive privilege for any other purpose and that Client expects its documents to be held by the authority as privileged and confidential material. For greater certainty, Client and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and Client expressly relies upon the privilege protections afforded under statute and otherwise under law.

13. LIMITATION PERIOD.

No proceeding arising under or relating to the engagement, may be brought by either party more than one year after the cause of action has accrued or in any event not more than five years after completion of the engagement in the case of an advisory services engagement and not more than eight years after completion of the engagement in the case of a tax services engagement, except that a proceeding for non-payment may be brought by



KPMG at any time following the date of the last payment due to KPMG hereunder. For purposes of this Section 13, the term KPMG shall include its subsidiaries and associated and affiliated entities and their respective current and former partners, directors, officers, employees, agents and representatives.

14. TERMINATION.

Unless terminated sooner in accordance with its terms, the engagement shall terminate on the completion of KPMG's services hereunder, which completion shall be evidenced by the delivery by KPMG to Client of the final invoice in respect of the services performed hereunder. Should Client not fulfill its obligations set out herein or in the Engagement Letter and in the absence of rectification by Client within 10 days, KPMG may, upon written notice, terminate its performance and will not be responsible for any loss, cost or expense resulting therefrom. If at any time during the engagement it is determined by KPMG, in its sole discretion, that there may be an actual or potential breach by KPMG of applicable professional standards, KPMG may terminate the engagement, without liability, immediately on notice to Client. The engagement may be terminated by either party at any time by giving written notice to the other party not less than 30 calendar days before the effective date of termination. Upon early termination of the engagement, Client shall be responsible for the payment to KPMG for KPMG's time and expenses incurred up to the termination date, as well as reasonable time and expenses to bring the engagement to a close in a prompt and orderly manner.

15. E-MAIL COMMUNICATION.

Client recognizes and accepts the risks associated with communicating by Internet e-mail, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless Client requests in writing that KPMG does not communicate by Internet e-mail, Client assumes all responsibility or liability in respect of the risk associated with its use.

16. POTENTIAL CONFLICTS OF INTEREST.

a. For purposes of this Section 16, "KPMG" means KPMG LLP and KPMG subsidiaries, affiliates and related parties providing services hereunder, if applicable. KPMG is engaged by a wide variety of entities and individuals, some of whom may be creditors, investors, borrowers, shareholders, competitors, suppliers or customers of Client, or other parties with conflicting legal and business interests to Client, including, without limitation, in relation to the audit, tax or advisory services provided to Client by KPMG. KPMG's engagements with such companies and individuals may result in a conflict with Client's interests.

b. As a condition of KPMG's engagement by Client, Client agrees that: (i) without further notice or disclosure, KPMG may accept or continue engagements on unrelated matters to KPMG's engagement for Client in which KPMG may act contrary to Client's interests even if those unrelated matters are materially and directly adverse to Client; and (ii) without further notice or disclosure, KPMG may provide advice or services to any other person or entity making a competing bid or proposal to that of Client whether or not KPMG is providing advice or services to Client in respect of Client's competing bid or proposal.

c. In accordance with professional standards, and except as set out below, KPMG will not use any confidential information regarding Client 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. In no event shall KPMG be liable to Client or shall Client be entitled to a return of fees and disbursements incurred on behalf of Client or any other compensation whatsoever as a result of KPMG accepting or continuing a conflicting engagement.

d. Client further agrees that KPMG may, in its sole discretion, disclose the fact or general nature of its engagement for Client to (i) KPMG International and other KPMG International member firms in order to check against potential conflicts of interest, 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 Client, in connection with the engagement or any future engagement.

e. Where another party has engaged KPMG to deliver services before Client has done so, and subsequently circumstances change such that there is a conflict, which in KPMG's sole opinion cannot be adequately managed

through the use of confidentiality and other safeguards, KPMG shall be entitled to terminate the engagement for Client, without liability, immediately upon notice.

f. Other KPMG International member firms are engaged by many entities and individuals, including, without limitation, entities and individuals that may enter into transactions or may have disputes with Client or Client's related or affiliated entities. Client 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 Client.

g. Client will indemnify and hold harmless KPMG, its subsidiaries and associated and affiliated entities, and their respective current and former partners, directors, officers, employees, agents and representatives from any Claim by any third party (including, without limitation, reasonable legal fees) that alleges that KPMG was in a conflict of interest by providing services hereunder. The provisions of this subsection 16(g) shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

h. KPMG encourages Client to obtain legal advice with respect to Client's rights in connection with potential future conflicts prior to entering into the engagement.

17. FORCE MAJEURE.

Neither Client nor KPMG shall be liable for any delays resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire or other casualty, act of God, strike or labour dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

18. INDEPENDENT CONTRACTOR.

It is understood and agreed that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, distributor or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

19. SURVIVAL.

Sections 1, 4(b), 5-16, 18-30, 31(a) and (c)-(g), and 33-34 hereof shall survive the expiration or termination of the engagement.

20. SUCCESSORS AND ASSIGNS.

These Terms and Conditions and the accompanying Proposal or Engagement Letter shall be binding upon the parties hereto and their respective subsidiaries and associated and affiliated entities and their respective partners, directors, officers and employees and successors and permitted assigns. Except as provided below, neither party may assign, transfer or delegate any of the rights or obligations hereunder without the prior written consent of the other party. KPMG may assign its rights and obligations hereunder to any affiliate or successor in interest to all or substantially all of the assets or business of the relevant KPMG practice, without the consent of Client. In addition, KPMG may arrange for or engage (as applicable) KPMG affiliates, subsidiaries, related parties, independent contractors and KPMG International member firms to assist KPMG in performing the services hereunder.

21. 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 these provisions shall be held to be invalid, void or unenforceable, then the remainder of these Terms and Conditions and the attached Proposal or Engagement Letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall be valid and enforceable to the fullest extent permitted by law.

22. ENTIRE AGREEMENT.

These Terms and Conditions and the accompanying Proposal or Engagement Letter including, without limitation, Exhibits, constitute the entire agreement between KPMG and Client with respect to the engagement and supersede all other oral and written representation, understandings or agreements relating to the engagement.



23. GOVERNING LAW.

These Terms and Conditions and the accompanying Proposal or Engagement Letter shall be subject to and governed by the laws of the province in which KPMG's principal Canadian office performing the engagement is located (without regard to such province's rules on conflicts of law).

24. PUBLICITY.

Upon the closing of a transaction, KPMG will have the right (but shall not be obliged), at its expense, to publicize its association with the transaction by way of public announcement in "tombstone" or similar format, subject to prior review of the wording for any such announcement with Client.

25. KPMG INTERNATIONAL MEMBER FIRMS.

In the case of multi-firm engagements, all KPMG International member firms performing services hereunder shall be entitled to the benefits of these Terms and Conditions. Client agrees that any Claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or such third party service providers referred to in Section 8 above.

26. SARBANES-OXLEY ACT.

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's assessment of internal control over financial reporting or Client's evaluation of disclosure controls and procedures, or its compliance with its principal officer certification requirements under Section 302 of the *Sarbanes-Oxley Act of 2002* (the "Act"). The engagement shall not be construed to support Client's responsibilities under Section 404 of the Act requiring each annual report filed under Section 13(a) or 15(d) of the *Securities Exchange Act of 1934* to contain an internal control report from management.

27. NATIONAL INSTRUMENT 52-109.

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's evaluation of disclosure controls and procedures and internal control over financial reporting, or its compliance with its CEO/CFO certification requirements under *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, including those related to the design of disclosure controls and procedures and internal control over financial reporting.

28. SPECIFIC ACCOUNTING AND OTHER ADVICE.

Except as set forth in the Engagement Letter, the engagement does not contemplate the provision of specific accounting advice or opinions or the issuance of a written report on the application of accounting standards to specific transactions and facts and circumstances of Client. Such services, if requested, would be provided pursuant to a separate engagement.

Client should consult with and/or engage legal counsel for the purpose of advising on legal aspects of matters on which KPMG provides its advice and drafting any legal documents and/or agreements that may be required. To the extent legal counsel or other professional service providers are required, Client is exclusively responsible for engaging and paying such service providers.

29. TAX SERVICES.

a. If tax work is specifically requested by Client, KPMG will perform the procedures in accordance with this Section 29. KPMG will base its findings exclusively on the facts and assumptions provided to KPMG by Client and Client's personnel and advisors. KPMG will consider the applicable provisions of the relevant taxing statutes, the regulations thereunder, applicable tax treaties and judicial and administrative interpretations thereof. In the case of Canadian tax services only, KPMG will also take into account all specific proposals to amend such statutes, regulations and treaties publicly announced prior to the date of KPMG's reports, based on the assumption that these amendments will be enacted substantially as proposed. For certainty, in the case of US tax services, KPMG shall not take into account any specific proposals to amend such statutes, regulations and treaties. The authorities referred to in this subsection 29(a) are subject to change, retroactively and/or prospectively, and any such changes could

affect the validity of KPMG's findings and may result in incremental taxes, interest or penalties. KPMG's findings will not otherwise take into account or anticipate any changes in law or practice, by way of judicial, governmental or legislative action or interpretation. Unless Client specifically requests otherwise, KPMG will not update tax work to take any such changes into account.

b. KPMG will use professional judgment in providing advice, and will, unless Client instructs otherwise, take the position most favourable to Client whenever reasonable. All returns are subject to examination by tax authorities, and KPMG's advice may be audited and challenged by a tax authority. Client understands that KPMG's conclusions are not binding on tax authorities or the courts and should not be construed as a representation, warranty or guarantee that the tax authorities or courts will agree with KPMG's conclusion.

c. Client is also responsible for ensuring that KPMG's advice is implemented strictly in accordance with KPMG's recommendations. KPMG is not responsible for any penalties or interest assessed against Client as a result of a failure by Client to provide KPMG with accurate and complete information.

d. Unless expressly provided for, KPMG's services do not include representing Client in the event of a challenge by the Canada Revenue Agency or other tax or revenue authorities.

30. TAX SERVICES FOR SEC REGISTERED AUDIT CLIENTS AND/OR US TAX SERVICES

a. In circumstances where the services provided by KPMG hereunder: (i) involve the delivery of any tax services, Client is or is an affiliate of (whether at the time of the engagement or at any point thereafter) an entity that is registered with the United States Securities and Exchange Commission ("SEC"), and Client or such affiliate is audited by KPMG; or (ii) involve the delivery of US tax services, then the prohibition regarding the distribution of KPMG's reports and written advice set out in Section 5 of these Terms and Conditions shall not apply and no provision of the Engagement Letter is or is intended to be construed as a condition of confidentiality in relation to the tax services to which (i) and/or (ii) above are applicable. Further, in respect of the services to which (i) and/or (ii) above are applicable, no provision in the Engagement Letter or these Terms and Conditions is or is intended to be construed as a condition of confidentiality within the meaning of Internal Revenue Code ("IRC") sections 6011, 6111, 6112 or the regulations thereunder, or under any similar or analogous provisions of the laws of a state or other jurisdiction. In particular, Client (and each employee, representative, or other agent of Client) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of any transaction within the scope of the engagement and all materials of any kind (including opinions and other tax analyses) that are provided to Client relating to such tax treatment and tax structure. Client also agrees to use commercially reasonable efforts to inform KPMG of any conditions of confidentiality imposed by third party advisors with respect to any transaction on which KPMG's advice is requested. Such notification must occur prior to KPMG providing any advice with respect to the transaction.

b. For certainty, Section 5 of these Terms and Conditions shall continue to apply in its entirety, and this Section 30 shall not apply, to any tax services to which subsection 30(a)(i) and/or (ii) above are not applicable. In this Section 30, the term "affiliate" is interpreted as that term is used by the SEC with reference to auditor independence rules.

c. In respect of any tax services to which subsection 30(a)(i) or (ii) above are applicable, any reports or advice ("Tax Deliverable") released to Client in any form or medium shall be supplied by KPMG on the basis that it is for Client's benefit and use only. If Client refers to or discloses in whole or in part any Tax Deliverable to any third party, Client shall notify such third party in writing as follows: that (i) the tax services performed by KPMG for Client were designed to meet Client's agreed requirements only, as determined by Client's needs at the time; (ii) any product of the tax services should not be regarded as suitable to be used or relied upon by any party wishing to acquire any rights against KPMG other than Client; (iii) KPMG does not assume any responsibility in respect of the tax services performed for Client, any product of the tax services, or any judgments, conclusions, opinions, findings or recommendations that KPMG may have formed or made, to any party except Client; (iv) to the fullest extent permitted by law, KPMG accepts no liability in respect of any such matters to any other person; and (v) should any person or entity except Client choose to rely on the tax services or any



product thereof, that person or entity will do so at their own risk. Notwithstanding the foregoing, (A) in the event of a disclosure made by Client that is required by law, that is made to a regulatory authority having jurisdiction over Client, or that is made pursuant to subsection 30(a) above, no such notification shall be required and (B) no such notification shall be required with respect to disclosures expressly authorized by the Engagement Letter.

d. If Client refers or discloses in whole or in part any Tax Deliverable to any third party but does not notify such third party in writing as required in subsection 30(c) above, Client shall compensate KPMG and reimburse KPMG for and protect, indemnify and hold harmless KPMG against any Claim incurred by KPMG (including, without limitation, reasonable legal fees) as a result of, arising from or in connection with any such reference or disclosure, unless KPMG has agreed in writing with such third party to accept responsibility and liability to that third party in respect of the tax services and the Tax Deliverable. If any payment is made by Client under this subsection 30(d), Client shall not seek recovery of that payment from KPMG at any time. In this subsection 30(d), "KPMG" shall include KPMG and its subsidiaries, its associated and affiliated entities and their respective current and former partners, directors, officers, employees, agents and representatives, and "Client" shall include Client, Client's affiliates and any other beneficiaries of KPMG's tax services. The foregoing indemnification obligations shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

e. Treasury regulations under IRC section 6011 require taxpayers to disclose to the IRS their participation in reportable transactions and IRC section 6707A imposes strict penalties for noncompliance. Client agrees to use commercially reasonable efforts to inform KPMG if Client is required to disclose any transaction covered by the Engagement Letter as a reportable transaction to the IRS or to any state or other jurisdiction adopting similar or analogous provisions. IRC section 6111 requires a material advisor with respect to a reportable transaction to disclose information on the transaction to the IRS by a prescribed date, and IRC section 6112 requires the material advisor to maintain, and make available to the IRS upon request, a list of persons and other information with respect to the transaction. KPMG will use commercially reasonable efforts to inform Client if KPMG provides Client's identifying information to the IRS under IRC section 6111 or 6112, or to any state or other jurisdiction adopting similar or analogous provisions.

f. For engagements where services will be provided by a KPMG International member firm with offices located in California, Client acknowledges that certain of KPMG's personnel who may be considered "owners" under the California Accountancy Act and implementing regulations (California Business and Professions Code section 5079(a); 16 Cal. Code Regs. sections 51 and 51.1) and who may provide services in connection with the engagement, may not be licensed as certified public accountants under the laws of any of the various states.

31. DUE DILIGENCE SERVICES (TAX AND TRANSACTION SERVICES)

a. The procedures KPMG will perform are limited to those referred to in the Engagement Letter and its appendices. The procedures KPMG will perform are limited in nature and extent to those determined by Client to meet its needs and, as such, will not necessarily disclose all significant matters about Target or reveal errors in the underlying information, instances of fraud, or illegal acts, if any. KPMG provides no assurance and makes no representation regarding the sufficiency of the procedures either for the purpose of the proposed transaction in the context of which KPMG has been engaged or for any other purpose. KPMG's findings will not constitute recommendations to Client as to whether or not Client should proceed with any proposed transactions. In performing the procedures and reporting its findings, KPMG will rely exclusively upon information provided to KPMG by Target, its personnel and advisors, Client's advisors, and Client, and any publicly available information KPMG obtains, and will not independently verify the accuracy or completeness of such information. KPMG's procedures with respect to Target's financial information will be substantially less in scope than any audit or other attestation standards, including without limitation those established by the Auditing and Assurance Standards Board and the Chartered Professional Accountants of Canada. Consequently, KPMG expresses no opinion and will provide no other form of assurance on Target's prospective financial information, financial statements or Target's internal control over financial reporting.

b. Client agrees to review reports promptly and to advise KPMG on a timely basis of any additional procedures Client would like KPMG to perform or areas to address.

c. In the event KPMG performs procedures related to future-oriented financial information, KPMG will not compile, examine, or apply other assurance procedures to such information and, accordingly, will express no opinion or any other form of assurance or representations concerning its accuracy, completeness or presentation format. Future-oriented financial information is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

d. Unless specifically requested by Client, KPMG is not obligated to provide a copy of the report to Target for the purpose of confirming Target's representations concerning the accuracy of the factual information presented in the report. If Client would like Target to review the report, KPMG will require Client and Target to indemnify KPMG for any Claims arising out of or relating to such review on such terms and conditions specified by KPMG in its sole discretion. In certain instances, Client may request that KPMG's report be distributed to a third party for informational purposes. KPMG will consider consenting to distribution based on such factors as the identity of the third party and the third party's intended use of the report. If KPMG agrees to the distribution of the report to a third party, Client agrees to execute and agrees to require the third party to execute an agreement in the form provided by KPMG regarding the release of information.

e. Client expressly acknowledges and agrees that if Client and Target (as such terms are defined in the Engagement Letter) are the same entity, that all references herein to "Target" shall be deemed to be references to "Client".

f. The provisions of subsections 3(c)-(d) and Section 6 shall apply to information about Target provided to KPMG in the course of performing the services under the Engagement Letter. Client agrees to use all reasonable efforts to arrange for KPMG's access to Target's personnel and advisors, business offices and financial information as required for KPMG to perform the services contemplated by the Engagement Letter.

g. If KPMG serves as independent auditors of Target or another party disclosed to Client, or provides any other audit or attestation services to Target or such other party (such as the target of a contract compliance review or a party having a connection to an investigation or proceeding), Client hereby acknowledges and agrees that KPMG may be in possession of confidential information concerning Target or such other party that may be relevant to Client's due diligence procedures or other services KPMG is providing to Client under the Engagement Letter and that such information will not be disclosed to Client unless Target or such other party provides prior written consent to such disclosure or provides such information directly to Client or to the KPMG engagement team serving Client for purposes of the services under the Engagement Letter.

32. LOBBYING

Unless expressly stated in the 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 Client agree that KPMG will undertake lobbying activity in connection with the engagement, such agreement shall be set out in an amendment to the Engagement Letter.

33. LLP.

KPMG LLP 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. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the relevant professional bodies. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.



34. ALTERNATIVE DISPUTE RESOLUTION.

The parties shall, and shall cause both their and their respective subsidiaries', affiliates' and associated entities' current and former officers, partners, directors, employees, agents and representatives, to first attempt to settle any dispute arising out of or relating to the Engagement Letter or the services provided hereunder (the "Dispute") through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the Dispute. In the event that the parties are unable to settle or resolve a Dispute through negotiation within 30 days of when one of the parties has notified the other party of the Dispute by delivering a notice of dispute, or such longer period as the parties may mutually agree upon, such Dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. that are in force at the time the notice of dispute is delivered. Any Dispute remaining unresolved for more than 60 days following the parties first meeting with a mediator or such

longer period as the parties may mutually agree upon shall, as promptly as is reasonably practicable, be resolved by arbitration pursuant to the Arbitration Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules") that are in force at the time the Dispute is subject to arbitration. For certainty, the parties hereby waive any right they may otherwise have to bring a court action in connection with a Dispute. The parties also waive any right they may otherwise have to bring or participate in a class, collective or representative proceeding in connection with a Dispute, whether in court or before an arbitrator. The arbitrator's decision shall be final, conclusive and binding upon the parties, and the parties shall have no right to appeal or seek judicial review of the arbitrator's decision. For certainty, the parties hereby waive any right of appeal which may otherwise be available under applicable legislation or under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located. The language of the mediation and arbitration shall be English.

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

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

Transparency report

‘Perform quality engagements’ 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.



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 controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.

Doing the right thing. Always.

Appendix 3: Current Developments

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The 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. – As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> • Consider how the additional liability will impact net assets, 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; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues 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 revenues arise 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.

Appendix 3: Current Developments (continued)

Standard	Summary and implications
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> 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, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, <i>Employee Benefits</i> in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations 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.
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> – PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023 and may be applied retroactively or prospectively. – 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 P3 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.

Appendix 4: Audit and Assurance Insights

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

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>Accelerate</u>	The key issues driving the audit committee agenda in the time of COVID-19
<u>Board Leadership Centre</u>	Supporting you in your Director role
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>KPMG Global IFRS Institute</u>	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
<u>KPMG Climate Change Financial Reporting Resource Centre</u>	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
<u>20 predictions - KPMG Canada (home.kpmg)</u>	20 predictions of how society, technology, markets and regulation could evolve in the next 20 years. The world around us is being transformed by technology. If so much can change in such a short time, what do the next 20 years have in store?
<u>The ESG journey: Lessons from the boardroom and C-suite</u>	To build on our work in ESG, strategy and the long view, the Board Leadership Center interviewed directors and officers of major corporations, including Morgan Stanley, Tyson Foods, Ford Motor, Microsoft, Mars, and Whirlpool, among others.
<u>ESG, strategy, and the long view</u>	To help boards understand and shape the total impact of the company's strategy and operations externally—on the environment, the company's consumers and employees, the communities in which it operates, and other stakeholders—and internally, on the company's performance, this paper presents a five-part framework.
<u>Inclusion and diversity practices</u>	Getting started on the inclusion and diversity journey. Unique inclusion and diversity considerations for boards.

Appendix 5: Accelerate

Accelerate

Navigating the changing risk landscape

The key issues driving the audit committee agenda in 2022

By Kristy Carscallen

Organizations globally are still grappling with the unique impacts caused by the pandemic. The past year has served up a host of new challenges—from supply chain disruptions to the effects of climate change to the Great Resignation—and 2022 will bring more disruption and continued uncertainty. Audit committees and their boardroom peers are seeing new risks appear on their radar—ones they can expect to become a part of the new normal.

The only certainty these days is uncertainty. What new risks should you be aware of? How could these new risks impact your organization? And where might you need additional oversight? In this year's Accelerate 2022 insights series, we examine some of the most pressing issues for audit committees, led by KPMG subject matter experts across our practice.

The role of the audit committee is rapidly evolving

The rise in ransomware, phishing and insider threats isn't new, but continues to create risk for organizations—so too does digital transformation, diversification of supply chains and increasingly complex IT environments. Along with supporting the

digital transformation of the organization for remote and hybrid work, the finance function is also automating its processes. And timelines are much shorter in a virtual world, requiring much more agility.

Organizations also face new and sustained risks related to environmental, social and governance (ESG) issues. Audit committees and board members need to understand both the direct and indirect impact of these risks on the business and how to assess that impact on their financial statements, including



As audit committees take on more oversight responsibilities, it's more important than ever that they ask the right questions and bring the right experience.

Kristy Carscallen

Canadian Managing Partner
Audit and Assurance
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valuations. With growing consensus around climate reporting requirements and efforts to standardize the definition of net zero, audit committees need to ensure they're moving toward these emerging standards and integrating them into their risk management frameworks.

Talent development and succession planning is creating new risks for organizations. While traditionally this wasn't on the radar of audit committees, it's now essential to consider the impact of the talent shortage, including the loss of specialized expertise, the need to upskill employees and the impact of extensive turnover on audit cycles and financial reporting requirements.

What should audit committees be asking?

In Accelerate 2022, we examine these pressing issues—the risks, the challenges and the opportunities—and spotlight the questions all audit committees should be asking. These insights will help you better understand the evolving risk landscape and ensure you're better prepared to lead your organizations through the change to come.

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Understanding climate-related physical risks

Investors and regulators are driving companies to manage and report the impact of both physical and transition climate risk to their organizations

By Katie Dunphy

The pandemic has played a starring role in the disruptions we're seeing across worldwide supply chains but it may pale in comparison to the chaos climate change will cause.

Take, for example, the microchip shortage that's impacting everything from automobiles to consumer electronics. Ideally, chip manufacturers would expand their capacity to meet pent-up demand, but more than half of the world's microchips are manufactured in Taiwan using a process that requires large amounts of fresh water—and Taiwan is experiencing one of its worst droughts in history. Taiwan's largest chip manufacturer says it uses 156,000 tons of water per day to produce its chips, the equivalent of about 60 Olympic-size swimming pools.¹

Taiwanese chip manufacturers are hesitant to take on the risk of building more production lines because they might not be able to use them due to a lack of water. So, climate change, which is contributing to increases in the frequency and severity of droughts in some parts of the world, including Taiwan, is exacerbating and prolonging the global microchip shortage and impacting businesses across sectors.

Climate risk is complex

This situation highlights the complexity of risk companies face from climate change, which poses both transition and physical risks. Transition risk arises in consideration of the transition to a low-carbon economy, including reducing a business' reliance on carbon. Physical risks, exacerbated by global mean temperature rise, may result in both direct and indirect impacts on facilities, suppliers, employees, customers, or other parts of the value chain.



Audit committees will need to ensure a company's enterprise risk framework considers the full spectrum of climate risks, both physical and transition, on the company and its broader value chain.



Katie Dunphy

Executive Director
ESG Advisory Leader
KPMG in Canada

¹ Cheung, Eric, June 10, 2021 *The chipmaking factory of the world is battling Covid and the climate crisis*, CNN Business

Transition risk has historically been a focal point in considering the impacts of climate change. However, due to the acceleration of the climate crisis and intensification of extreme weather events exacerbated by the Earth's continued warming trajectory, further consideration of a broad range of physical risks and related disclosures is required.

One of the difficulties for companies attempting to identify physical risk is that these risks come in different forms and could affect different parts of the value chain. Drought is an example of a chronic physical risk. These risks are longer-term and pervasive. Acute physical risks from climate change are shorter-duration events, such as storm surges and floods. The traditional view of climate risk would focus on the direct impacts of acute and chronic factors, however, there are equally important indirect considerations of climate change that companies are now focusing on. These include upstream disruption of critical inputs (e.g. agricultural products due to drought conditions) to downstream disruption which could impact logistics providers, access to markets or consumer behaviour.

Indirect physical risks from climate change can be significant, and most organizations are still early in the journey of fully understanding the implications.

What should audit committees be asking?

What measures are in place to enhance management's ability to foresee and respond to emerging risks from physical climate change?

How is management building resilience to physical climate change risks into their operations?

How is physical climate change risk information being collected and what controls are in place to ensure its quality and consistency?

What does good physical climate risk disclosure look like?

Physical risk is often undermanaged and underreported

Companies need to incorporate the consideration of physical risks across the enterprise risk framework and audit committees will need to ask questions about how this is being done. That means asking management how they're identifying and quantifying these risks, how they're mitigating them and in what ways they're directing capital and operational expenditures toward enhancing resilience.

Company disclosures related to climate change and the related financial risks and opportunities are increasingly gaining traction in corporate disclosures. The investment community is looking for better and more qualitative and quantitative information about organizations' exposure to physical climate change risks, how resilient their strategies are and what adaptation measures they're taking to ensure they can succeed and deliver on their strategy.

Investors are asking questions

In 2018, the Investor Leadership Network (ILN) was launched at that year's G7 meeting. It's a CEO-led group composed of 14 global institutional investors representative of all continents and asset classes, with more than \$9 trillion² in assets under management. ILN provides resources to help investors incorporate direct and indirect physical risks into their investment decisions and identify more climate-resilient assets. These resources can help audit committees and management better understand the financial implications of these physical climate risks on their organizations, including their access to capital.



Interview with Amy Hepburn, CEO of the Investor Leadership Network for KPMG's Voices for a Sustainable Future.

Regulators are taking note

Regulators, too, are turning their attention to the reporting of climate risks. In 2015, the Financial Stability Board (FSB) established the Task Force on

Climate-related Financial Disclosures (TCFD) to address the lack of reporting and to help avoid another financial crisis—this time caused by climate change. The TCFD created recommendations covering governance, risk, strategy and metrics, and recommended that organizations use these recommendations to create TCFD-aligned reporting, covering both transition and physical risks.

There has been a tremendous amount of support for the TCFD. Many jurisdictions, including the EU, UK and Japan, are moving toward mandatory TCFD-aligned disclosures and the SEC is expected to announce climate disclosure rules this year. On October 18, 2021, the Canadian Securities Administrators launched a consultation period on proposed climate disclosure requirements which largely align with the TCFD recommendations and are anticipated to come into effect in 2023. In parallel, investor support of climate-related financial disclosures is clear, with a number of major Canadian pension funds having endorsed TCFD aligned reporting. Further, the newly launched International Sustainability Standards Board is expected to initially focus on TCFD-based climate standards. With such strong support from regulators and investors, audit committees will want to be sure that management is getting ready for the changes ahead as such reporting moves from voluntary to mandatory.

The data and information challenge

Preparers of reports will require data and information (both qualitative and quantitative) on physical climate change risks. Companies will need to buy data or build internal systems to collect this information. Internal controls will need to be put in place to ensure the

² <https://investorleadershipnetwork.org/en/about/>

veracity and consistency of the information and, to capture indirect risks, the scope of information required can extend beyond operational boundaries across the entire value chain. Audit committees will want to ask management about how this information is being collected and what internal controls are being put in place to ensure its quality.

It's important not to lose sight of the fact that, despite the resources that will be needed to produce these disclosures, they will have value to companies beyond reporting. As one example, an assessment

of a company's supply chain might not only lead to usable information for disclosure but could also lead to diversifying suppliers according to physical climate risks and protect the company from costly shocks and disruption.

Physical climate risk is an important and growing risk to companies. Beyond the pressure for better reporting being exerted by stakeholders, companies looking to ensure resiliency in the face of these changes will need to incorporate consideration of physical risk across business operations.

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Building a climate-conscious organization: risk, reporting and net zero

How organizations can work toward standardized climate disclosures and net zero frameworks to manage risk

By Andrew Ross

As the global push toward decarbonization accelerates and the impacts of climate change are realized, stakeholders are demanding that organizations provide better climate-related disclosures. With ESG and climate change regulations on the horizon, audit committees should ensure their organizations are prepared for mandatory reporting, and are integrating climate risk into their operations, controls and governance.

Adopting a climate disclosure framework

Organizations looking for practical guidance on climate disclosures should consider the recommendations set out by The Task Force on Climate-Related Financial Disclosures (TCFD). It's voluntary, but regulators in jurisdictions including Canada, European Union, United States, and United Kingdom have made commitments to start mandating climate-related disclosures in alignment with TCFD, some as soon as 2022.

For additional guidance on adopting the TCFD framework, organizations can refer to the Carbon Disclosure Project (CDP), a not-for-profit charity that runs a global environmental disclosure system to help organizations measure and manage their risks and

opportunities on climate change, water security and deforestation. TCFD and CDP are very much aligned in overall objectives, but the CDP takes a more detailed look at the oversight, responsibilities and incentives that should be in place within an organization's governance structure for managing climate-related risk. Audit committees should look to the CDP as a blueprint for the questions they need to be asking management, as investors are increasingly asking the same questions.



Net zero commitments are often vague. Organizations must have a strategy in place to define, measure, track and meet the corresponding emission reduction targets.



Andrew Ross

Senior Manager
Sustainability & Climate Change
KPMG in Canada

The TCFD recommendations are also being formally incorporated in emerging reporting standards and regulatory proposals. At the recent COP26 conference in Glasgow, the IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB), a body tasked with developing sustainability disclosure standards that are focused on enterprise value. A prototype climate disclosure standard was released at the same time, which incorporates the four TCFD disclosure pillars of governance, strategy, risk management and metrics and targets. In October 2021, the Canadian Securities Administrators released their proposed mandatory climate disclosures for Canadian reporting issuers, which represent a slightly scaled-back version of the TCFD recommendations.

Audit committees will need to carefully monitor these developments as climate disclosures move from the realm of voluntary to mandatory, and more formal disclosure controls and procedures quickly become necessary.

Committing to net zero

Organizations are not just reporting on climate risks, they're taking steps to combat climate change—and many are making ambitious commitments to become net zero. But net zero can be a loosely defined term. Any organization making this commitment must clearly define how they are going to set and achieve their net zero targets.

Until recently, there was no global standard available for doing this but in October 2021, [The Science](#)

Questions audit committees should be asking:

What has the organization communicated externally in terms of its net zero commitment, and have credible interim and long-term targets been established?

How is the organization working to adopt the TCFD recommendations and determine if they're on track to meet upcoming TCFD-based disclosure regulations?

How is climate risk being incorporated into the ERM framework and are mitigation plans being established?

Does management have a plan for undertaking a climate scenario analysis exercise, and do the assumptions make sense, is credible external data being sourced and are the findings robust?

Based Targets initiative (SBTi) released the world's first framework for corporate net-zero target setting in line with the Paris Agreement goals. SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF), and is already working with more than 2,000 businesses around the world.¹ It helps organizations develop a clearly defined path to dramatically reduce emissions, provides technical assistance and expert resources, and assesses and validates the companies' 'below 2 degree' or '1.5 degree (net zero)' targets.

¹ Companies taking action - [Science Based Targets](#)

Audit committees will need to understand what net zero commitments the organization has made and ensure that management has a robust plan and the resources needed to define, measure, track and report progress against those commitments (including setting credible interim targets).

Bringing climate into ERM

Moving to net zero as part of a future low-carbon economy creates transition risk for an organization and this, along with physical climate risk, needs to be incorporated into its enterprise risk management (ERM) framework. Traditionally, environmental risk has been seen as compliance risk with respect to environmental regulations. Climate risk needs to be treated as a more pervasive category within the risk register, with risk identification and assessment done in alignment with the TCFD framework.

To help with this, the TCFD has provided guidance on utilizing a climate scenario analysis approach to evaluate climate risk and quantify the potential financial impacts. It's essentially a stress testing exercise that looks at different future warming scenarios and different transition pathways,

modelling how the economy will change in very low-carbon or very emissions-intense scenarios. Organizations are expected to use this approach to assess the resilience of their strategy across alternative scenarios, but unfortunately, most organizations don't have the teams or models required to undertake this potentially complex exercise—and there's no standardized way to then incorporate the scenario analysis results into strategic planning.

Many organizations will initially engage external advisors who, in addition to helping establish scenario sets, models and data sources, can also educate the risk management and finance functions on how to interpret the results and report to the Board and external stakeholders.

For organizations that have until now faced a myriad of ESG reporting frameworks, the move to standardized reporting under the ISSB and securities regulation marks a critical milestone starting with globally consistent climate disclosures. To prepare, audit committees should ensure that internal controls over models, data sources, analysis of results and adherence to standards are robust. And ultimately, third-party assurance over these disclosures may become the norm.

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Taking ERM to the next level

By elevating the ERM function, audit committees can help organizations better manage risk and improve resiliency

By *Edouard Bertin-Mourot*

As companies navigate the next normal and grapple with the lingering effects of the pandemic, Enterprise Risk Management (ERM) has risen to the top of the audit committee agenda. ERM is essential in helping organizations better understand and proactively integrate risk and opportunity considerations into everything they do. But to do this successfully, organizations need to rethink the mandate and attributes of the ERM function—and this is where audit committees have a critical role to play.

Catalysts for change

The pandemic did not impact all organizations and industries equally. Some industries had to transform their business models or perform a hard reset because of permanent or long-lasting market changes. Other industries have benefitted from new customer behaviours and have seen exponential growth. Risk and uncertainty are simply a part of doing business. COVID-19 accelerated emerging trends while creating new ones and will likely be remembered as one of the most significant catalysts of business change in modern times. Organizations are not necessarily facing new risks; rather, multiple risks are operating in tandem and many organizations are inadequately prepared.

For audit committees, some of the common systemic risks that should be on the 2022 agenda include:

People, mental health, and well-being: The single greatest threat organizations face in managing their workforce is attracting and retaining talent. Across industries, attrition levels are reported at an all-time high as employees quit en masse for reasons ranging from burnout and ‘pandemic epiphanies’ to a desire to continue working remotely. The acceleration of a ‘digital workforce’ has also created increased employee isolation and an ‘always on’ culture. Organizations will need to develop new strategies to support employees’ mental health and nurture a strong corporate culture within virtual and hybrid environments.



The ERM function cannot take on a simple ‘middle or back office’ role. It has to be repositioned and empowered to make a difference and help the organization become collectively ‘more risk confident’



Edouard Bertin-Mourot

Partner, Risk Consulting
KPMG in Canada

Environmental, Social and Governance (ESG):

Sustainability is rapidly becoming more than just a reporting requirement. Understanding and integrating ESG into an organization's internal processes, protocols and governance is key to mitigating reputational and operational risks. ESG must be embedded in the organization's DNA.

Supply chain: Global supply chain disruptions are affecting the economy with ripple effects across industries. Relying on a single supplier can leave your organization vulnerable. Next generation supply chains will need to evolve and organizations will need to make their networks more resilient to future disruptions.

Disruption: Disruptive technologies—such as artificial intelligence, cryptocurrency, metaverse and other digital innovations—are the new norm and organizations that don't adapt or evolve could fail.

Cyber and Data Privacy: Data privacy and cybersecurity concerns are at an all-time high. Although some employees are gradually returning to the office, many will likely continue to work from home or in a hybrid work arrangement. Audit committees should ensure that management has plugged any gaps in data security, especially for hybrid/remote work procedures.

The rise of the ERM function

In this environment, organizations can't afford to solely react and improvise. Risk management is an essential component of any organization's ecosystem. An organization's ERM program should consist of interrelated components that work together to ensure proper management practices and oversight, including:

Governance: An effective ERM function can help an organization to better manage risk – from helping to

What should audit committees be asking?

| What is the ERM mandate and how does it support our strategic objectives?

| How is the ERM function empowered by the audit committee to drive the risk agenda?

| How coordinated is our organization in managing various risk classes?

| How does risk management help inform decision-making?

ensure risk policies and procedures are adequate and in place across all major risk classes to harmonizing threat and risk assessment methodologies and practices. Risk appetite statements and metrics should be reviewed often, to shift away from an 'academic exercise' to truly informing strategy-setting and performance.

Independent review and challenge: The ERM function provides further confidence that risks are being adequately managed across the organization. It should be proactively integrated into business activities, rather than engaged downstream or after decisions are made. This can be achieved by partnering with the business or providing objective challenges on risk assessments performed by the business. Some common integration opportunities include strategic planning, change management and vendor risk management; while others are more industry-specific like model validation, investment risk management or new product approvals.

Advisory: The ERM function plays a true ‘risk advisory’ role by sharing expertise on the risk-return optimization discussions, providing a risk-based framework to support decision-making, evaluating the resilience of the organization to extreme stress events, and providing stakeholders with additional risk insights such as transversal risk analysis and risk and control good practices. When fully leveraged, ERM can deliver substantial value as organizations deliver on their objectives.

Setting up ERM for success

Risks don’t operate in isolation. Rather, they are part of a highly interconnected network. That means they should be managed collectively with greater convergence between various risk-related programs such as ERM, ESG or vendor risk management. Integration and convergence help to reduce silos and potential misalignments between existing programs. This can be

done by regrouping some of these functions—such as ERM and ESG under a Chief Risk Officer—or better bridging these separate functions.

As organizations grow and mature, the challenge is to find an equilibrium between the three Lines of Defense (LOD). The frontlines may perceive these activities as constrictive or burdensome—a sentiment that may be further magnified if requests and processes between the second and third LOD are viewed as redundant or duplicative. As such, organizations should look at new ways for the second and third LOD to collectively plan, rationalize and streamline efforts based on materiality and minimize overlap.

To be successful, the ERM function should have a clear and approved mandate and be empowered to drive the risk agenda; it’s not another ‘middle/back office’ activity but rather a function that is increasingly expected to add value and provide insights for its stakeholders, including the audit committee.

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Cyber-related risk a top concern for audit committees

Automation and AI can help tackle growing cyber threats and talent shortage

By Hartaj Nijjar

Cybersecurity is among the most complex and rapidly evolving issues facing organizations. New [research from KPMG](#) finds that only 38 percent of Canadian companies feel cybersecurity is “deeply embedded” into all aspects of their governance and management processes. As cyber threats grow more sophisticated, so does the audit committee’s responsibility for cybersecurity risk oversight. It’s critical that audit committees have a fundamental understanding of the organizational risks and vulnerabilities associated with a remote workforce, adoption of cloud services, and accelerated digital transformation.

The rise of insider threats

Phishing continues to evolve and create new risks for organizations. Cyber attackers are starting to use new tactics, such as bribing employees, to gain access to a corporate network. While the threat of insider attacks is nothing new, there is growing concern about disgruntled employees who refuse to abide by mandated workplace vaccine policies and may be susceptible to bribes from cyber attackers.

We’ve seen a spike in phishing and ransomware attacks since the start of the pandemic when

employees started working from home en masse. But cyber attackers aren’t just targeting financial institutions and multinational companies; they’re also going after hospitals, universities, government agencies and critical infrastructure. The recent Colonial Pipeline ransomware attack that took down the largest fuel pipeline in the U.S. was the result of a single compromised password.¹

Audit committees need to ensure controls are in place to identify potential insider threats, detect malicious activity—including an employee who



The audit committee plays a strategic oversight role of risk management activities and monitoring procedures related to cybersecurity. A growing remote workforce, adoption of cloud services, and accelerated digital transformation have made their role even more critical.

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¹Turton, William; Mehorotra, Kartikay, June 4, 2021, *Hackers Breached Colonial Pipeline Using Compromised Password*, Bloomberg

provides network access to an unauthorized external party—and respond to a breach. That’s why identity management is becoming a critical component of any cybersecurity strategy. A Zero Trust framework, for example, is an approach that eliminates ‘trust’ and requires all users to be authenticated, authorized and validated before gaining access (and maintaining that access) to data and applications.

Managing risk in the cloud

At the same time, many organizations have accelerated their digitalization plans during the pandemic, such as moving key services to the cloud. But in many cases, they’re trying to migrate to the cloud as quickly as possible or centralize their cloud services, without enough consideration of cloud security. While cloud providers do offer a base level of security, it’s up to tenants to secure their data, applications and user access (and, depending on the type of cloud, their virtual network traffic). Many organizations rely too much on the cloud provider, without recognizing they share responsibility for security.

Some organizations are moving their ‘crown jewels’ to the cloud while others are taking a more measured approach; it depends on their appetite for risk. Audit committees need to ensure controls are in place to manage which data and applications can be migrated to the cloud (and by whom) and to secure data and applications once in the cloud. But there’s no definitive guide or framework on how to do this—and those that do exist are open to interpretation—which poses another challenge for audit committees.

What should audit committees be asking?

- Have we identified which threats are most relevant to our organization and our industry?
- How are we evaluating and monitoring those risks?
- How are we staying on top of evolving risks, such as employee bribery?
- What are we doing to prioritize our remediation around the key areas of risk?
- What are we doing about cyber talent and securing our fair share?
- Are there any areas where we can use automation to simplify controls?

Addressing the lack of cyber talent

Another risk that audit committees need to consider is the severe shortage of cyber talent in the market. Every organization, in every industry, is competing for the same talent, making it difficult to recruit and retain the very people who know how to keep threats at bay and execute a cybersecurity incidence response plan.

Artificial intelligence (AI) and automation solutions can help fill the talent void and build a more resilient organization, as can working with third-party security providers. And while automation may not replace employees it can allow them to focus more on the issues that require significant attention.

Building a strong foundation for security

Organizations can't protect everything—and they can't necessarily prevent all breaches—so they need to take a risk-based approach to cybersecurity. That means understanding what's most important to the organization, where sensitive data resides and who has access to that data. Organizations also need to get better at detecting suspicious activity and fraudulent behavior. More mature organizations are investing in fusing cyber together with other data sources to provide a next-gen approach centered around threat intelligence, advanced analytics and state-of-the-art technology like AI to detect, investigate and mitigate threats through a single, integrated platform.

But first, they need a strong foundation for cybersecurity. [According to KPMG](#), only 39 percent of companies are "very confident" in their ability to detect and respond to an attack. Audit committees need to ensure that foundation is in place and then identify any gaps (such as an inability to find cyber talent or to recognize potential insider threats). To become a truly resilient organization, they need to focus on response, not just prevention. That means ensuring they have a strategy to respond and recover when—not if—a security breach occurs.

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Digital transformation in the finance function

How audit committees can prepare for an unprecedented period of digital transformation

By Chris J. Moore

In response to COVID-19, many organizations rapidly increased the pace of their digital transformation journey as employees shifted to remote work and customers moved online. The finance function, too, has had to digitize and automate its processes and, at the same time, support the digital transformation of the organization by monitoring changes in the business model and adapting processes and procedures to ensure adequate controls and governance remain in place.

Automating the finance function

The digital transformation of the finance function involved automating most business processes through a move to cloud-first enterprise resource planning (ERP) for such functions as accounting, HR and supply chain operations and cloud-first enterprise performance management (EPM) for budgeting, forecasting and financial management. Now, finance needs to streamline this automation and ensure it's working as intended.

Organizations adopting a virtual work model will need to automate all processes, including document signing and collaboration. Some organizations have automated 80% to 90% of their processes but may still need

someone to go into the office to print cheques or sign certain documents. Audit committees will want to ask management what their plan is to fully automate and support a virtual workforce model and what measures they have in place to ensure they're maintaining proper security and controls in this virtual environment.

Assessing digital bets

Companies are making large digital bets as they move to virtual work and an online customer experience, and finance must evaluate whether these bets are creating or destroying value for the organization.



The whole organization, including the finance function, needs to think in terms of the end-to-end customer experience and projects need to be evaluated through a customer experience lens in addition to a financial performance lens.

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In the past, companies would assess a capital project each year to determine whether it was a success. Now organizations need to take a much more agile approach with much shorter timelines.

It's no longer advisable to wait for an annual or even quarterly review. Instead, companies are adopting a dynamic funding model where they determine in a short period of time whether a project isn't working so they can course correct and reallocate capital to other key initiatives. Audit committees will need to question management about this capital allocation process to ensure the right digital investments are being made to achieve the organization's objectives.

The customer comes first

The metrics used to evaluate projects are also changing. Much of the digital transformation that has taken place is aimed at improving the customer experience so the entire organization, including the finance function, needs to think in terms of the end-to-end customer experience. Today, projects need to be evaluated through a customer experience lens in addition to a financial performance lens. This requires finance to monitor customer behaviors through new, non-structured data sources such as social media.

New data sources are not the only changes to reporting and forecasting. Companies are now using continuous reporting and forecasting instead of the annual budget process, which often can take several weeks or months to complete. And while

What should audit committees be asking?

What controls are in place to ensure our data is adequately secured, stored and analyzed?

Do we have the right systems and people in place to interpret the data and provide insights?

Are we leveraging these insights to better understand the business, identify risks and issues?

Does our digital transformation strategy deliver shareholder value?

Are we using technology to aid risk assessment and identify anomalies and trends?

financial reporting and planning have traditionally been focused internally, companies are seeing significant improvements in accuracy by incorporating data on external drivers such as weather and consumer behavior. Finance will need to determine what additional services and solutions they'll need to provide to support the organization's data analytics and continuous planning and forecasting.

It's all about the data

One of the fundamental changes to the finance function will be the key role it plays in the data ecosystem of the firm. Finance, having experience

with processes and controls around data, will be responsible for making sure the organization has the data and the insights needed to ensure the business is performing, going in the right direction and executing on strategy.

Structured data coming from ERP and EPM solutions will typically feed external statutory reporting, financial results and management reporting but it will be merged with external and unstructured data to inform management decisions. Here, robotic process automation and artificial intelligence are being used to help automate processes, manage unstructured data and merge it with structured data. Finance needs to ensure that the data is reliable and that people have confidence in it. If data quality is a challenge, then managing and evaluating business strategy and investments will also be a challenge.

With so much data in different forms, it's not possible to ensure that it's all verified, validated and 100 per cent accurate. Organizations should focus data verification and control on the data most critical to decision-making.

The audit committee will want to make sure that the finance function is effectively using technologies like data analytics, RPA and AI to provide deeper insights and improve audit quality.

The rise of the data scientist

Tackling these new approaches in the finance function will require new technologies and new skills from employees. While technical accounting skills will still be important, there will be growing demand for data science professionals. Audit committees need to understand how finance is approaching talent attraction and retention because being unable to recruit for the needed technical and data skills presents a risk to the proper execution of the finance function.

Organizations have undergone a great deal of change because of COVID-19 and the finance function has had to substantially alter how it operates to adapt to these changes. The most successful finance departments will remain agile and foster continued digital transformation both within their operations and across the organization.

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The Great Resignation is impacting the finance function

Audit committees play a key role in the oversight of talent attraction and retention

By Stavros Demetriou

At the start of the pandemic, lockdowns and uncertainty about the future drove a wave of layoffs and furloughs, as well as a global shift to remote work. Performing walkthroughs, obtaining audit documentation and meeting with auditors all needed to take place virtually. Internal audit leaders were faced with how to adequately adjust and complete their audit plans and manage their audit teams remotely.

Now, in the new normal, we're experiencing the Great Resignation, with employees quitting en masse as burnout, workload, poor culture, and lack of flexibility, coupled with the challenges of the pandemic have made people rethink where they want to work. Employees may also feel less motivated to come back to work, creating a new talent environment where turnover is an increasing risk to completing audit plans and providing adequate risk coverage.

This has also resulted in a loss of specialized expertise, which is hard to find and expensive to acquire and retain. Extensive turnover can impact audit cycles and financial reporting requirements. It can also create distractions and the risk that audit quality and conformance with professional standards could suffer.

At the same time, we're seeing many more opportunities in the job market. Remote work has opened up the talent pool beyond a specific geographic area. According to the KPMG Global CEO Outlook survey, 42% of CEOs are looking to hire talent that works predominantly remotely, seizing the opportunity to expand their reach into a wider pool of talent. And 32% of Canadian CEOs are prioritizing investment in workforce skills and capabilities.

The Great Resignation, a shortage of talent and the need to upskill and reskill workers for the future of work mean that talent development, retention,



From an audit committee perspective, it's important to put talent retention on the agenda as a potential risk factor. The audit committee should be actively engaged in hiring and succession planning, particularly for the internal audit function.

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engagement and succession planning have become major organizational risks that audit committees need to consider.

The Great Resignation becomes the Great Retention

The pandemic has changed how we work, how work gets delivered and where it gets delivered from. Some employees are burned out from long hours working in isolation at home, without timely or meaningful recognition and reward. They may have few interactions with their team leader or team members and may feel disconnected, disenfranchised, and demotivated.

At the same time, many organizations are also making plans to bring employees back to the office—but some employees can't envision going back to the way things were pre-pandemic, given that they may have moved or rearranged their life around remote work. For organizations that don't provide flexibility for hybrid working models, they may see a mass exodus of talent.

Audit committees should look at the organization's policies around how work is going to continue in a remote or hybrid setting. Are they putting in place a work-from-home or hybrid work policy? Are they ensuring that employees are motivated, engaged and rewarded for their achievements? That will have an impact on attracting and retaining talent.

Upskilling for the future of work

Remote work requires the adoption of technologies that can create risks like cybersecurity threats. KPMG's [CEO Outlook](#) found that 68% of Canadian

What should audit committees be asking?

What is your strategy around talent development and succession planning for executive leadership and the internal audit function?

How are you onboarding new talent and developing skills for hybrid workforces?

How will WFH, WFA or hybrid work models create additional risk for your organization?

What are your strategies around attracting, retaining and developing your talent? Do we have the necessary bench strength?

CEOs plan to invest more capital in buying new tech over the next three years. Audit committees will need to be aware of any security or privacy gaps created through remote or hybrid work models, such as ensuring that data is secured in the cloud or that remote employees are educated about phishing scams.

There's also a need to upskill and reskill workers for the future of work. This was an issue prior to the pandemic, as organizations planned for digital transformation. Those plans were both disrupted and accelerated by the pandemic, which has shone a spotlight on how employees' roles are changing, where they need to upskill or reskill and where there's a shortage of skilled talent, especially in senior roles.

Succession planning

Talent development goes hand-in-hand with succession planning. In the finance function, lack of a succession plan places risk on the quality and reliability of financial reporting and related controls. Today's job market is highly competitive and top talent will choose the arrangement that works best for them. Audit committees should ensure there's a healthy pipeline and contingency plans in case top talent leaves the organization.

They should also consider the costs of hiring top talent in a competitive market, which can create risk. Losing talent means losing knowledge of the organization and its workflows and processes. It also puts strain on the remaining employees who may already be stressed and burned out, which can impact financial reporting obligations.

Tax considerations

Before an organization allows employees to work from anywhere (WFA), they should consider the legal, regulatory, immigration and tax implications. Different countries have different tax regimes, which will have implications for a globally dispersed workforce. This adds to the risk profile of an

organization, so a WFA business model should be carefully planned with the finance function involved.

The audit committee's role in talent oversight

Talent has become a risk for organizations. As outlined in [KPMG's audit committee Guide—Canadian Edition](#), while talent development and succession planning at the executive level is typically the responsibility of the board, the audit committee will want to oversee that process, particularly for the internal audit function. That means having a strategy in place if executive leadership or top talent leaves the company and playing a role in the appointment, promotion or dismissal of the head of internal audit.

After reviewing this strategy, audit committees should provide feedback about gaps they're seeing and what the impact of those gaps will be on the organization. They can also review turnover rate or employee satisfaction surveys to understand the current state of affairs and any concerns about talent retention. Things change quickly—we've seen that during the pandemic—so it's important to have the right plans, strategies and controls in place to mitigate risks related to talent development.

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