

Agenda

Audit Committee

February 14, 2024, 12:00 PM

Council Chambers - Please check the City website for additional meeting detail information. Meetings can be viewed via live-streaming on YouTube and the City Website.

The City of London is situated on the traditional lands of the Anishinaabek (AUh-nish-in-ah-bek), Haudenosaunee (Ho-den-no-show-nee), Lūnaapéewak (Len-ah-pay-wuk) and Attawandaron (Add-a-won-da-run).

We honour and respect the history, languages and culture of the diverse Indigenous people who call this territory home. The City of London is currently home to many First Nations, Métis and Inuit today.

As representatives of the people of the City of London, we are grateful to have the opportunity to work and live in this territory.

Members

Councillors E. Pelozza (Chair), P. Cuddy, S. Stevenson, J. Pribil; and, I. Cheema

The City of London is committed to making every effort to provide alternate formats and communication supports for meetings upon request. To make a request for specific to this meeting, please contact accessibility@london.ca or 519-661-2489 ext. 2425.

Pages

1. Call to Order

1.1 Disclosures of Pecuniary Interest

1.2 Election of Vice Chair for the term ending November 30, 2024

2. Consent

3. Scheduled Items

4. Items for Direction

4.1 Briefing Note From Internal Audit - MNP

2

4.2 Internal Audit Follow Up Activities Dashboard - MNP

3

4.3 Downtown Closed Circuit Television Program - KPMG

11

4.4 Audit Planning Report - KPMG

15

5. Deferred Matters/Additional Business

6. Confidential (Enclosed for Members only.)

6.1 Security of Property

A matter pertaining to the security of the property of the municipality or local board.

7. Adjournment



MEMO TO : City of London – Audit Committee
FROM : MNP LLP
SUBJECT : Briefing Note From Internal Audit
DATE : February 14, 2023

- MNP is in the planning phase of the Accessibility Audit. This audit will take a targeted approach to assess the City’s compliance with AODA, and the standards defined in the Integrated Accessibility Standards Regulation (“IASR”) in order to provide an overview of any gaps in compliance, associated risks with non-compliance and recommendations for improvement. This audit report will be presented at the next Audit Committee meeting on June 19, 2024.
- MNP is in the planning phase of the Emergency Management Audit. This audit will look to assess the procedures and controls in place related to the City’s emergency management processes. Elements of business continuity, disaster recovery and cyber incident response will be considered including an evaluation of end-user requirements. This audit report will be presented at the next Audit Committee meeting on June 19, 2024.
- MNP is in the planning phase of the HRIS Readiness Assessment. This assessment will look to determine the preparedness for the implementation of the HRIS, including a review of the implementation plan. The assessment will focus on evaluating whether project objectives are being met, desired outcomes are on track to be achieved, efficacy of project management and identify lessons learned to support successful implementation. This audit report will be presented at the next Audit Committee meeting on June 19, 2024.

City of London
Audit Committee Meeting
February 14, 2023
Internal Audit Follow Up Activities Dashboard

Internal Audit Follow Up Activities as of February 1, 2024

A strong indicator of an effective internal control environment is the timeliness with which Management addresses reported control deficiencies. On a quarterly basis, MNP will conduct an audit follow-up process to ensure internal audit findings have been effectively remediated through the implementation of related Management action plans on a timely basis.

There are **nineteen (19)** recommendations from issued audit reports that were followed-up on during this quarter. **Eleven (11)** Management action items were closed, no action items were retargeted, and **eight (8)** action items are on track to be completed by their respective due dates.

- ***Fleet Allocation & Utilization Management Assessment*** – One (1) Medium Risk Observation
- ***Advanced Traffic Management System (ATMS) Project Review*** – One (1) Medium Risk Observation
- ***Neighbourhood Decision Making Program Value for Money (“VfM”) Audit*** – Three (3) Medium Risk Observations
- ***Asset Retirement Obligations (“ARO”) Audit*** – Three (3) Medium Risk Observations
- ***Recruitment and Selection Audit*** – Two (2) Medium Risk Observations
- ***Community Arts Investment Program Value for Money (“VfM”) Audit*** – One (1) Medium Risk Observation
- ***Community Heritage Investment Program Value for Money (“VfM”) Audit*** - Two (2) Medium Risk Observations
- ***Vendor Risk Management Audit*** - Two (2) High Risk and Four (4) Medium Risk Observations

Remediation Status Legend



Open Management Action Plans

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
Fleet Allocation & Utilization Management Assessment					
1	<p><u>Improve Productivity/Reduce Costs</u></p> <p>Automation of Work Orders/General Productivity and Operator Damage</p> <p>Develop a submission to the Technology Investment Strategy Committee through the designated process. A work order automation business case request will be submitted for consideration as part of the next intake of the Technology Investment Strategy as ITS support will be required. Should this project be prioritized to proceed with technology support, it will be submitted as a business case for consideration as part of the next Multi-Year Budget process.</p> <p>Continue to work closely with Driver Safety and Compliance. Establish a task team of key service area reps to meet regularly to discuss driver safety, trends, training, programming, and compliance issues.</p> <p>Develop a full telematic strategy that includes the required human resource support required to analyze data. Make recommendation on telematics strategy to Director of Fleet and Facilities and subsequently bring forward to CWC committee.</p> <p>Explore a PM maintenance program that utilizes telematics data to support the planned maintenance and service schedules.</p> <p>Asset Pool Program</p> <p>Develop and implement a gradual vehicle pool program in certain vehicle classes utilizing learned experiences from other municipalities.</p>	Medium	<p>Driver Safety Task Team to be developed and in place by April 2022 (Completed).</p> <p>Work order automation and telematics – Feasibility and Recommendations to Director of Fleet and Facilities December 2022 (Completed).</p> <p>Telematic Strategy – Meet with stakeholders and Driver Safety and Compliance and continue expansion of the telematics program in the interim. Full telematics strategy and policy developed for December 2023. (Completed).</p>	Closed	<p>Fleet Management submitted a business case for the 24-27 Multi-Year Budget; this submission includes a Telematics Strategy and required operating and capital funding.</p> <p>The finalization and implementation of the telematics procedure is dependent upon the proposed business case approval. The funding and human resources required to support this program will enable a new PM maintenance philosophy, develop ride sharing opportunities, improve driver safety, and optimize the generation of PM frequency of work orders.</p>

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
Advanced Traffic Management System (ATMS) Project Review					
1	<p><u>No Process for Benefits Realization Management Including Baselineing and Quantification of Benefits</u></p> <p>Quantification of benefits realization are an ongoing challenge of the ATMS project both due to ever-changing, dynamic nature of transportation systems and, most recently, the impacts of COVID which show increased positive benefits due to decreased travel demands. However, opportunities will be sought to demonstrate the ATMS benefits through specific improvement initiatives including the Adaptive Corridor Pilot, corridor timing improvements, and transit priority through typical metrics such as travel time and reliability indexes and transit schedule adherence. The ATMS is a nexus point of many tools that will be realized under the overall TIMMS program.</p>	Medium	<p>Corridor timing improvements metric to be implemented by June 2023 (Completed).</p> <p>Adaptive corridor pilot metric and transit priority metric to be implemented by Original Due Date: June 2023 Revised Due Date: December 2023 (Completed).</p>	Closed	<p>For the adaptive corridor pilot metric, the City will be using Delay Rate. This is provided by the adaptive component of iNET.</p> <p>A technical memorandum was shared by the third-party Parsons on December 6, 2023 and this explains use of the Delay Rate.</p>
Neighbourhood Decision Making Program Value for Money (“VfM”) Audit					
1	<p><u>Tracking the Effectiveness of Implemented Ideas/Projects</u></p> <p>The success of ideas post implementation should be measured, where practical. The frequency, type and nature of analysis can vary depending on the implemented idea.</p> <p>Both qualitative and quantitative analysis should be utilized to help determine if desired outcomes have been accomplished. As an example, to determine the effectiveness of an implemented idea, the City could utilize factors such as:</p> <ul style="list-style-type: none"> • Measuring resident attendance or usage (i.e., for park playgrounds, benches, skate parks, community electric vehicle charging stations, etc.). • Tracking social media engagement (i.e., reviewing hashtags for locations/implemented ideas). • Performing resident surveys to obtain their opinions on the implemented idea. • Measuring community safety metrics (i.e., after installation of streetlights and traffic signs). 	Medium	March 2025	On Track for Completion	Management is on track to complete their action plan by the documented due date.

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
2	<p><u>External Cloud Based Platform and User Limitations</u></p> <p>The City should consider performing a cost/benefit analysis to help determine whether another system may be more suitable to help administer and manage key processes of the NDM Program.</p>	Medium	December 2023 (Completed).	Closed	The Program has internally investigated options and decided to initiate a system assessment. The results will inform ongoing training and options for system enhancements.
3	<p><u>Service Level Agreements (“SLAs”) and Key Performance Indicators (“KPIs”)</u></p> <p>SLAs and related KPIs should be established for key processes of the Program. The development of the SLAs and KPIs should factor in the processing of ideas by type, volume, and frequency to help ensure any service standards created are realistic and represent an accurate reflection on performance.</p> <p>The following are examples of internal and external measures that could be implemented by the NDM Program team:</p> <ul style="list-style-type: none"> • Feasibility Analysis (Internal Measure) <ul style="list-style-type: none"> ○ Average time taken for SMEs or relevant staff to provide idea feasibility notes and conclusion. • Communications with idea submitters (External Measures) <ul style="list-style-type: none"> ○ Average time taken to communicate the idea feasibility result to an idea submitter. ○ Average time taken to communicate the voting results to an idea submitter and next steps for idea implementation. ○ Average time taken to provide status update/progress of implementation to an idea submitter. <p>Internal measures should be communicated within the City and external measures should be communicated to residents via the City’s website to ensure performance expectations are clear and understood by each party.</p>	Medium	December 2024	On Track for Completion	<p>Management is on track to complete their action plan by the documented due date.</p> <p>The development of SLA’s and related KPI’s are in progress and will be finalized in collaboration with relevant City Service Area Leads.</p>
Asset Retirement Obligations (ARO) Audit					
1	<p><u>Evidence of Review in ARO Estimates Workbooks</u></p> <p>Management will add a tab to the estimate calculation workbooks that will include a table to be filled out by the reviewing manager. The table will require information as to who has done the review, the date the review was complete and a section for an explanation stating what was reviewed and reconciled to ensure correctness and completion.</p>	Medium	March 2024 (Completed).	Closed	Capital Assets and Projects has implemented a process which enables the review of ARO estimates. A section within the workbooks has been created to document this review and any outcomes.

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
2	<p><u>Lack of Review of ARO Estimates</u></p> <p>Within the table outlined under the action plan for Observation 4, a section will be added to state who prepared the workbook. It will be noted that the preparer and the reviewer must be two different individuals.</p>	Medium	March 2024 (Completed).	Closed	A section within the workbooks has been created to document this review and any outcomes. The preparer and reviewer are documented, and the workbook includes a requirement that the preparer and reviewer be two separate individuals.
3	<p><u>Consolidation and Formalization of ARO Processes</u></p> <p>All procedures required for ARO will be assembled and documented in a single framework. The framework will contain all processes from start to finish including recognition, measurement, presentation, and disclosure as well as who is responsible for each step. The document will be shared with Service Area representatives and will remain available and accessible on CityHub for future reference.</p>	Medium	December 2023 (Completed).	Closed	Capital Assets and Projects has consolidated all procedures related to ARO into a manual.
Recruitment and Selection Audit					
1	<p><u>Sourcing and Attracting Applicants</u></p> <p>People Services will develop the value proposition for working at the City of London and work with Strategic Communications on how best to promote this within our recruitment processes with full implementation targeted for Q2 2024.</p>	Medium	June 2024	On Track for Completion	<p>Management is on track to complete their action plan by the documented due date.</p> <p>People Services continues to have regular meetings with Strategic Communications pertaining to marketing of the City and various positions.</p>
2	<p><u>Screening, Interviewing, Assessing, and Selecting Candidates</u></p> <p>The City has a blanket policy of requiring a police record check from a final candidate who is also expected to bear the financial cost of undertaking the police check. It was noted that these practices can create barriers for some candidates and there may be roles within the City that do not require a police check as an essential job requirement.</p> <p>Civic Administration will undertake a review, including looking at municipal comparators, barriers and financial costs, etc., aiming to have a new procedure in place by end of Q4 2023.</p>	Medium	December 2023 (Completed).	Closed	A corporate procedure and internal procedure which the Employee Relations & Recruitment team are now following was provided and was effective as of January 2024.

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
Community Arts Investment Program Value for Money Audit					
1	<p><u>Assessor Conflict of Interest Check/Declaration</u> The LAC 2024 – 2028 Multi-Year Purchase of Service Agreement with the City of London will address this CAIP requirement. LAC will implement this recommendation for the 2024 grant process.</p>	Medium	Q1 2024 (Completed).	Closed	Neighbourhood and Community-Wide Services submitted a Council Recommendation Report to renew the London Arts Council 2024 – 2027 Multi-Year Purchase of Service Agreement. The terms of the agreement integrate requirements for Conflict-of-Interest Check/Declaration.
Community Heritage Investment Program Value for Money Audit					
1	<p><u>Assessor Conflict of Interest Check/Declaration</u> The LHC 2024 – 2028 Multi-Year Purchase of Service Agreement with the City of London will address this CHIP requirement. LHC will implement this recommendation for the 2024 grant process.</p>	Medium	Q2 2024 (Completed).	Closed	Neighbourhood and Community-Wide Services submitted a Council Recommendation Report to renew the London Heritage Council 2024 – 2027 Multi-Year Purchase of Service Agreement. The terms of the agreement integrate requirements for Conflict-of-Interest Check/Declaration.
2	<p><u>Consolidation and Documentation of Key CHIP Processes</u> The LHC 2024 – 2028 Multi-Year Purchase of Service Agreement with the City of London will address this CHIP requirement. LHC will implement this recommendation for the 2024 grant process.</p>	Medium	Q2 2024 (Completed).	Closed	Neighbourhood and Community-Wide Services submitted a Council Recommendation Report to renew the London Heritage Council 2024 – 2027 Multi-Year Purchase of Service Agreement. The terms of the agreement integrate requirements for Conflict-of-Interest Check/Declaration.

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
Vendor Risk Management Audit					
1	<u>Vendor Management Office (“VMO”)</u> A Business Case will be submitted through the 2024 – 2027 Multi Year Budget process requesting operating funds to increase staffing resources to take on the additional responsibilities of a full Vendor Performance Program/Office.	High	December 2023 (Completed).	Closed	On December 12, 2023, Civic Administration released the 2024 to 2027 Draft Multi-Year Budget at the Strategic Priorities and Policy Committee meeting. Business Case P#-73 – Vendor Performance Management was included as part of the release.
2	<u>Vendor Due Diligence and Formalization of the Vendor Risk Assessment Process</u> Procurement Services has engaged a consultant to review and advise on adding vendor management tools including risk assessments, Performance evaluations, Performance rectification processes. A consulting project is underway with an estimated update of the Procurement of Goods and Services Policy targeted for June 2024. The degree to which additional due diligence is implemented, will be dependent upon the business case submitted requesting operating funds to take on the additional responsibilities of a full Vendor Performance Program/Office.	High	Q3 2024	On Track for Completion	Agreement with third party was signed on December 13, 2023 and work has commenced on reviewing the City’s existing practices and policy.
3	<u>Periodic Performance Evaluation of Vendors</u> Procurement Services has engaged a consultant to review and advise on adding vendor management tools including risk assessments, performance evaluations, performance rectification processes and vendor debarment.	Medium	Q4 2024	On Track for Completion	Agreement with third party was signed on December 13, 2023 and work has commenced on reviewing the City’s existing practices and policy.
4	<u>Vendor Contract</u> Procurement Services has engaged a consultant to draft a standard City of London Master Contract document. Starting in 2024, for centralized procurements entered into, Procurement will require copies of signed agreements to be provided when complete. Procurement Services will establish the centralized repository to store these contracts along with procurement records.	Medium	Q3 2024	On Track for Completion	Agreement with third party was signed on December 13, 2023 and work has commenced on reviewing the City’s existing practices and policy.
5	<u>Vendor Management Reporting</u> A Vendor Performance Management (VPM) program will need to be implemented and included in new bidding templates. Reporting would begin after the VPM has been implemented for a year.	Medium	Q3 2025	On Track for Completion	Awaiting outcome of budget deliberations to determine the scale and scope of what will be implemented.

#	Management Action Plan	Risk Rating	Due Date	Remediation Status	Quarterly Update
6	<p><u>Formalization of Key VRM Processes</u> Procurement Services has engaged a consultant to review the City's Procurement of Goods and Services Policy, which will take into consideration vendor management. Approval of the VPM Business Case will affect the degree in which this is undertaken.</p>	Medium	Q3 2024	On Track for Completion	Agreement with third party was signed on December 13, 2023, and work has commenced on reviewing the City's existing practices and policy.

**THE CORPORATION OF
THE CITY OF LONDON**

**REPORT ON THE RESULTS OF APPLYING AGREED-UPON PROCEDURES FOR
THE LONDON DOWNTOWN CLOSED CIRCUIT TELEVISION PROGRAM FOR THE
YEAR ENDING DECEMBER 31, 2023**



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AGREED-UPON PROCEDURES REPORT

To the Corporation of the City of London

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of performing the agreed-upon procedures set forth in the accompanying Schedule in connection with the Code of Practice related to the London Downtown Closed-Circuit Television Program for the year ended December 31, 2023 (“Subject matter”) (“Purpose”) and may not be suitable for another purpose.

Responsibilities of the Engaging Party

The Corporation of the City of London has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The Corporation of the City of London is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Canadian Standard on Related Services (CSRS) 4400, *Agreed-Upon Procedures Engagements*.

An Agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Corporation of the City of London and reporting the findings, which are the factual results of the agreed-upon procedures performed.

We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Management

We have complied with ethical requirements, including those pertaining to independence, relevant to assurance engagements in Canada.

Our firm applies Canadian Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.



Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Corporation of the City of London

- 1 Obtain and review the London Downtown Closed-Circuit Television (CCTV) Program Code of Practice.

KPMG obtained and reviewed the Code of Practice. KPMG confirmed with Mike Bessegato – Manager of Corporate Security, that updates to the document were made in the first quarter of 2023.

- 2 Ensure that adequate camera monitoring staff are present at the time the specified audit procedures are being performed.

KPMG observed at least one camera monitoring staff was present in the camera room while the specified audit procedures were being performed, as required by the Code of Practice.

- 3 On a monthly basis, select a sample of four recordings, each for a 15-minute period, from 17 cameras located in the Core AREA. Review the recordings for compliance with Section 12 of the Code of Practice and ensure the recordings have not monitored individuals in any manner that would constitute a violation of the Code of Practice.

KPMG selected a total sample of 48 recordings for testing throughout the year.

During the year, there were two instances where the City was not able to burn the footage for the dates and times that were randomly selected, as follows:

Finding 1: There was missing footage on April 30, 2023. The video was not burned because Camera #6 had been out of service and was going to be removed. Alternate dates were requested and provided.

Finding 2: There was missing footage on October 30, 2023. The City was not able to burn the footage. The server was down for about an hour due to major firmware updated to Milestone. Alternate dates were requested and provided.

We have noted that all recordings reviewed comply with Section 12 of the Code of Practice for camera use.

- 4 Obtain the camera monitoring logbook and review for the following information:
 - a) Reported incidents were properly recorded in accordance with Section 16 of the Code of Practice

We have examined the camera monitoring logbook. KPMG noted that reported incidents were recorded in accordance with Section 16 of the Code of Practice.

- b) Only authorized staff had access to the Security Office

We have examined the camera monitoring logbook and noted that only authorized staff had access to the Security Office during the period of January 1, 2023 to December 31, 2023.



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- c) Recorded information was released according to the Code of Practice requirements for release of information contained in section 15 of the Code of Practice.

We have examined the camera monitoring logbook and noted that recorded information was released according to the Code of Practice requirements for release of information.

- d) Confirm that entries are complete and entered in a consistent manner.

We have examined the camera monitoring logbook and noted that entries are complete and entered in a consistent manner.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada
January 22, 2024

The Corporation of the City of London

Audit Planning Report
for the year ending December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of January 26, 2024

Presented on February 14, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement



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Appendices

The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit highlights



No matters to report



Matters to report

Scope

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

Audit strategy

Materiality
Group: \$22M
Component: \$19M



Involvement of others



Updates to our prior year audit plan

Refer to slides 6 – 11 for audit strategy for matters above.

Audit strategy - group audit

Total	Total assets	Total revenue
Total work performed	88%	93%



Involvement of other KPMG member firms



Involvement of non-KPMG firms

Refer to slide 12 for group audit strategy.

Independence

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

Risk assessment



Risk of management override of controls



Presumed risk of fraudulent revenue recognition



Other significant risks

- Implementation of PS 3280 – Asset Retirement Obligations



Other risks of material misstatement

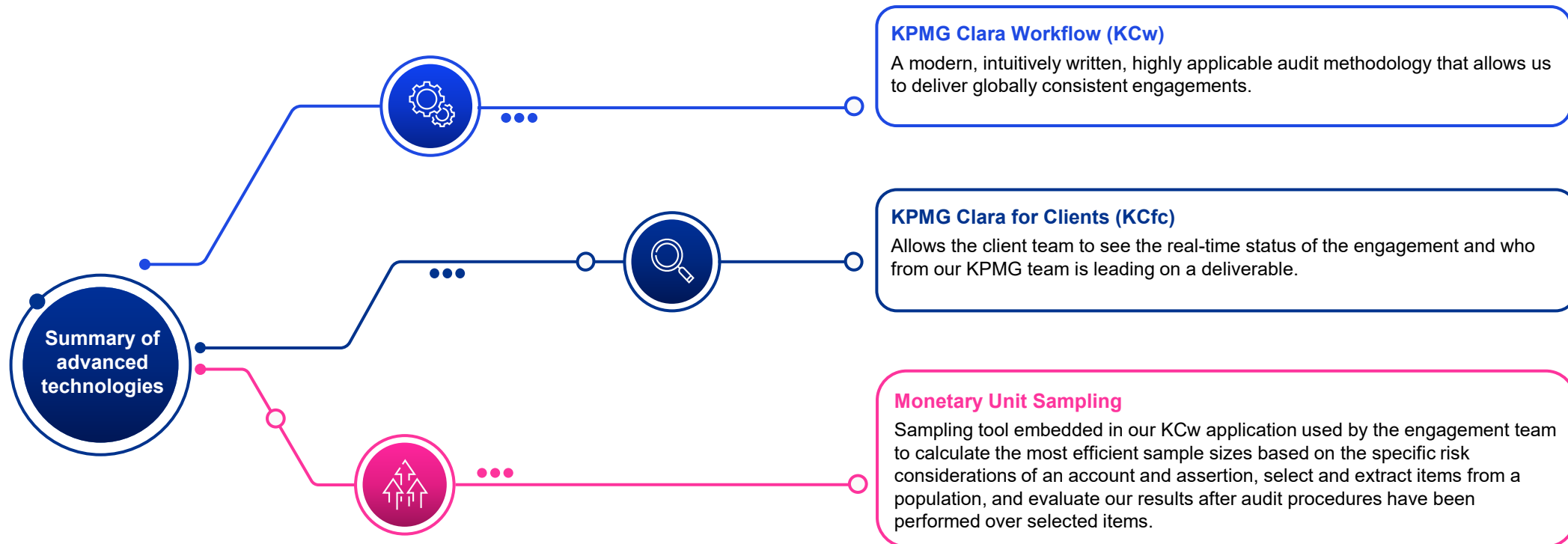
- Cash and Investments
- Implementation of PS 3450 – Financial Instruments
- Investment in Government Business Enterprises (GBEs)
- Tangible capital assets
- Revenue and accounts receivable
- Deferred revenue – general and obligatory reserve funds
- Gross long-term liabilities and debt recoverable from local municipalities
- Employee benefits and other liabilities
- Expenses – salaries and benefits
- Accounts payable, accrued liabilities and expenses
- Contingencies
- Consolidation

Refer to slides 13 – 23 for risk assessments.



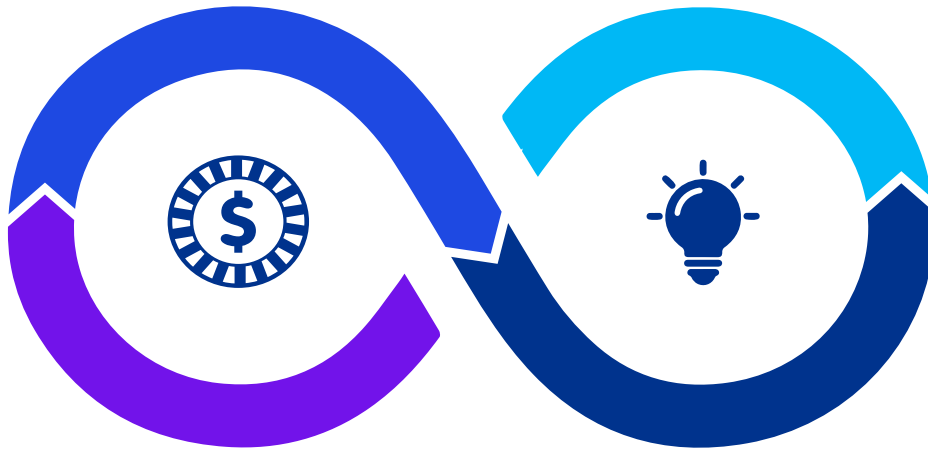
Technology highlights

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





Materiality



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

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

Plan and perform the audit

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

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

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

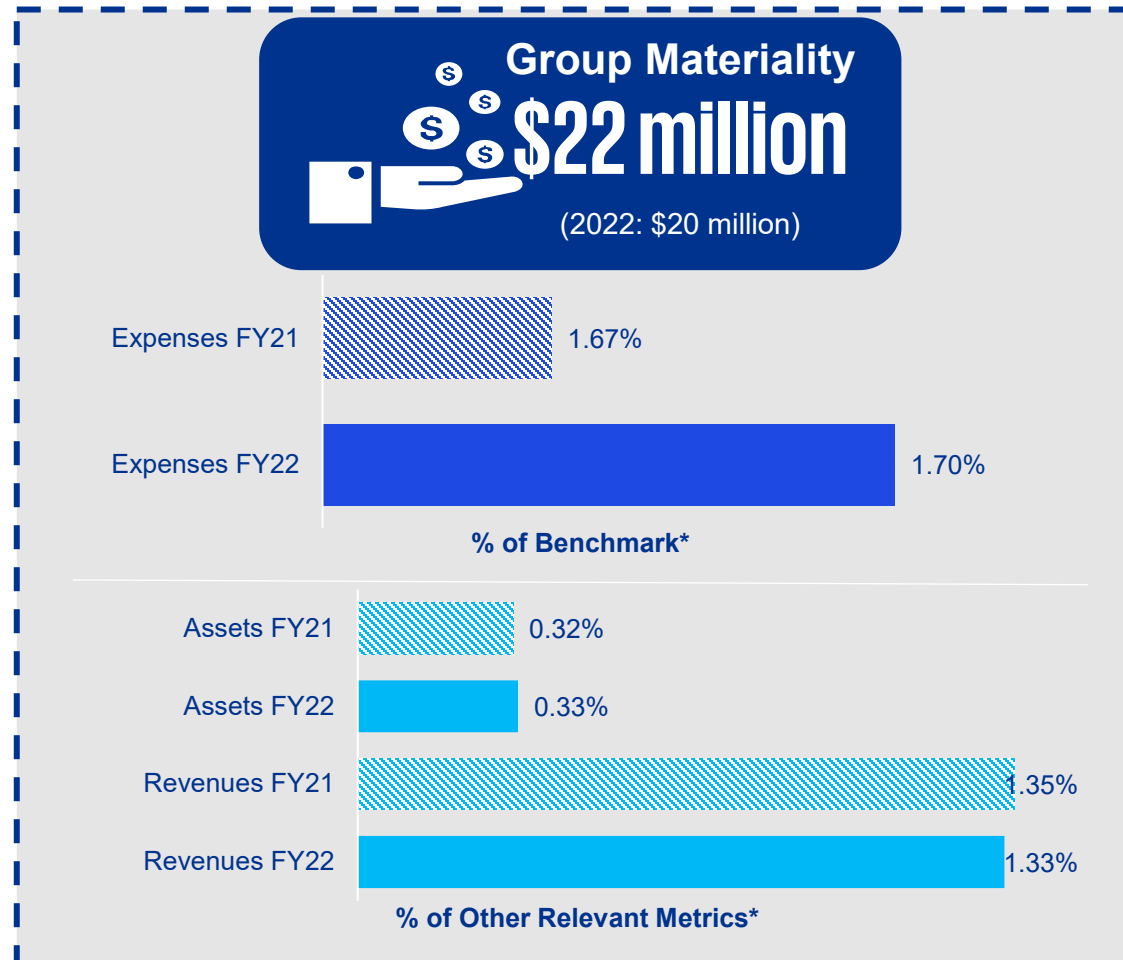
Evaluate the effect of misstatements

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

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



Initial Group Materiality



Prior Year Actual Consolidated Expenses
\$1,291 million
 (2021: \$1,198 million)

Prior Year Total Consolidated Assets
\$6,701 million
 (2021: \$6,301 million)

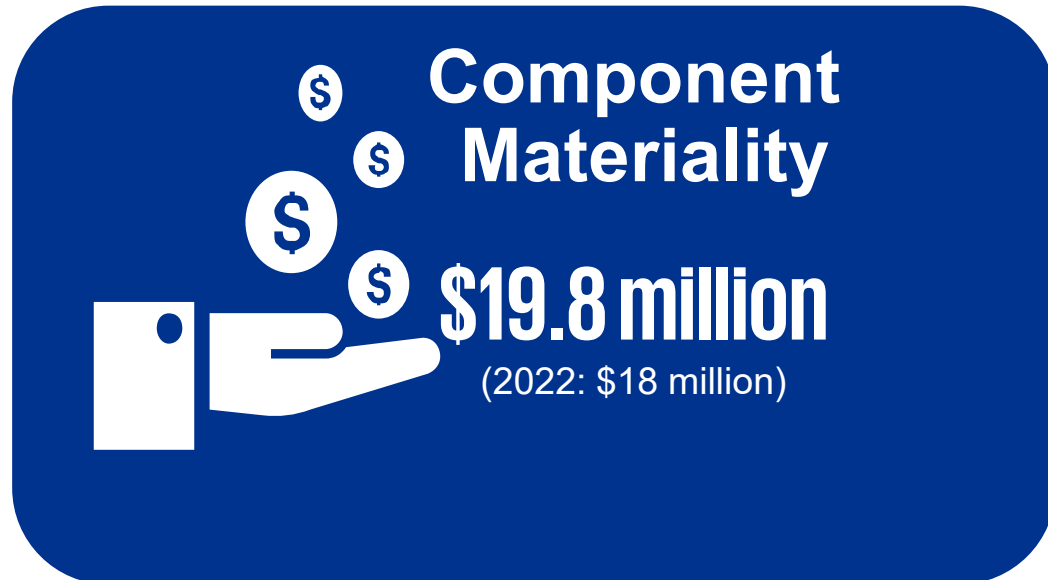
Prior Year Total Consolidated Revenues
\$1,659 million
 (2021: \$1,477 million)

Group Audit Misstatement Posting Threshold
\$1.1 million
 (2022: \$1 million)

*We note that the current year materiality is based off of the total actual expenses from the prior fiscal year. This is the same for the prior year materiality. As such, the benchmark years above represent the related fiscal year and not the materiality year.



Initial Component Materiality – non-consolidated City of London



Component Performance Materiality

\$14.8 million

(2022: \$13.5 million)

Component Audit Misstatement Posting Threshold

\$0.99 million

(2022: \$0.9 million)



Involvement of others

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

Involved party	Nature and extent of planned involvement
Management's specialist – Mercer	Mercer provides the actuarial valuation for the employee future benefits obligation as well as the WSIB accrual.
KPMG Actuarial Specialists	We involve actuarial specialists as part of our audit procedures to perform an assessment of the assumptions and methods used in the valuation of employee future benefits obligation and related disclosures.
Management's specialist – Facilities personnel	Facilities personnel assisted management in completing an inventory of potential areas where asset retirement obligations may exist. Management used this information to appropriately scope potential obligations and determine an appropriate measurement of the liability. KPMG will assess the competence and capabilities of the expert, along with any significant assumptions used by the expert. KPMG will rely on the information provided by Facilities personnel.
Management's specialist – Legal	Legal personnel from the City assess legal issues by determining the likelihood of having to pay damages and use past experiences to recommend estimated settlement amounts. These estimates are used to determine legal accruals to record at year-end.
Management's specialist – C.D. Watters Engineering Ltd.	CD Watters prepared an estimate schedule in relation to the value of assumed assets in 2019 for the purposes of the 2018 financial statements, which was based on historical financial data. This information was tested as part of the F2018 financial statement audit and has been used as the basis for the value of assumed assets since that time, with inflation incorporated as appropriate. These estimates are assessed for reasonability on an annual basis by management.



Updates to our prior year audit plan

New significant risks



New significant risk – Asset Retirement Obligations



A new significant risk was identified in the current year related to the City's implementation of the new accounting standard, PS 3280, Asset Retirement Obligations ("ARO"). The ARO standard requires the City to record a liability related to the future costs of any legal obligations to be incurred upon retirement of any controlled tangible assets.

Other significant changes



Other significant changes



No significant changes to the audit plan.



Newly effective accounting standards



PS 3280, *Asset Retirement Obligations (ARO)*, becomes effective for this year end (fiscal years beginning on or after April 1, 2022).

This replaces the previous standard which oversaw the accounting treatment of obligations expected to be settled at a future date, which was much smaller in scope than the new standards. Accordingly, this will be an area of audit focus.

The new standard requires Public Sector entities to estimate the expected future settlement and remediation costs of all fixed assets owned by the City. Common examples of costs that fall within scope are the removal of asbestos and other hazardous materials, landfill remediation costs, and removal of leasehold improvements based on the terms of the underlying agreements.

There are multiple options with respect to the method of adoption, some of which involve restatement of prior period comparatives, and accompanying disclosures.

The City has been working with their facilities department to assist with compliance with this standard. The City's ARO evaluation and costing as of January 1, 2023 (opening balances) is currently being finalized. Once completed, the City will then update their estimate as of December 31, 2023. The City plans to use the modified retrospective approach on adoption of the standard.



Updates to our prior year audit plan

Other significant changes



Newly effective accounting standards (continued)



PS 3450, *Financial instruments*, PS 2601, *Foreign currency translation*, PS 1201, *Financial statement presentation* and PS 3041 *Portfolio investments* become effective for this year end (fiscal years beginning on or after April 1, 2022).

Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments can be carried at cost or fair value depending on the entity's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement.

The City is well underway in the process of considering the impact of these new accounting standards. A final evaluation will be completed at year end and appropriate disclosure added to the financial statements.

Other accounting standards that are effective for future fiscal years have been outlined in the Appendices.



Newly effective auditing standards



Effective for periods beginning on or after December 15, 2022:

- ISA/CAS 220 – (Revised) Quality management for an audit of financial statements
- ISQM1/CSQM1 – Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements
- ISQM2/CSQM2 – Engagement quality reviews

Effective for periods beginning on or after December 15, 2023:

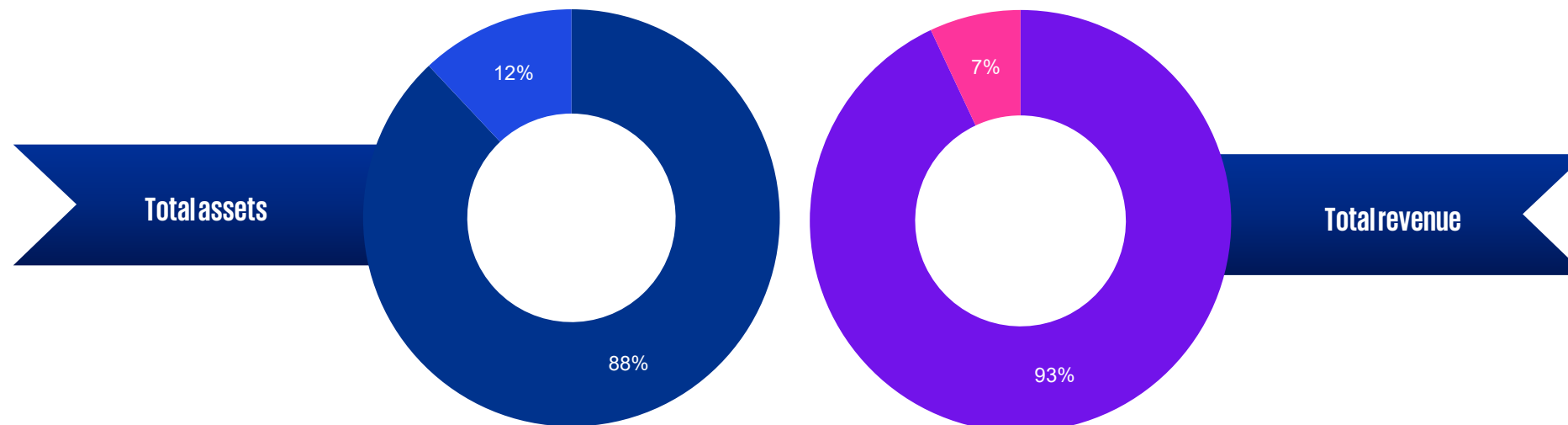
- ISA 600/CAS 600 – Revised special considerations – Audits of group financial statements



Group audit - Scoping

Type of work performed	Total assets	Total revenue
Total full-scope audits	88% 	93% 
Excluded from direct testing	12% 	7% 
Total consolidated	100% 	100% 

The threshold for individually financially significant component is 15% of total assets or total revenue. The Boards and Commissions that have not met the threshold for significant components but are audited for statutory requirements are not included in this assessment. These Boards and Commissions include Argyle Business Improvement Association Board of Management; Covent Garden Market Corporation; Eldon House Corporation; Elgin Area Primary Water Supply System; Hamilton Road Business Improvement Area Board of Management; Housing Development Corporation, London; Hyde Park Business Improvement Association Board of Management; Lake Huron Area Primary Water Supply System; London & Middlesex Community Housing Inc.; The London Convention Centre Corporation; London Downtown Business Association; London Hydro Inc.; The London Public Library Board; London Transit Commission; Middlesex-London Health Unit; Museum London; and Old East Village Business Improvement Area Board of Management.





Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the City and its environment (e.g. the industry, the wider economic environment in which the organization operates, etc.), our understanding of the City's components of its system of internal control, including our business process understanding.

	Risk of fraud	Risk of error	CY risk rating	PY risk rating
● Improper revenue recognition	✓		Presumed - Rebutted	Presumed - Rebutted
● Management override of controls	✓		Presumed - Significant	Presumed - Significant
● Implementation of PS 3280 – Asset Retirement Obligations		✓	Significant	New for Fiscal 2023
● Implementation of PS 3450 – Financial Instruments		✓	Elevated	New for Fiscal 2023
● Cash		✓	Base	Base
● Investment in Government Business Enterprises (GBEs)		✓	Base	Base
● Tangible capital assets		✓	Base	Base
● Revenue and accounts receivable		✓	Base	Base

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER AREA OF FOCUS

*Risk assessment has been completed based on preliminary audit planning and is subject to change during the course of the audit as new information arises. Significant changes, if any, from the audit approach noted here will be communicated in the audit findings report.



Risk assessment summary (continued)

	Risk of fraud	Risk of error	CY risk rating	PY risk rating
• Deferred revenue – general and obligatory reserve funds		✓	Base	Base
• Gross long-term liabilities and debt recoverable from local municipalities		✓	Base	Base
• Employee benefits and other liabilities		✓	Elevated	Base
• Expenses – salaries and benefits		✓	Base	Base
• Accounts payable, accrued liabilities and expenses		✓	Base	Base
• Contingencies		✓	Base	Base
• Consolidation		✓	Base	Base

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER AREA OF FOCUS



Significant risks



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

RISK OF



FRAUD

Why is it significant?

**Presumption
of the risk of fraud
resulting 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 planned response

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

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



Significant risks



Implementation of PS 3280 – Asset Retirement Obligations

RISK OF



ERROR

Significant Risk

Estimate?

New or changed?

Asset retirement obligation – risk to be considered individually for the selection and application of the methods, assumptions and data relating to this estimate

Yes

New

Relevant inherent risk factors affecting our risk assessment

The new standard became effective for the City's fiscal 2023 year end. The new standard is a complex accounting standard which requires the application of professional judgement and will result in significant changes to the City's financial statements. ARO's are an estimate which will be derived from available information and will require the City to make judgements and assumptions leveraging available data. We have assessed this as a significant risk given its nature.

Our audit approach

- Obtain an understanding of the approach taken by Management to identify and measure in-scope ARO, including:
 - Management specialists consulted
 - List of agreements and other significant documents reviewed to identify potential ARO
- Evaluate the design and implementation of controls surrounding the implementation of the new standard, including the process of identifying assets that may contain an ARO.
- Obtain and perform substantive testing to ensure the list of tangible capital assets used for the estimate is complete.
- Obtain an understanding of the data sources used to measure in-scope ARO, including significant measurement assumptions and decisions, as well as the rationale and significant judgments applied.
- Perform substantive testing over a selection of in-scope ARO and evaluate the reasonability of data and assumptions used on initial implementation. Assess and perform substantive testing over any significant changes during the year.
- Obtain an understanding of transitional provisions applied upon initial implementation and inspect the entries made by Management.
- Review financial statement note disclosure in accordance with PSAS.

Advanced technologies



Other areas of focus



Financial Instruments (Portfolio Investments)

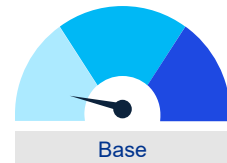
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Review investment policies to ensure all financial instruments align with the new requirement for PS 3450.
- Ensure all changes to financial statement presentation relating to the statement of remeasurement gains and losses are accurate and complete.
- Ensure that the City has identified all financial assets and liabilities and that they are within the scope of PS 3450.
- Obtain year-end investment reconciliations and perform substantive testing over significant reconciling items.
- Perform substantive tests of details over additions and disposals of investments, as applicable.
- Review of financial statement note disclosure in accordance with PS 3450.

Cash

Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Obtain year-end bank reconciliations and perform substantive testing over significant reconciling items.
- Obtain confirmations from third party financial institutions.
- Review of financial statement note disclosures in accordance with Public Sector Accounting Standards (PSAS).

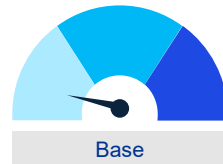


Other areas of focus



Investments in Government Business Enterprises (GBEs)

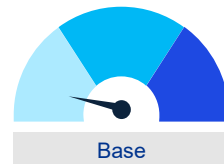
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Obtain a listing and assessment of the GBEs as prepared by management of the Corporation, including any changes from prior year and impairment assessment.
- Obtain support for adjustments made to the investments in GBEs including income from operations, dividends received, distributions to the Corporation and any other adjustments.
- Review financial statement disclosures in accordance with PSAS.

Tangible capital assets

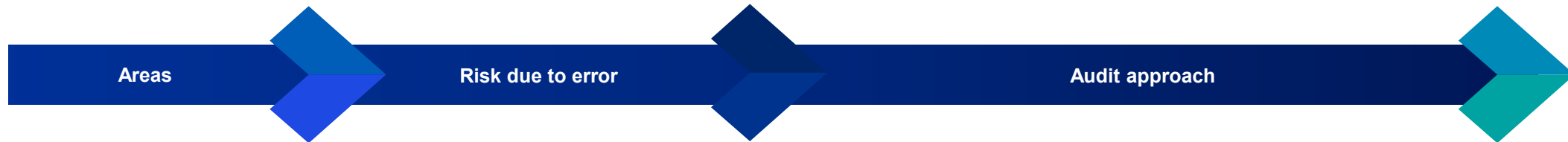
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Perform substantive tests of details over additions (including contributed tangible capital assets) and disposals.
- Obtain the amortization policy, verify the mathematical accuracy of amortization through recalculations, and assess reasonableness of the estimated useful lives.
- Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.
- Perform procedures over the fair value of contributed assets.
- Review of financial statement note disclosures in accordance with PSAS.
- Perform required procedures to assess the potential risks with respect to impairment of assets. Based on the nature of the Corporation's operations, it is not expected that this will be a significant risk during the audit.

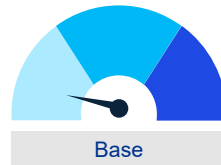


Other areas of focus



Revenue and accounts receivable (including taxation revenue, user charges and other revenue sources, and government transfers)

Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Perform substantive audit procedures to recalculate taxation revenue using approved tax rates and assessment data.
- Obtain a listing of user charges and other revenue balances and perform tests of details using a combination of substantive analytical and sampling approaches.
- Obtain a listing of government transfer revenue reported by the Corporation and perform tests of details using representative sampling methods. Obtain supporting documentation for the eligibility criteria for the sample selected to determine if the government transfers reported in the financial statements meet the criteria outlined in the PSAS.
- Obtain a listing of accounts receivable balances and select significant balances to vouch to supporting documentation and assess analytical trends.
- Review financial statement disclosures in line with PSAS.

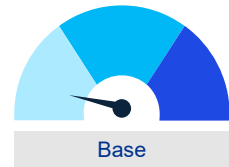


Other areas of focus



Deferred revenue – general and obligatory reserve funds

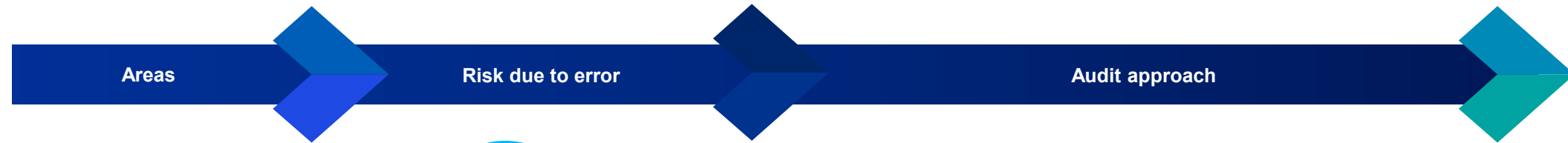
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Obtain the management prepared calculation for the development charges balance and vouch receipts and expenditures on a sample basis. Verify recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.
- Perform a recalculation of interest allocated to assess reasonableness of management's calculation.
- Perform substantive audit procedures over a sample of deferred capital grants, security deposits and other deferred revenue by vouching to supporting documents.
- Review financial statement disclosures in line with PSAS.

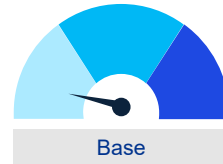


Other areas of focus



Gross long-term liabilities and debt recoverable from local municipalities

Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Obtain and review any new or amended agreements for long-term debt issued by the City, including review of by-laws issued by City Council.
- Select a sample of long-term liability additions and principal repayments and vouch supporting documentation
- Review disclosures in accordance with PSAS.

Employee benefits and other liabilities

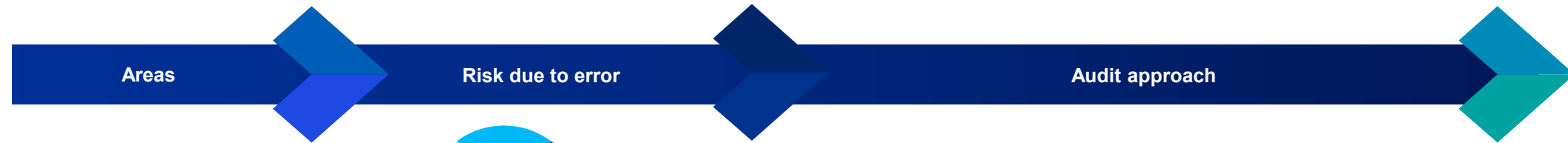
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuary engaged by the City (preparer of the estimate), and the historical accuracy of the estimates.
- Assess method, data, and assumptions used by the actuary and management in the calculation of the employee benefits and other liabilities for reasonableness.
- Perform audit procedures in accordance with the relevant auditing standards and related disclosure requirements related to the estimates involved.
- Perform inquiries with management to determine if this is the year of full valuation whereby new participant/member data is provided to the actuaries. If applicable, we will communicate with actuaries and test employment data provided to the actuaries.
- Review financial statement disclosures in accordance with PSAS.

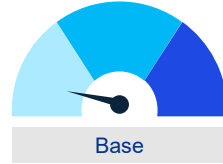


Other areas of focus



Expenses – salaries and benefits

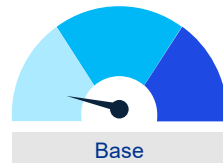
Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Perform testing over selected manual controls related to the payroll process.
- Perform substantive analytical procedures over salaries expense by department using employee headcount, pay raises per collective agreements, etc.
- Perform substantive analytical procedures over benefits expense as a percentage of total salaries.
- Substantive verification and recalculation of payroll-related accruals.
- Obtain new or amended collective bargaining agreements. Assess if management has evaluated these agreements for implications of retroactive application. Such retroactive application can result in additional financial obligations for the City that are required to be reported in the financial statements.

Accounts payable, accrued liabilities and expenses

Applicable Components: The Corporation of the City of London, unconsolidated



- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.
- Perform search for unrecorded liabilities.
- Examine significant accrued liabilities for existence, accuracy and completeness.
- Perform substantive tests of details on selected non-payroll expenditures.

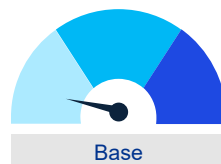


Other areas of focus



Contingencies

Applicable Components: The Corporation of the City of London, unconsolidated



- Perform a detailed review of Council meeting minutes for potential contingencies.
- Directly communicate with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded.
- Review of significant findings with management during planning and completion stages of the audit.

Consolidation

Applicable Components: All



- Update our understanding of the consolidation process.
- Obtain management's consolidation of the reporting entity and vouch to selected audited statutory financial statements for the respective entities.
- Verify the mathematical accuracy of management's calculations.
- Test the significant eliminating entries as prepared by management for accuracy and completeness.



Key milestones and deliverables

December 2023 – January 2024

Planning & Risk Assessment

- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the City and its environment
- Perform process walkthroughs for certain business processes
- Inquire of the Audit Committee, management and others within the City about risks of material misstatement
- Coordinate with Internal Audit
- Debrief prior year with management
- Kick-off with management
- Evaluate the City's components of internal control, other than the control activities component
- Complete group audit scoping
- Perform additional process walkthroughs for certain business processes
- Identify process risk points for certain business processes
- Complete initial risk assessment
- Communicate audit plan
- Identify IT applications and environments

April – June 2024

Final Fieldwork & Reporting

- Complete year-end data extraction and processing activities
- Complete tests of design and Implementation and operating effectiveness over controls
- Perform substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results to the Audit Committee and perform required communications
- Issue audit report on financial statements
- Closing meeting with management
- Filing date: Issue audit reports on financial statements

Appendices

A

Other required communications

B

KPMG Clara

C

Audit quality

D

Audit quality indicators

E

Newly effective and upcoming changes to auditing standards

F

Changes in accounting standards

G

Indicators of financial performance

H

Insights to enhance your business

I

Audit assurance and insights

J

Fraud Prevention

K

Climate risk in the financial statements

L

ESG Discovery

M

ESG Reporting

N

Generative AI



Appendix A: Other required communications



CPAB communication protocol

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

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2023 Interim Inspections Results](#)



Appendix B: KPMG Clara



Streamlined client experience

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



Secure

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



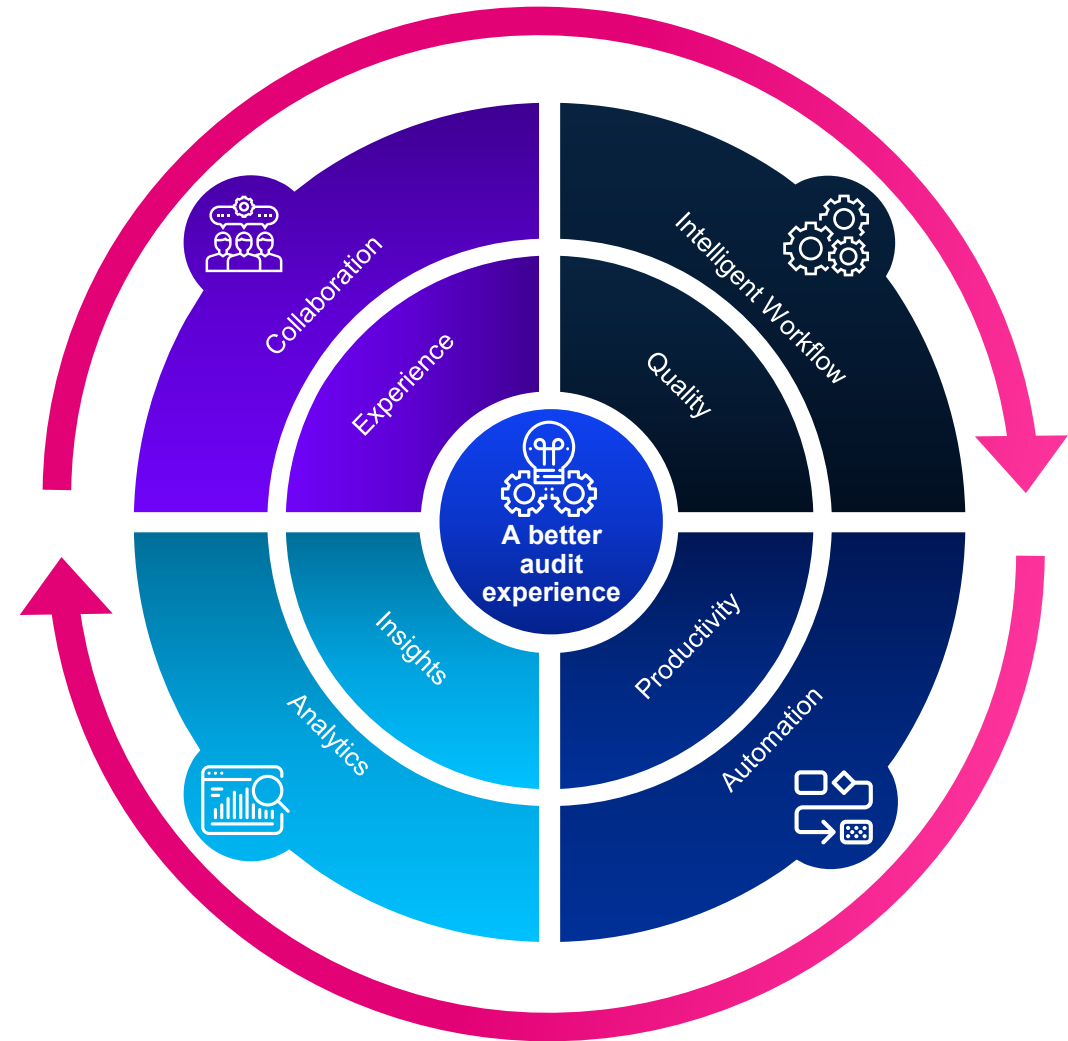
Intelligent workflow

An intelligent workflow guides audit teams through the audit.



Increased precision

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





Appendix C: Audit quality: How do we deliver audit quality?

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

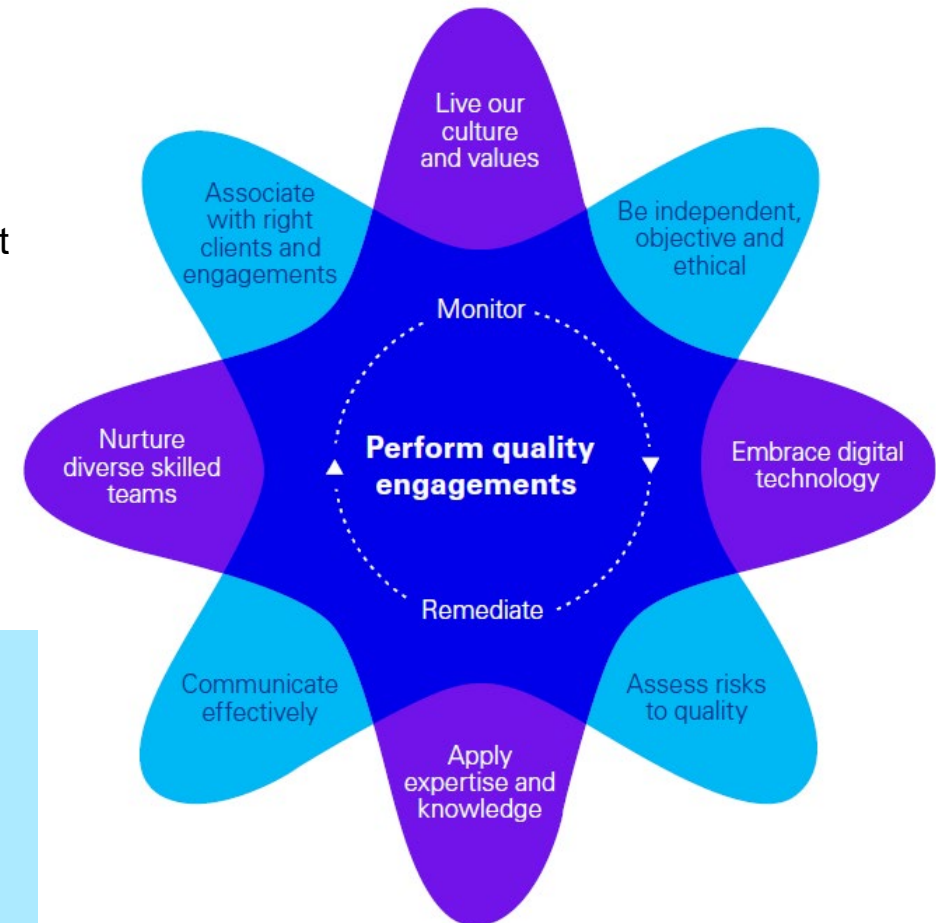
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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

 [KPMG 2022 Audit Quality and Transparency Report](#)

We define ‘audit quality’ as being the outcome when:

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





Appendix D: Audit quality - Indicators (AQIs)

The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we have agreed with management are relevant for the audit. We would like to obtain agreement of the Audit Committee that these are the relevant AQIs.

We will communicate the status of the below AQIs on an annual basis.



Team composition



Experience of the team

- Role – number of years experience in the industry, number of years on this engagement



Technology in the audit



Implementation of Technology in the Audit

- Increase in use of technology in the audit year over year



Engagement hours



Hours spent by level and phase of the audit

- Percentage of hours incurred by EQCR, Partner, Senior Manager and audit staff



Timing of prepared by client (PBC) items



Timeliness of PBC items

- Number of timely and overdue items received by the audit team.



Quality reviews



Results of internal and external reviews

- Number and nature of findings specific to the audit engagement



Nothing to report



Some matters to report



Specific matters to report



Appendix E: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

.....
 (Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

.....
 Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

.....
 Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

.....
 Revised special considerations – Audits of group financial statements



Appendix F: Changes in accounting standards

Standard	Summary and implications
Revenue	<ul style="list-style-type: none"> The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023 (<i>City's December 31, 2024 year-end</i>). The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Purchased Intangibles	<ul style="list-style-type: none"> The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted (<i>City's December 31, 2024 year-end</i>). The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized. The guideline can be applied retroactively or prospectively.



Appendix F: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	<ul style="list-style-type: none"> The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023 (<i>City's December 31, 2024 year-end</i>). The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.



Appendix F: Changes in accounting standards (continued)

Standard	Summary and implications
Financial Statement Presentation	<ul style="list-style-type: none"> • The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted. • The proposed section includes the following: <ul style="list-style-type: none"> • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present total assets followed by total liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. • The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.



Appendix F: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	<ul style="list-style-type: none"> The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. The intention is 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, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.



Appendix G: Indicators of financial performance



Indicators of Financial Performance



Financial Indicators

A. Reporting on financial condition

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with establishing accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is '*a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others*'. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability.** Sustainability is the degree to which the City can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the City's assessment base, there is an increased risk that the City's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility.** Flexibility reflects the City's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability.** Vulnerability represents the extent to which the City is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

Financial Indicators

B. Selected financial indicators

As a means of reporting the City’s financial condition, we have considered the following financial indicators (*denotes PSAB recommended financial indicator).

Financial Condition Category	Financial Indicators
Sustainability	<ol style="list-style-type: none"> 1. Financial assets to financial liabilities* 2. Total reserves and reserve funds per household 3. Total operating expenses as a percentage of taxable assessment* 4. Capital additions as a percentage of amortization expense
Flexibility	<ol style="list-style-type: none"> 5. Residential taxes per household 6. Total long-term debt per household 7. Residential taxation as a percentage of median household income 8. Total taxation as a percentage of total assessment* 9. Debt servicing costs (interest and principal) as a percentage of total revenues* 10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets*
Vulnerability	<ol style="list-style-type: none"> 11. Operating grants as a percentage of total revenues* 12. Capital grants as a percentage of total capital expenditures*

A detailed description of these financial indicators, as well as comparisons to selected municipalities, is included on the following pages.

Our analysis is based on Financial Information Return (FIR) data. Given the timing of financial reporting for municipalities, the analysis is based on 2022 FIR data with comparative information provided based upon the 2018 – 2021 FIR data.

Financial Indicators

C. Selecting Comparator Municipalities

There are a number of factors that will influence the financial performance and position of municipalities, including but not limited to geographic size, number of households, delegation of responsibilities between upper and lower tier levels of government and services and service levels. Accordingly, there is no 'perfect' comparative municipality for the City. However, in order to provide some perspective as to the City's financial indicators, we have selected comparator municipalities that have comparable:

- Governance structures (i.e. single-tier municipality);
- Household levels; and
- Geographic size.

Based on these considerations, the selected comparator municipalities are as follows:

Municipality	Population (2022)	Households (2022)	Area (square km)
London	430,770	184,650	420
Ottawa	1,067,310	457,070	2,790
Hamilton	592,000	245,175	1,118
Windsor	231,900	100,639	146
Kingston	132,578	63,813	451
Guelph	143,740	60,036	87

Financial Indicators

FINANCIAL ASSETS TO FINANCIAL LIABILITIES

This financial indicator provides an assessment of the City's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

TYPE OF INDICATOR

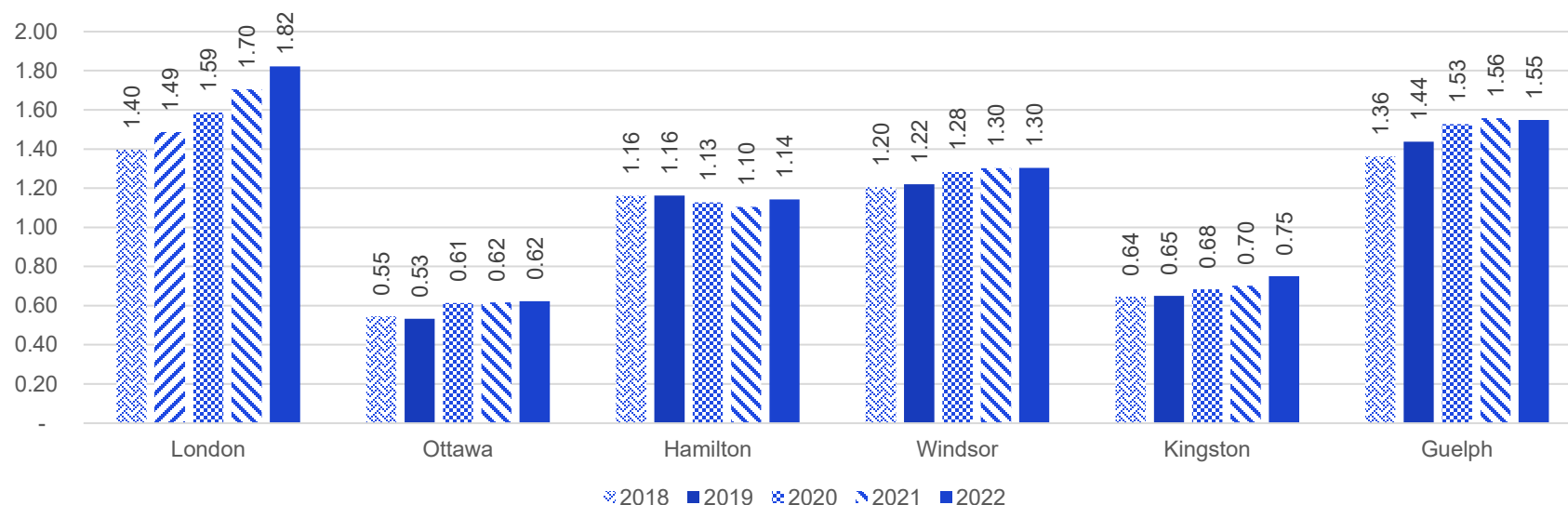
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 70, Line 9930,
 Column 1 divided by FIR Schedule
 70, Line 9940, Column 1

POTENTIAL LIMITATIONS

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years



Financial Indicators

TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.

TYPE OF INDICATOR

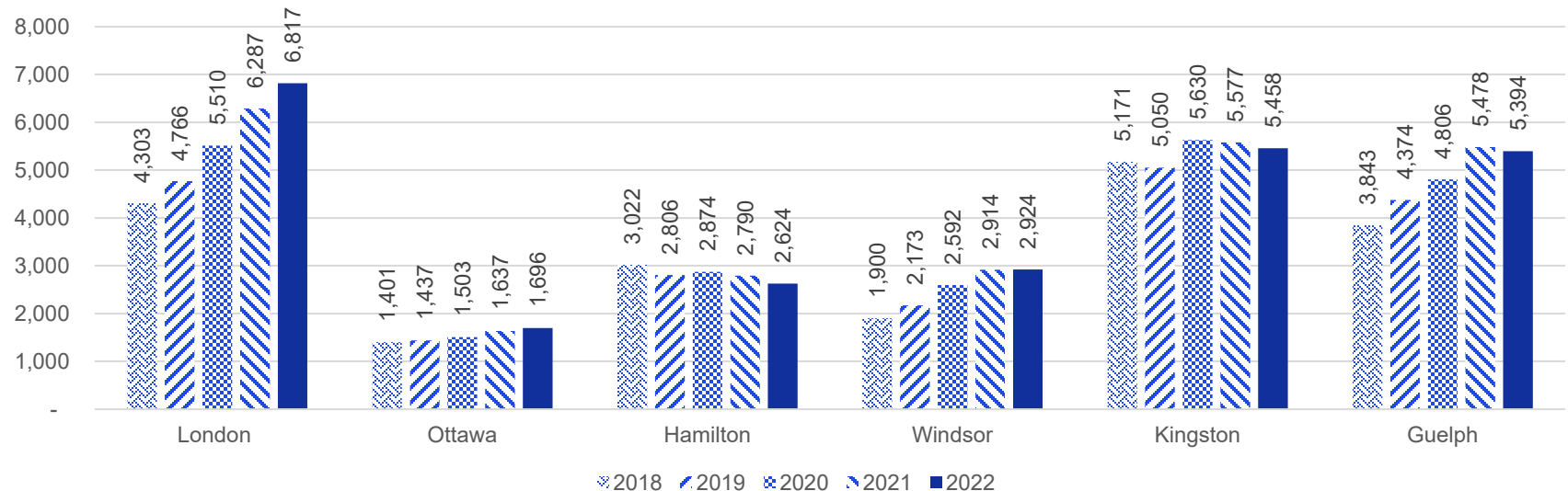
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 70, Line 6420,
 Column 1 divided by FIR Schedule
 2, Line 40, Column 1

POTENTIAL LIMITATIONS

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the City may not actually have access to financial assets to finance additional expenses or revenue losses



Financial Indicators

TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

This financial indicator provides an assessment of the City's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the City can fund any increases in operating costs without raising taxation rates.

TYPE OF INDICATOR

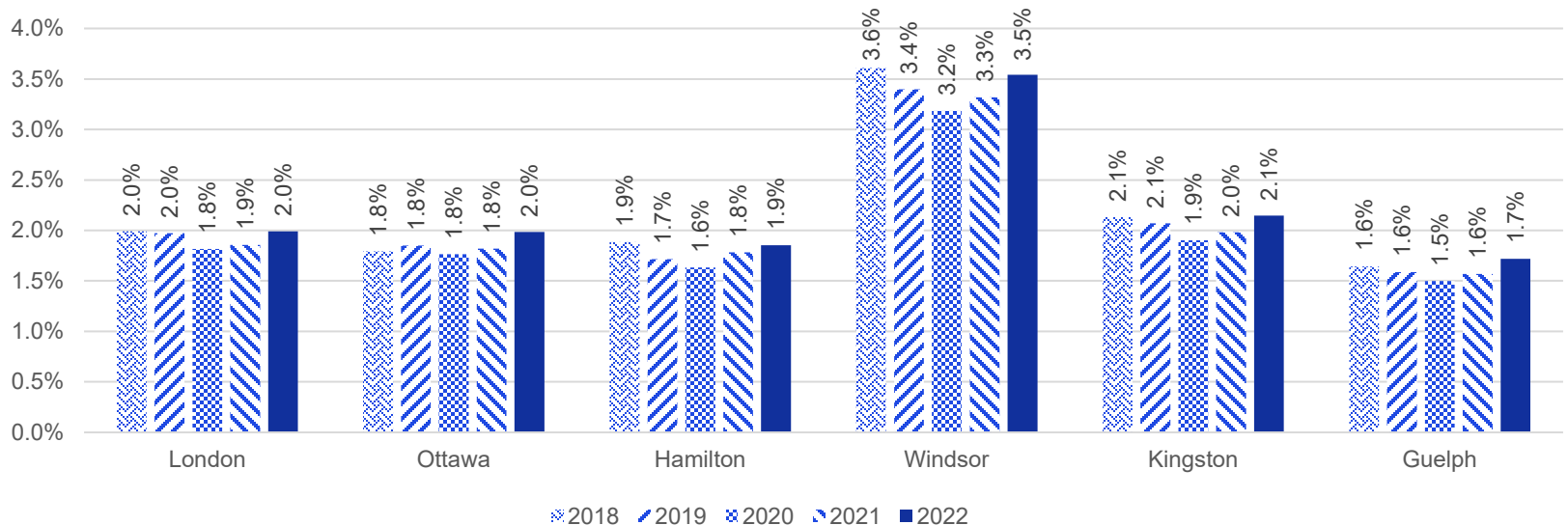
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 40, Line 9910,
 Column 7 less FIR Schedule 40,
 Line 9910, Column 16 divided by
 FIR Schedule 26, Column 17, Line
 9199

POTENTIAL LIMITATIONS

- As operating expenses are funded by a variety of sources, the City's sustainability may be impacted by reductions in other funding sources that would not be identified by this indicator.



Financial Indicators

CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the City's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

TYPE OF INDICATOR

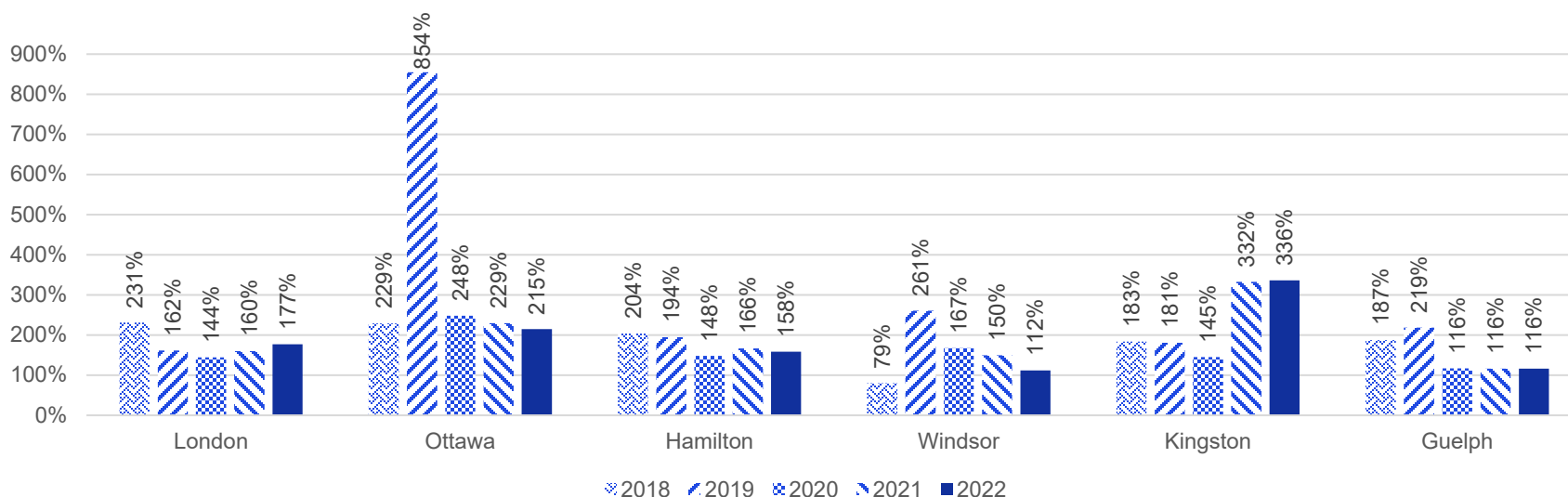
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

FIR Schedule 51, Line 9910,
 Column 3 divided by FIR Schedule
 40, Line 9910, Column 16

POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the City's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



Financial Indicators

RESIDENTIAL TAXES PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to increase taxes as a means of funding incremental operating and capital expenditures.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

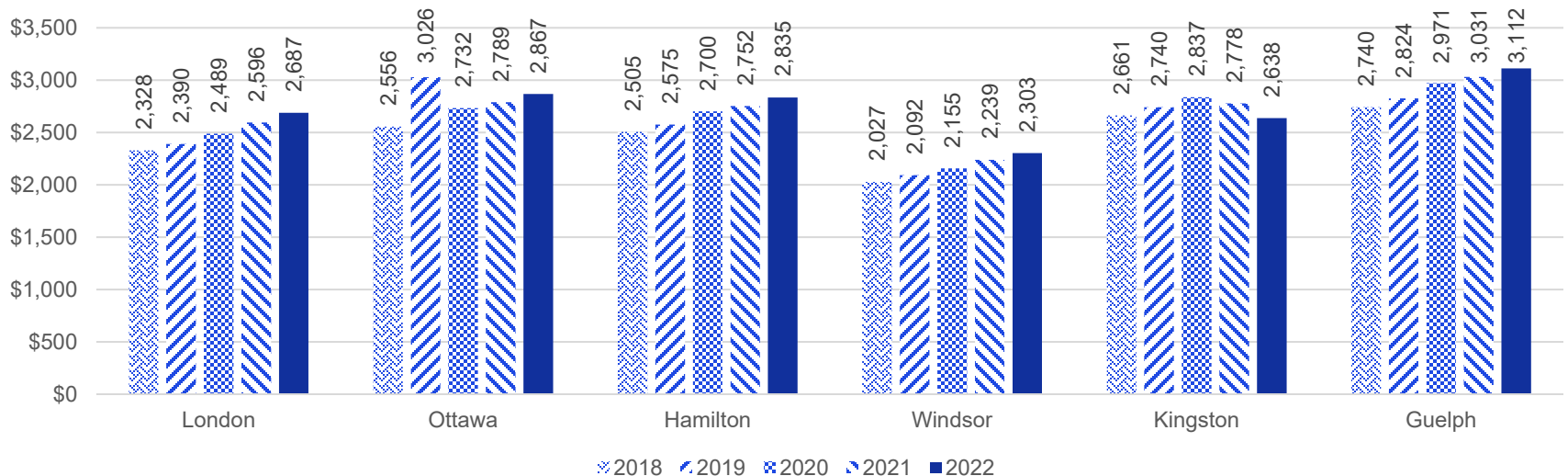
Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1

POTENTIAL LIMITATIONS

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- This indicator is calculated based on lower-tier taxation only and does not consider upper tier or education taxes.
- This indicator does not consider the level of service provided by each municipality.



Financial Indicators

TOTAL LONG-TERM DEBT PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to issue more debt by considering the existing debt loan on a per household basis. High debt levels per household may preclude the issuance of additional debt.

TYPE OF INDICATOR

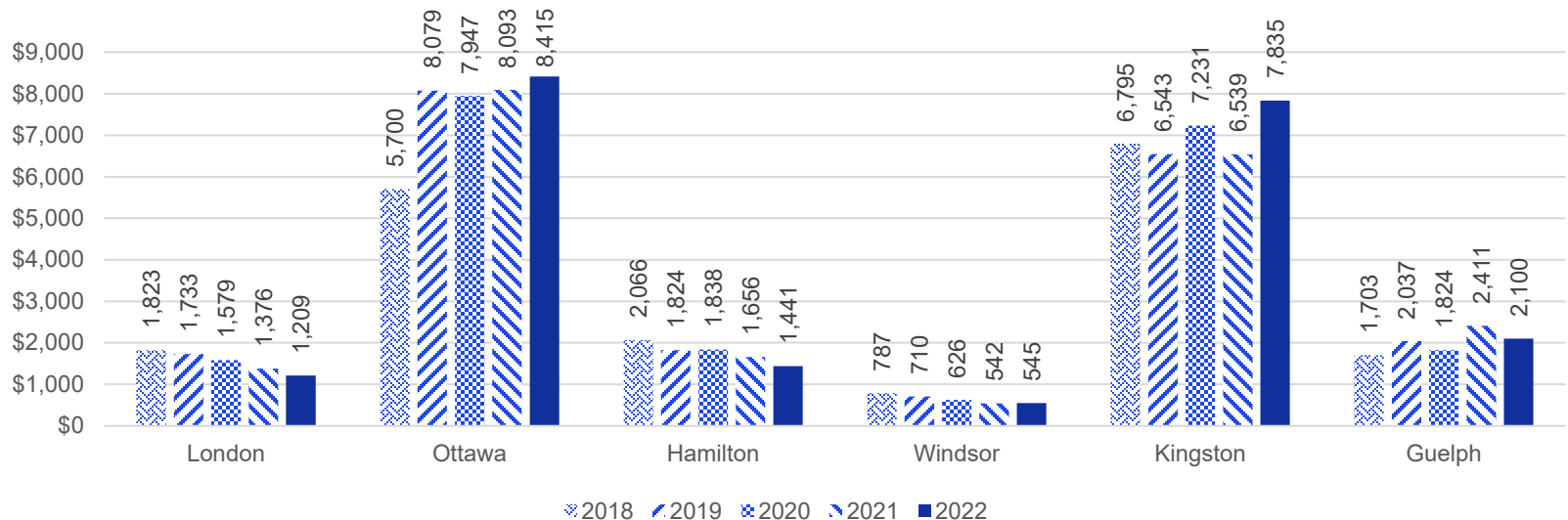
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 70, Line 2699,
Column 1 divided by FIR Schedule
2, Line 0040, Column 1

POTENTIAL LIMITATIONS

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board



Financial Indicators

RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of median after tax household income used to pay municipal property taxes.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

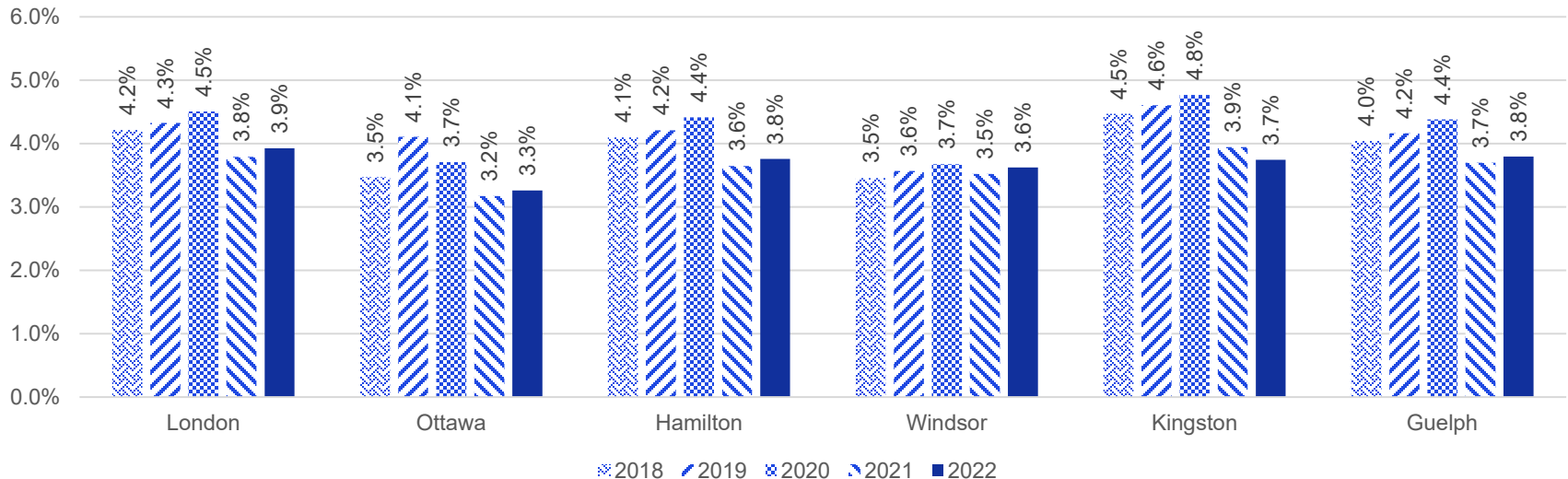
Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Median household income is derived from 2016 and 2021 census data.

POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on a median household basis and does not provide an indication of affordability concerns for low income or fixed income households.



Financial Indicators

TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

This financial indicator provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax rate percentages may limit the City's ability to generate incremental revenues in the future.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

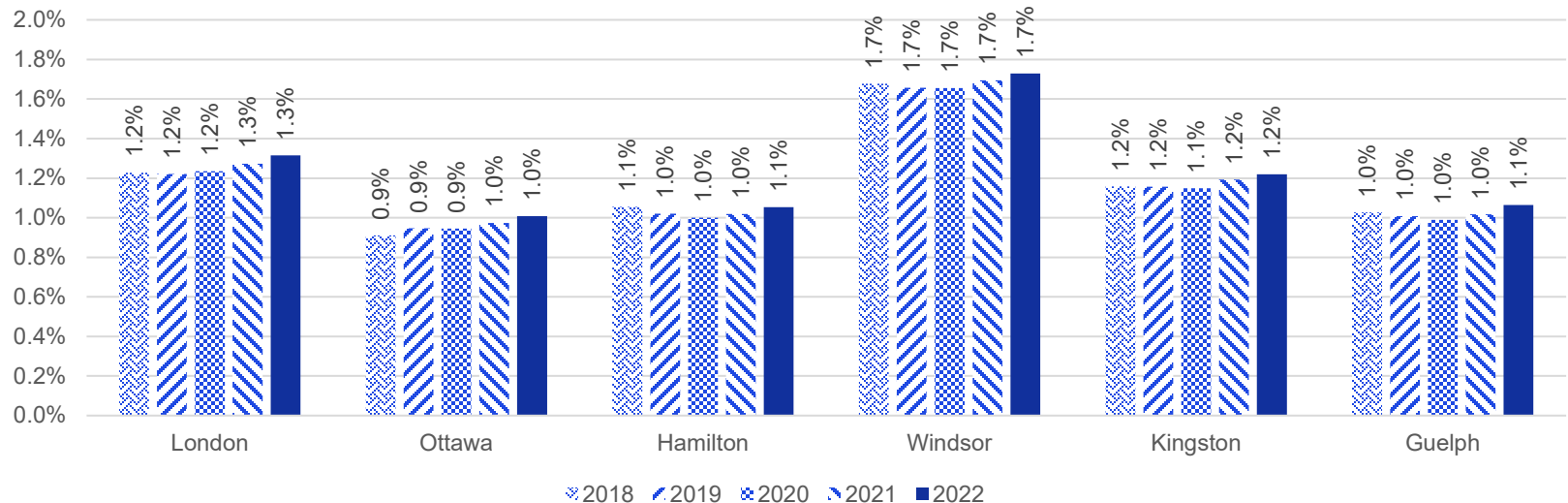
Vulnerability

FORMULA

FIR Schedule 26, Line 9199 and Line 9299, Column 4 divided by FIR Schedule 26, Line 9199 and 9299, Column 17.

POTENTIAL LIMITATIONS

- This indicator considers the City's overall tax rate and will not address affordability issues that may apply to individual property classes (e.g. commercial).



Financial Indicators

DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

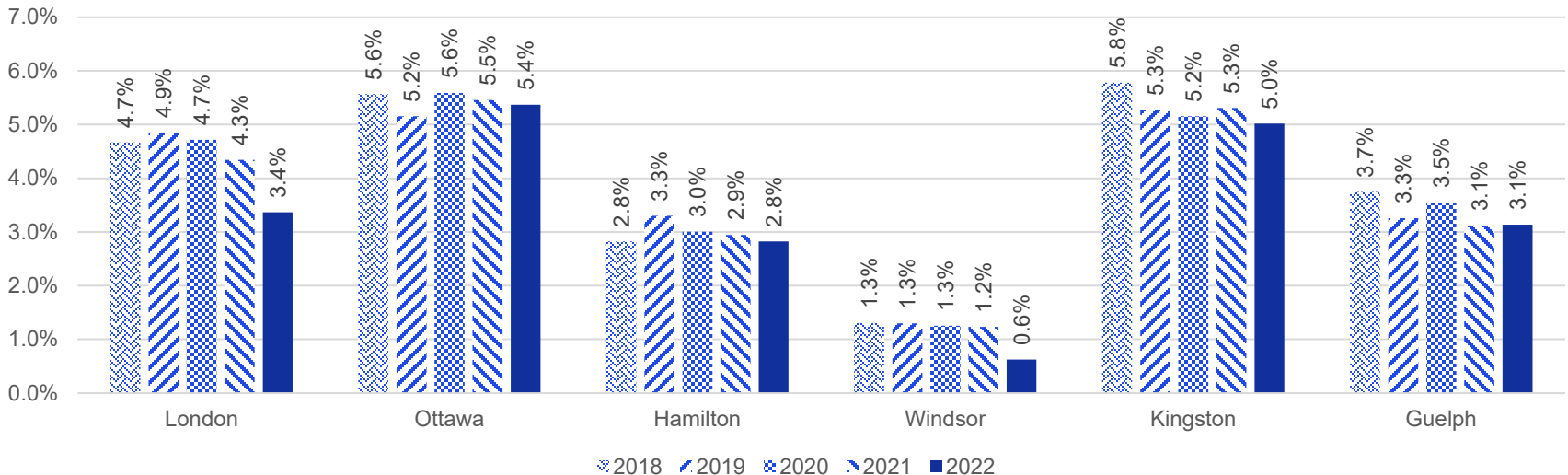
Vulnerability

FORMULA

FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- No significant limitations have been identified in connection with this indicator



Financial Indicators

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS

This financial indicator provides an indication as to the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

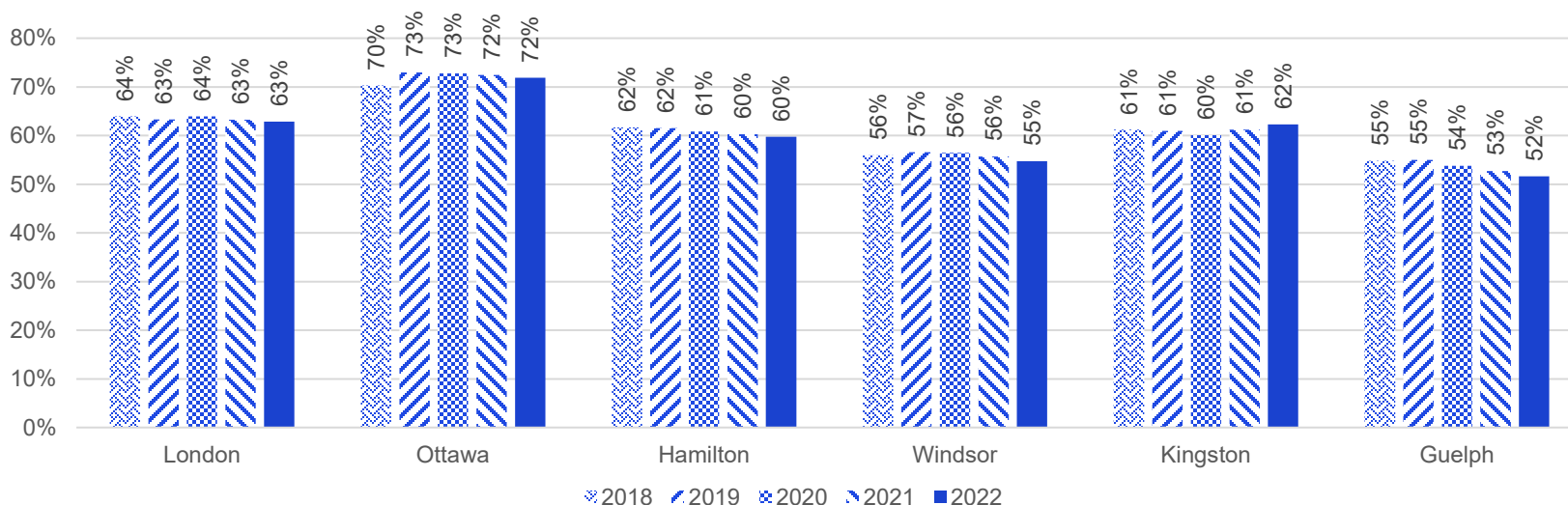
Vulnerability

FORMULA

FIR Schedule 51A, Line 9910, Column 11 divided by FIR Schedule 51A, Line 9910, Column 6.

POTENTIAL LIMITATIONS

- This indicator is based on the historical cost of the City's tangible capital assets, as opposed to replacement cost. As a result, the City's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



Financial Indicators

OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

TYPE OF INDICATOR

Sustainability

Flexibility

Vulnerability

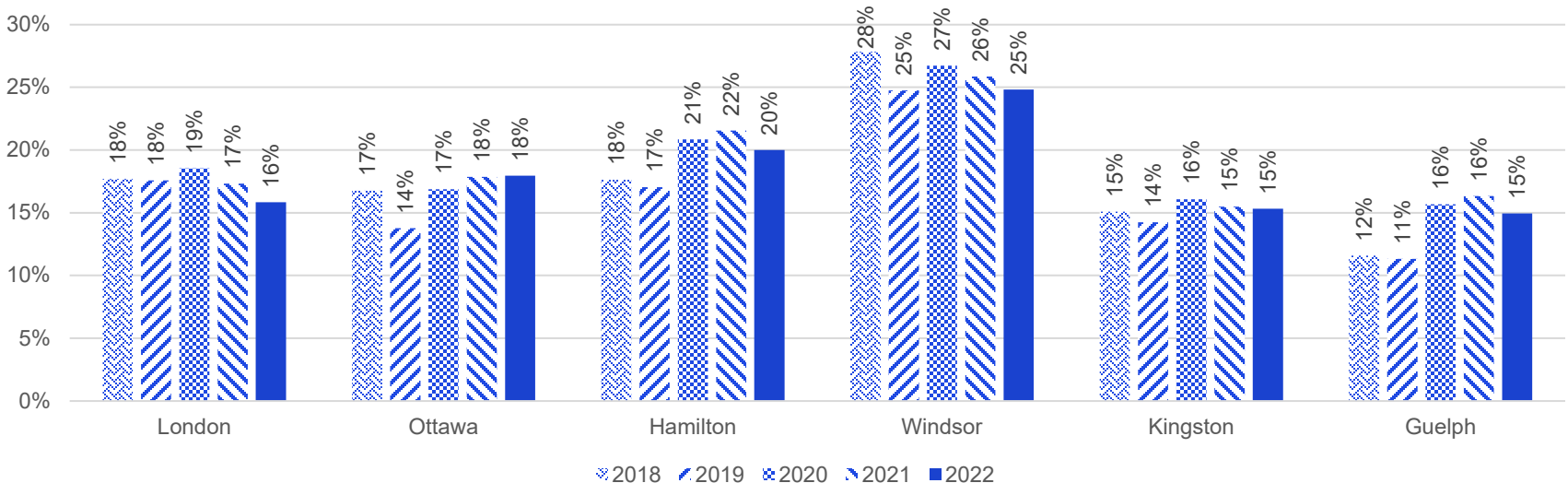


FORMULA

FIR Schedule 10, Line 0699, Line 0810, Line 0820, Line 0830, Column 1 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.



Financial Indicators

CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

This financial indicator provides an indication as to the City's degree of reliance on government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability

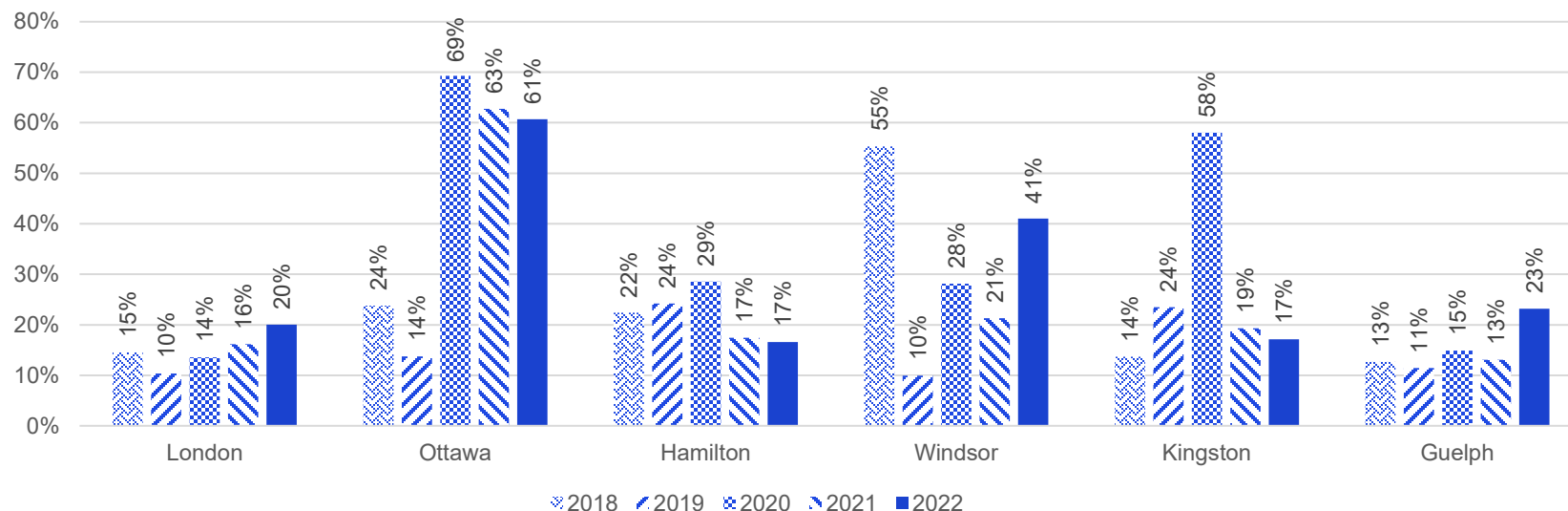
✓

FORMULA

FIR Schedule 10, Line 0815, Line 0825, Line 0831, Column 1 divided by FIR Schedule 51, Line 9910, Column 3.

POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Document Classification: KPMG Public



Appendix H: Insights to enhance your business

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

Lean in Audit		
Lean in Audit		
<p>Lean in Audit™ is KPMG’s award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.</p> <p>By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.</p> <p>Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.</p> <p>We look forward to working with you to incorporate this approach in your audit.</p>		
How it works		
Standard Audit	<p>Typical process and how it's audited</p>	
Lean in Audit™	<p>Applying a Lean lens to perform walkthroughs and improve Audit quality while identifying opportunities to minimize risks and redundant steps</p>	
How Lean in Audit helps improve businesses processes	<p>Make the process more streamlined and efficient for all</p>	
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> ● Value: what customers want (maximize) </div> <div style="text-align: center;"> ● Necessary: required activities (minimize) </div> <div style="text-align: center;"> ● Redundant: non-essential activities (remove) </div> </div> <div style="display: flex; justify-content: space-around; align-items: center; margin-top: 10px;"> <div style="text-align: center;"> 🔒 Process controls </div> <div style="text-align: center;"> ✓ Key controls tested </div> </div>		



Appendix I: Audit and assurance insights

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

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

Converging Trends

This report offers a view into the world in 2033 for the infrastructure sector.

Audit Committee Guide – Canadian Edition

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

Accelerate 2023

The key issues driving the audit committee agenda in 2023.

Momentum

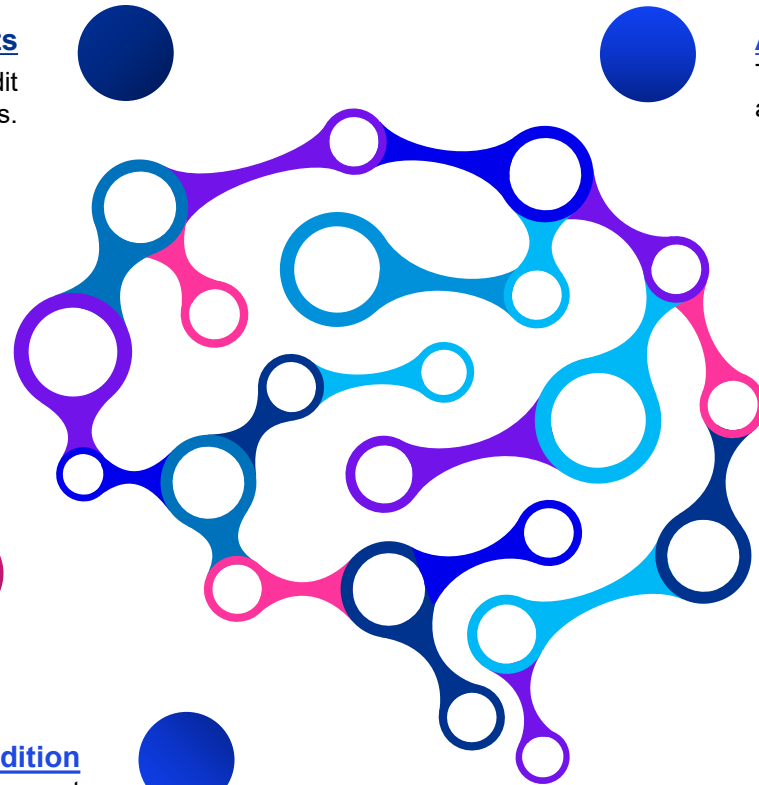
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre

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

Government and Public Sector Insights

Navigating the contentious issues disrupting all government and public sector organizations requires the steady hand of a trusted guide.





Appendix J: Fraud Prevention

75%

of Canadian small and medium-sized businesses were impacted by internal or external fraud (such as credit card fraud, fraudulent cheques, false invoices, or identity fraud by hijacking bank accounts) in the past year.*

**based on a February 2023 KPMG in Canada survey of more than 500 small and medium-sized enterprises across Canada*



The unfortunate reality is that fraud is no longer a question of “if?” but “when?”.

Organizations that effectively monitor and swiftly detect and respond to potentially damaging situations such as these are better placed to deal with them quickly and successfully, while reducing adverse financial, reputational or operational impact.

Based out of our London office, **Tyler Reavell** is a Senior Manager of KPMG in Canada’s Forensic Services practice in Southwestern Ontario. With over 10 years of professional experience, Tyler assists clients in achieving and maintaining business integrity through the prevention, detection, and investigation of fraud and misconduct.

Tyler has worked with Canadian organizations of all sizes and various industry sectors. Tyler’s professional experience includes fraud risk management, investigations of employee and corporate fraud for the purposes of criminal complaints, civil litigation, insurance claims and employment matters, tracing of misappropriated funds, review, design and implementation of internal controls in relation to fraud risks, business valuations for the purpose of disputes, and preparation of insurance and court-ready expert reports, for civil and criminal proceedings in Ontario.



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Tyler is the designated Forensic Risk Consulting advisor working as part of your KPMG engagement team. He will be happy to support your organization’s needs for Forensic Services. You can contact Tyler directly or through your KPMG audit team.



Appendix K: Climate risk in the financial statements

All entities are facing climate-related risks and opportunities – and are making strategic decisions in response. The impacts of climate-related risks in the financial statements are broad, potentially complex and will depend on industry-specific risks.

How might climate-related risks impact the financial statements?

01

Assets

Consider the useful lives and residual values of PP&E and intangible assets, cash flow projections used for impairment testing of non-financial assets, and the potential impacts on inventories.

02

Liabilities

Consider the recognition of environmental and decommissioning obligations, accounting for emissions or 'green' schemes, impact on employee-benefit arrangements, and restructuring provisions.

03

Borrowers

Consider the accounting for different forms of government assistance, potential for embedded derivatives in green bonds, lease of green technology, impacts of leasing polluting assets.

04

Lenders

Consider how climate-related risks impact operating and financing leases, the potential impact on expected credit losses, and whether green loans meet the solely payments of principal and interest (SPPI) criterion.

05

Disclosures

Consider the impact on the going concern assessment and related disclosures and whether the impacts of climate-related matters have been disclosed clearly.



Appendix L: ESG Discovery

Is your ESG performance driving real value?

Understand how to unlock new value for your business through KPMG's ESG Discovery session



66% of Canadian small and medium-sized enterprise (SME) leaders surveyed have set environmental and social goals to be included in their business plans. But only 17% are taking formal steps towards sustainability.¹

Why is ESG performance a priority for my business?

Stakeholders are increasingly putting pressure on companies to manage their Environmental, Social and Governance (ESG) risks and opportunities, and disclose their ESG performance in alignment with global standards. Business leaders more readily embedding ESG factors into their business will be better positioned to meet new regulatory requirements and unlock value.

- **Increased sales:** Proactively addressing and implementing ESG principles ahead of competitors to boost productivity, innovation and market placement
- **Decreased operational costs:** Lowered costs through sustainable suppliers and other financial arrangements
- **Increased consumer loyalty and talent retention:** Improved reputation and engagement from customers, employees and investors
- **Enhanced access to capital:** Gained from government grants, tax incentives, loans, bonds, and other capital sources – often at more favourable terms

Considerations for your leadership team

- Have your stakeholders expressed their expectations regarding ESG issues?
- Have you identified which ESG issues are material to your organization today? In one year? In five years?
- Where do you have blind spots?
- Where can you proactively mitigate future concerns?
- Do you know from where to access funding to make investments in your ESG performance?
- How are you communicating your ESG integration efforts to investors and other stakeholders? align with new regulations?

How to start: ESG Discovery sessions

KPMG in Canada has developed **ESG Discovery sessions** to help SME clients explore and hone on their ESG challenges and opportunities to unlock long-term value for their business.



OVERVIEW

- **Length:** 3 hours
- **Format:** Virtual, hybrid or in-person



WHO CAN BE INVOLVED

- Leadership & management
- C-Suite (e.g., CEO, CFO)
- Board members



DISCOVER

- Insights into market dynamics, future trends and why ESG is gaining in importance
- Industry and peer ESG performance
- How to effectively integrate ESG into your business



SESSION OUTCOMES

- An **ESG trend diagnostic** highlighting the priority policies for your industry
- A barometer of your **ESG maturity** comprising seven key dimensions and 29 indicators
- An **ESG roadmap** that gives you a clear vision of your priorities and how to get the help you need for your future projects

¹: Québec Survey on Sustainable Development, Eco-responsible Practices and Clean Technology (in French only) –2021 (quebec.ca)

Drive sustainable growth, at every stage of your business

The ESG Discovery session is just the first step on the journey to becoming a sustainable enterprise. Through our work with small, medium, large and multinational businesses across all industries, we can help ensure you are able to build a strong foundation which endures as your organization scales and grows over time.

Our cross-functional subject matter experts combine deep sector experience and insights to help business leaders stay ahead of the curve, aligning their business and ESG strategies to future investor, customer, supplier, regulator, employee and community expectations.



Contact us

Book a free exploratory call with our team to assess your next steps.

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Appendix M: ESG Reporting



Why audit committees should steer ESG reporting



Being unprepared could expose companies to reputational and financial risks

By Dave Power

The clock is ticking. Environmental, social and governance (ESG) reporting is moving from voluntary to required. The first mandatory ESG reporting will be required for some Canadian companies as soon as 2025. But few organizations are prepared for this new regime and the third-party assurance expected to come with it. To be ready, companies must formulate a detailed plan, make organizational changes and commit resources.

Mandatory public reporting of non-financial metrics will expose companies to new risks. Misleading or incorrect reporting can cause reputational damage in the eyes of key stakeholders, reduce access to capital and lead to a decline in the company's share price. Companies may need to disclose competitive information, such as resource use, that they may not have previously disclosed to investors, and overall business strategy could be affected by shareholder pressure to improve certain metrics. At the same time, the integration of ESG strategy into the broader corporate strategy and its effects on financial metrics will be more visible and open to more stakeholder scrutiny.

Given these implications, companies must develop a robust management and governance system for ESG with board-level oversight. This system may well be delegated to the audit committee at most companies because it is the board body that has the most experience with assurance, oversight of data

and controls, and reviewing reports that will be made public. In addition, the company's financial auditor may be engaged to provide third-party assurance over ESG reporting and the finance department will probably—and should—be heavily involved because its competencies most closely align with those needed to prepare this new reporting.



Preparing for mandatory ESG reporting is a massive project and companies that haven't meaningfully started the journey are behind. Leadership will need to come from boards and audit committees must ensure management has a comprehensive path to completion to take the company's ESG reporting from where it is today to where it soon needs to be.

Dave Power

Partner,
GTA ESG Assurance Leader
KPMG in Canada



Many organizations will require formal ESG reporting, as opposed to voluntary or none at all

In KPMG's *Road to Readiness: KPMG ESG Assurance Maturity Index 2023*, two-thirds (66 percent) of all respondents and 78 percent of those from listed companies say their firms "must now report ESG data or will be required to soon" [1]. "Until now, most of this reporting has been voluntary, but in the coming years, public companies and other public interest entities will need to disclose specific ESG information under one or more disclosure frameworks.

In June 2023, the International Sustainability Standards Board (ISSB) issued its first sustainability disclosure standards, *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*, designed to be adopted globally on a jurisdictional basis [2]. In Canada, the Canadian Sustainability Standards Board (CSSB) has been formed to support the adoption of the standards. In the interim, some companies may choose to adopt them voluntarily and report on IFRS S1 and S2 beginning fiscal years starting on or after January 1, 2024. These disclosure standards have also been endorsed by the International Organization of Securities Commissions (IOSCO), which has encouraged its 130 member jurisdictions to look at incorporating them. IOSCO represents 95 percent of the world's security markets, so adopting the standards into regulation will likely be widespread [3].

As of fiscal periods ending on or after October 1, 2024, certain federally regulated financial institutions in Canada must make climate-related financial disclosures per *Guideline B-15: Climate Risk Management*, published by the Office of the Superintendent of Financial Institutions (OSFI). And in Europe, the first companies subject to the *Corporate Sustainability Reporting Directive (CSRD)* must start reporting according to European Sustainability

Reporting Standards (ESRS) for periods beginning on or after January 1, 2024 [4].

The Canadian Securities Administrators (CSA) is working with the CSSB as it looks to adopt the ISSB standards. It's still undertaking consultations and has not announced an effective date for new disclosure requirements for publicly listed entities in Canada, but we anticipate they'll become effective in the next couple of years. In the U.S., companies must prepare for the requirements that will come soon after the Securities and Exchange Commission (SEC) makes its final announcement on its climate-related reporting rules. Audit committees will want to ensure that management has a process for tracking the regulatory environment and knows which regulations apply to the company.

The "S" in ESG is driving new reporting requirements as well. The *Fighting Against Forced Labour and Child Labour in Supply Chains Act* will require some Canadian companies and government institutions to submit a publicly available report to the Minister of Public Safety every year on the steps taken in the previous financial year "to prevent and reduce the risk that forced labour or child labour is used at any step of the production of goods in Canada or elsewhere by the entity or of goods imported into Canada by the entity" [5]. The first report will be due May 31, 2024, and failure to report can result in fines, investigations and liability for directors. Audit committees must be sure management is aware of whether their organization is in scope for this reporting and, if so, what steps they're taking to provide complete and accurate information by the deadline.

Companies need to map out a path to completion

Despite the prevalence of forthcoming ESG reporting mandates, few organizations are ready to transition to formal reporting. Only 27 percent of companies surveyed by KPMG report that they "have robust policies and procedures to support

[1] "Road to readiness: KPMG ESG Assurance Maturity Index 2023," KPMG International, 2023

[2] "Canadian Securities Administrators statement on proposed climate-related disclosure requirements," Calgary and Toronto, July 5, 2023

[3] "IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards," Madrid, July 25, 2023

[4] "Guideline B-15 Climate Risk Management." Office of the Superintendent of Financial Institutions (website) accessed Oct 10, 2023

the development of their ESG disclosures” and only a quarter (25 percent) feel they have the “policies, skills and systems in place to be ready for ESG assurance” [6]. Given the impending deadlines for mandatory reporting, audit committees must ensure management is putting the required policies and systems in place and recruiting or upskilling employees to ensure the company has the talent and knowledge required to meet these requirements.

Almost all organizations will need to bolster their ESG reporting to align with these new regulatory requirements, and the transition complexity should not be underestimated. It will require significant resources, time and cross-disciplinary cooperation across the organization. Even companies that currently report ESG metrics voluntarily will need to make substantial changes as the final regulations will require companies to report on metrics they may not currently report, use a methodology that differs from what they use today, or both. Companies operating in multiple jurisdictions may also find that reporting prepared for one jurisdiction is insufficient or non-compliant for another.

Audit committees must ensure that management has a clear path to completion to bring their reporting to the standard required for the formal reporting and assurance requirements for which they are in scope. This plan must be feasible given the organization’s available resources and the importance of other initiatives. It begins with a clear understanding of where the company is today and where it needs to be to report under the new standards. Plans must be developed to close gaps and address resource needs.

A particular area of challenge for companies, and one of the areas where audit committees can focus, is the processes and controls management has in place—or intends to put in place—to ensure

that information reported is complete, accurate and assurable. These processes and controls should be as robust as those for financial information and their design and implementation should involve people with appropriate skills and knowledge in these areas. Given their core competencies in these areas, this supports our expectation that the financial reporting and internal audit teams will play key roles in ESG reporting.

Of key importance are management’s capabilities today versus those that are needed to achieve a successful transition to ESG reporting readiness and assurance. The audit committee can play a critical role in understanding current capability, what is needed, and where additional support is needed through upskilling current staff or engaging internal or external experts, including at the board level.

Reporting will be integrated

While financial statement and ESG disclosure standards remain separate, we’re likely headed toward an integrated report containing financial and non-financial information. Some organizations already have this type of reporting, although only pieces of it may be subject to external assurance.

In many firms, ESG strategy and reporting are siloed from the broader strategy and other types of reporting. However, cross-functional cooperation will be necessary as we move closer to integrated reporting. A holistic approach to reporting must start at the board level and trickle down to management and the broader organization. The audit committee has the breadth of perspective required to ensure the organization moves toward a structure where ESG and sustainability are integrated into all aspects of the organization.

[5] “S.C. 2023, c. 9, Fighting Against Forced Labour and Child Labour in Supply Chains Act”

[6] “Road to readiness: KPMG ESG Assurance Maturity Index 2023,” KPMG International, 2023

The company's financial auditor should provide ESG assurance

With mandatory ESG reporting on the horizon, investors are demanding third-party validation of those metrics and related information. Providing assurance is the core competency of financial statement auditors, leaving them best positioned to provide assurance on non-financial information. The standards are being written using many of the principles of financial statement reporting standards, in which financial statement auditors are well versed.

Beyond core knowledge, using a company's financial statement auditor brings additional benefits and efficiencies. Dealing with one firm will impose a lower administrative burden than dealing with multiple firms and spare companies the potential complications of dealing with two divergent opinions and having to provide the same information twice. The financial auditor is already familiar with the company, its processes and control systems, and therefore are best positioned to help companies identify disconnects or risks between financial and non-financial information and disclosures.

Today is the time to start preparing for mandatory ESG reporting

Companies need to begin transitioning to formal ESG reporting now. It's a complex task and opens them up to new risks. The skillsets and knowledge of audit committees will allow them to provide valuable guidance throughout this process.

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Questions audit committees should be asking:

Where is the company in terms of our preparedness for formal ESG reporting?

How are we, as an audit committee, preparing to review and understand what's being reported, disclosed and assured?

What is management's roadmap to be ready to make formal public ESG disclosures?

Is the company, management and the board appropriately structured to provide governance for this reporting?

How are we incorporating ESG strategy into the broader corporate strategy?



Appendix N: Generative AI



Preparing your board for generative AI

Generative AI Board Briefing Paper

January 2024

Your journey to Trusted AI

In the fast-changing world of Artificial Intelligence (AI), generative AI stands as a pivotal innovation that board members and Non-Executive Directors need to fully understand. It offers unprecedented opportunities but also raises complex business and ethical questions. The aim is not just to manage those challenges, but to elevate your organization's AI practices to achieve "Trusted AI."

We define **Trusted AI** as the balanced integration of Artificial Intelligence that helps maximize benefits, minimize risks, and retain the trust of stakeholders by aligning with governance, ethics, and safety principles.

This briefing serves a dual purpose: first, to provide you with a focused overview of how generative AI affects your responsibilities, and second, to help set you on the path towards operationalizing Trusted AI.

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Board checklist

A key responsibility of the board is establishing an effective risk management program that evolves with emerging technologies. It is vital for board members to understand how AI affects their organization, the potential benefits, and to actively oversee and mitigate related risks. To help, we created a checklist designed to guide you in your journey.

AI Knowledge and Inventory

- Gain a base-level understanding of what AI and generative AI means – its potential benefits and risks, and how the company might use it, and ensure knowledge cascades to the C-suite.
- Understand the inventory of material AI use cases currently in production or in development.

Strategic Alignment & Governance

- Understand and approve the AI strategy, ensuring its alignment with broader business strategies and protective policies.
- Set and approve the AI risk profile, risk tolerance, and guardrails using a Trusted AI framework.
- Identify a Trusted AI governance structure that reports to the board.
- Understand and oversee AI decisions recognizing their advantages and trade-offs.
- Ensure AI is a regular board agenda item.

Trusted AI & Regulation

- Understand current and pending AI-related regulations.
- Understand and oversee Trusted AI use, risk identification, and mitigation especially concerning accuracy, security, privacy, and bias.
- Understand high-risk AI activities and the actions to mitigate them.
- Define a position for AI in relation to organizational values and culture, recognizing the implications for both employee and customer experience.

Data Management & Integrity

- Understand the nature of data used in AI models, ensuring its quality, integrity, relevance, and unbiased nature.

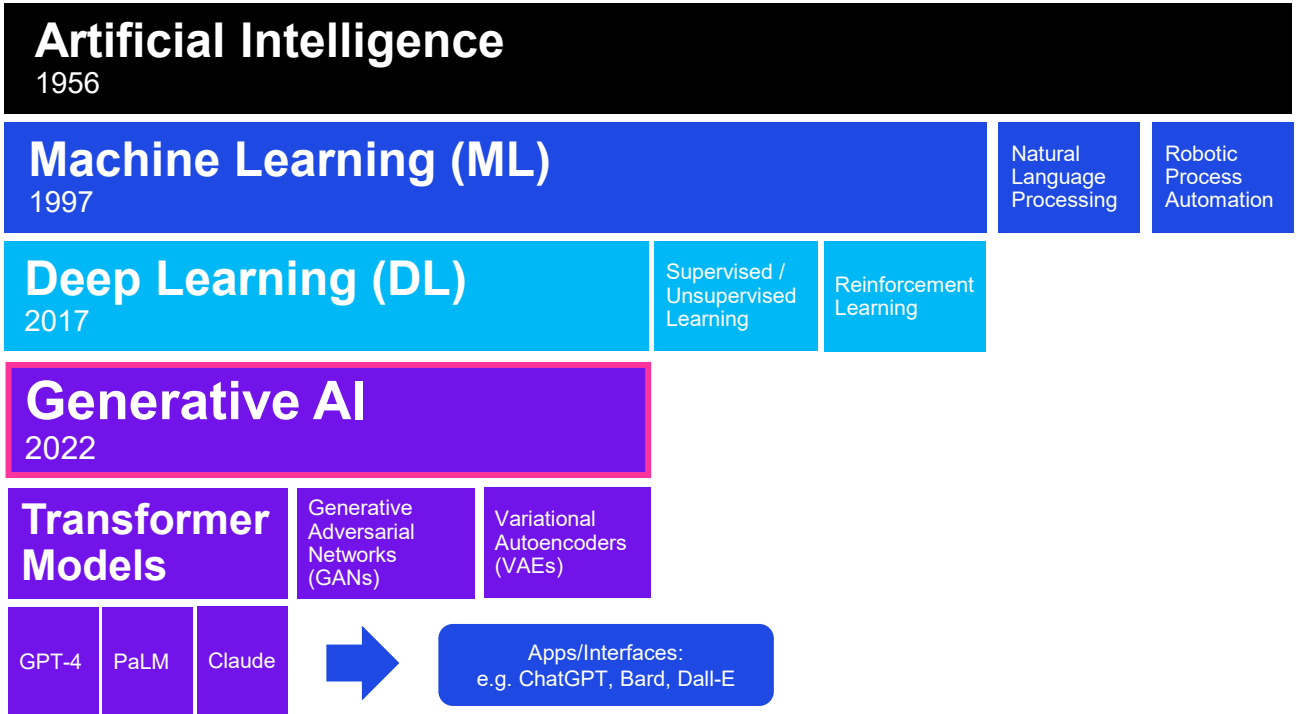
Incident, Vendor & Risk Management

- Understand incident management procedures for AI and relevant business continuity measures.
- Understand vendor risk management for AI platforms.
- Ensure regular independent testing and assessment of AI systems.

Putting Data and AI in context

AI is an umbrella term that encompasses different techniques. AI and its subset, generative AI, are transforming the competitive landscape across all sectors, offering significant advantages but also posing ethical and governance challenges.

Many boards are asking for high-level education (with third-parties, as necessary) on generative AI and its potential benefits and risks for their company. The session should include an overview of the risks posed by generative AI, which could mean additional reputational and legal risks that can undermine stakeholder trust.

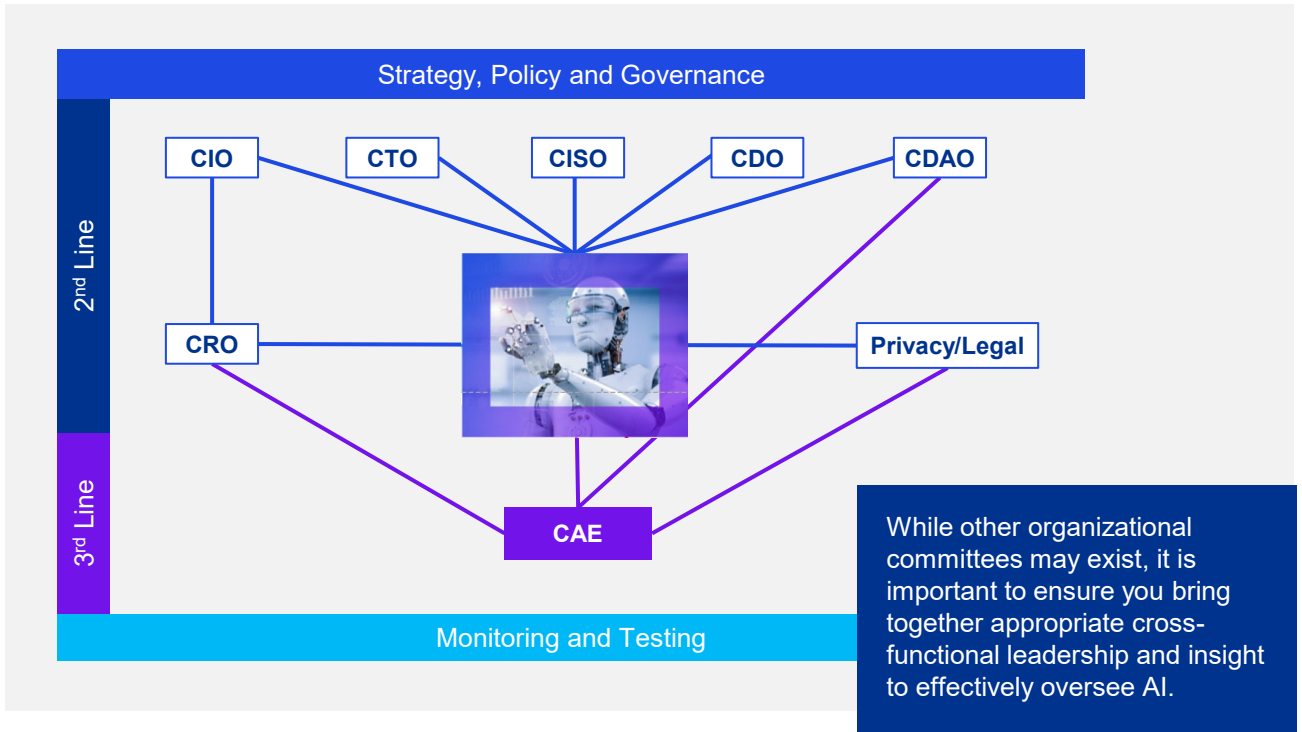


- AI systems can generate predictions, recommendations, or decisions that influence real or virtual environments. Generative AI, specifically, can create realistic and unique outputs like images, videos, software code, music, or text.
- AI is projected to generate nearly US\$5 trillion in added value by 2024, facilitating productivity gains, driving new business models, and helping address complex global issues (Source: IDC).
- The rapid growth of generative AI has also heightened awareness of associated risks. To gain trust, AI systems must be developed and implemented carefully, aligning with legal frameworks, ethical norms and human rights.
- Given rapidly evolving legislation, the use of generative AI may pose compliance risks. Monitoring this must be a management priority.
- High-profile failures involving AI have eroded public trust. Some AI technologies have been accused of reinforcing unfair biases and stealing artists' intellectual property (IP).
- AI applications can produce inaccurate, unfair, or harmful outcomes, potentially undermining trust, and human rights like privacy. Data privacy is a major concern.
- A recent KPMG in Canada [national survey](#) indicates that the responsible use of AI is a key enabler in building trust and customer loyalty.

Establish your AI Governance committee

We recommend a dedicated AI Governance committee that reports to the board to supervise trustworthy, ethical AI practices in the organization. It should include key C-level executives or their representatives from across the business, including functional, legal & privacy, risk, technology, data, cyber, and sales & marketing.

The committee should seek external advice from experts in AI, ethics, and law and assist the C-Suite in making informed decisions on significant matters pertaining to AI.



Goals for the board

- Ensure AI applications align with ethical standards, safeguarding the organization from potential legal and reputational risks.
- Foster innovation, enabling the business to gain a competitive edge through trustworthy AI development.
- Establish a commitment to ethical and Trusted AI, enhancing trust and brand value among stakeholders, customers, and employees.

Key considerations:

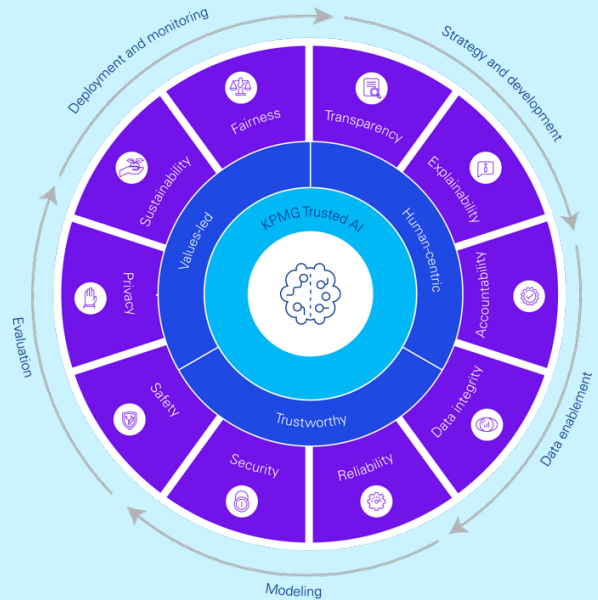
- It is important to develop a governance structure and policies for generative AI technology early on, and to review and update those policies as new AI tools and risks emerge.
- Define key roles and responsibilities in relation to oversight, design, development, and use of AI across the business (including products and services).
- Create AI guiding principles aligned with the Trusted AI framework, including on the ethical use of AI.
- Define and document the scope of the AI governance program, including which types of models, algorithms, and systems are in and out of scope, and why, and building a risk scale for in-scope use cases).
- Monitor the process to escalate and assess high-risk AI use cases (including the intake and approval process).

Assess your AI readiness

AI readiness in an organization means being fully set up and prepared – across strategic alignment, infrastructure, technology, workforce skills, and ethical considerations – to use AI effectively and responsibly.

Leading organizations strive to understand and proactively manage the risk and ethical issues related to AI. Any assessment framework used should evolve with current and upcoming frameworks and regulations, including NIST AI Risk Management, ISO 42001, AIDA, EU AI Act, Canada’s Guide on the use of Generative AI, etc.

Image on the right: **KPMG’s Trusted AI framework.**



Among the key questions to consider during this process are:

- Is there a clear decision-making process for how and when a generative AI system or model – including a third-party model – should be developed and deployed?
- How is management mitigating these risks and what generative AI risk management framework is used?
- How is the company monitoring federal, provincial, and global legislative and regulatory proposals to govern the use of generative AI?
- Does the organization have the necessary generative AI-related talent and resources?

Goals for the board:

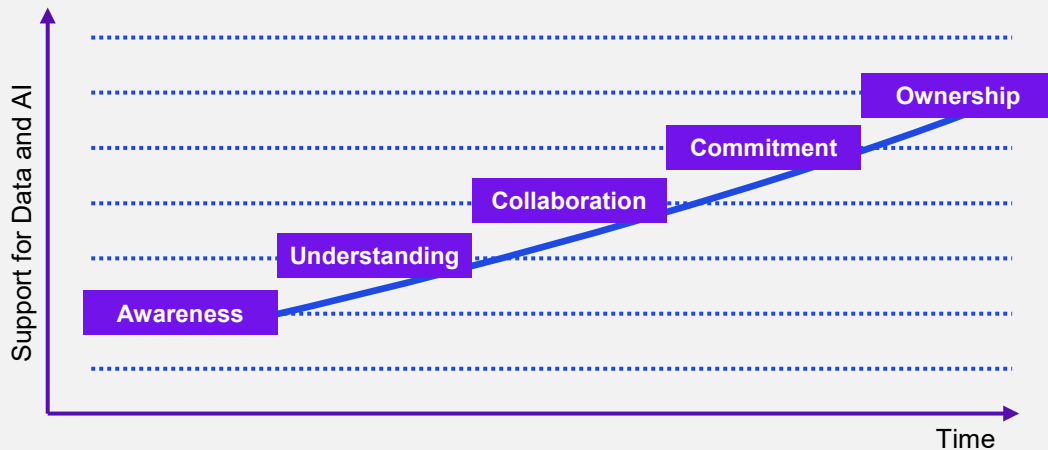
- Receive quantified insights into your organization’s AI readiness, benchmarked against national, international best practices, and peers, leveraging a robust Trusted AI framework.
- Lay the groundwork for informed discussions among key decision makers about your organization’s AI and data challenges, priorities, and roadmap.
- Gauge consensus and understanding across relevant stakeholder groups, which can inform initiatives to improve awareness and promote a consistent approach within your organization.

Key considerations:

- Foster top-down leadership by establishing a unified understanding across the organization, and about where the AI readiness assessment fits in your company’s data and AI ethics journey.
- Prioritize outcomes by adopting an outcome-focused approach to ensure the insights from the assessment translate into actions. This will inform the roadmap and development of your data and AI ethics strategy, principles, and processes.
- Maintain clear communication by ensuring respondents understand the benefits, desired outcomes, and results of the assessment, and how these impact them and the organization. This fosters a sense of collaboration and inclusion.

Build employee engagement

Strong governance and AI readiness create a structured environment where AI can thrive, but it's the commitment and understanding from your employees that bring these technologies to life in a sustainable, trustworthy way. Build a shared focus around AI by engaging your employees early in your journey.



Awareness

Stakeholders have a broad awareness and familiarity of Data and AI concepts.

Understanding

Stakeholders understand the key principles, terms, use cases, and changes Data and AI introduces to them.

Collaboration

Relevant stakeholder groups collaborate on a periodic basis through an established governance forum to drive change programs pertaining to Trusted AI.

Commitment

Stakeholder groups are committed to incorporating trustworthy practices into the way that data is collected and used and Trusted AI frameworks and principles are rolled out.

Ownership

Stakeholders at all levels within the organization demonstrate ownership and accountability through their adherence Trusted AI frameworks and policies.

Goals for the board:

- Build consensus and acceptance on the organization's approach to Data and AI. This requires a multi-disciplinary and coordinated approach, ensuring buy-in across the organization.
- Establish trust among employees. Trust erosion often occurs due to lack of visibility and transparency.
- Keep workforce updated with rapidly changing technological advances. With the growth of AI and Data use, employees are expected to have basic knowledge of the topic.

Key considerations:

- Develop meaningful engagement within your organization through an incremental and targeted approach, tailored to your specific needs. Strategies can include:
 - Data and AI insight sessions that are designed to familiarize board members with key concepts, benefits, and risks.
 - Data and AI learning programs that offer employees training to deepen their understanding of data and AI.
 - Data and AI activation programs that involve identifying internal advocates to lead efforts that support the trustworthy and sustainable adoption of AI.

Define ethical guardrails and governance for your organization

To use AI ethically, companies must understand its current uses and effects on society. This insight, coupled with knowledge of emerging regulation and public perception, aids in establishing guiding principles for AI and data analytics usage.

Centre this process around customer needs and perspectives. Consult key stakeholders and, if possible, consumers, and those affected by the AI model.

Trusted AI is designed meet the following expectations:

Trustworthy

AI systems are fit-for-purpose and perform reliably to produce accurate output as intended. Data acquisition, governance, and usage uphold ethical standards and comply with applicable privacy and data regulations.

Human-centric

AI systems are designed to achieve positive outcomes for end-users and other stakeholders, and at a minimum, do not cause harm or detract from human well-being.

Values-led

AI systems adhere to commonly accepted ethical principles and values (e.g. fairness, transparency of data collected and how it is used), uphold human rights (e.g. privacy), and comply with applicable laws and regulations.

Goals for the board:

- Proactively identify and manage potential ethical, legal, and privacy risks associated with AI applications, paying close attention to how AI could disproportionately affect members of equity-deserving groups.
- Showcase a commitment to ethical AI usage through self-regulation and transparency.
- Embrace diversity with a board that helps make well-rounded, unbiased decisions based on a deeper understanding of AI impacts.

Key considerations:

- Establish a set of standards the organization commits to – an AI ethics codes of conduct – relevant to employees, customers, and communities.
- Put in place regular reviews of the ethics of AI systems by an independent body including representation of communities and stakeholders impacted by the AI systems.
- Adhere to a third-party certification system that independently confirms a minimum level of transparency, accountability and fairness to the broader public.
- Implement a Regulatory Insights Platform that can help track and understand the impact of new and existing regulations, laws, and guidance about AI.

Operationalizing Trusted AI

Implementing Trusted AI throughout your operations is complex due to the diversity of AI applications and contexts they involve.

Navigating the complex landscape of Data & AI demands committed engagement with the broader impacts of technology on society. The proposed approaches in this paper empower organizations to step forward as leaders of responsible innovation, fostering trust and paving the way for AI that serves the greater good.

Generative AI is new, but there are tried and tested frameworks you can use. The key to preparation is getting your whole team started – now.

Three steps to consider :

An ongoing assessment and Trusted AI program can ensure you meet specific standards of ethics, compliance, quality and security.

Through on-site assessments, using Trusted AI tools for continuous monitoring, and a peer review approach, you can be confident that AI models are responsibly developed and deployed. Such a program fosters trust and transparency.

Support the development of leaders who can bridge the gap between business objectives and data needs.

Data fuels Artificial Intelligence. It is critical to understand the nature of data used in AI models, ensuring its quality, privacy, relevance, and unbiased nature. As generative AI technology breakthroughs happen at a faster and faster rate, how you capture, leverage, and protect your company data will become even more critical.

Adopt a balanced and proportional approach to ethical risk management and human oversight.

Given the context-sensitive nature of ethical considerations in data analytics and AI, it's essential to monitor and manage ethical risks dynamically and consistently.

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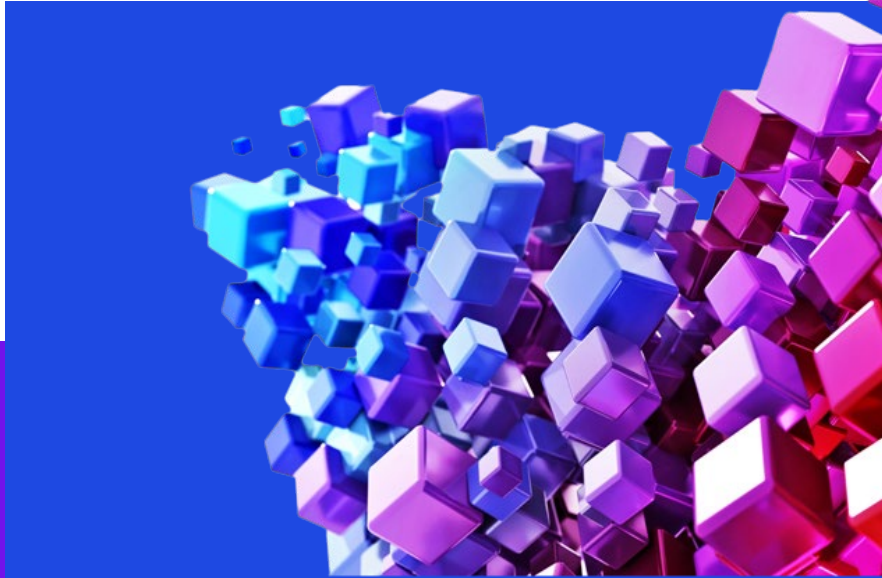
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BLC provides an analysis of the big issues reshaping our environment today for public and private-company governance and shares diverse perspectives from KPMG in Canada's subject matter experts to help navigate the boardroom agenda.



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