Agenda
Audit Committee

1st Meeting of the Audit Committee

February 6, 2019, 12:00 PM

Council Chambers

Members

S. Turner, M. van Holst, J. Helmer, J. Morgan, L. Higgs

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The Corporation of the City of London

Audit Planning Report for the year ended December 31, 2018

KPMG LLP

Prepared as of January 25, 2019 for presentation on February 6, 2019

kpmg.ca/audit

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The contacts at KPMG in connection with this report are:

Katie denBok
Lead Audit Engagement Partner
Tel: 519 660 2115
kdenbok@kpmg.ca

Melissa Redden
Audit Senior Manager
Tel: 519 660 2124
mredden@kpmg.ca

Deanna Baldwin
Audit Manager
Tel: 519 660 2156
deannabaldwin@kpmg.ca

Executive summary

KPMG

Group audit scope

Our audit consists of several components over which we plan to perform:

- 18 full scope audits

See page 5.

Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Completeness of accruals
- Capital projects and acquisitions
- Update of standard cost estimates for assumed assets
- Payroll and employee future benefits
- Taxation, user charges and transfer payments revenue

See pages 6-13.

Audit materiality

Materiality has been determined based on total expenses. We have determined group materiality to be $16,200,000 for the year ending December 31, 2018. See page 15.

Materiality will be set at lower thresholds where necessary to meet local board and commission financial statement audit requirements.

Executive summary

KPMG

Independence & Quality Control

We are independent of the Corporation and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

Proposed Fee

Proposed fees for the annual consolidated audit are $90,000.

See page 22.

Current developments and Audit Trends

Please refer to pages 23- 24 and Appendix 6 for relevant accounting and/or auditing changes relevant to the Corporation and relevant audit trends.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Group Audit Scope

Professional standards require that we obtain an understanding of the Corporation of the City of London's (City of London) organizational structure, including its components and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

Group auditors are required to be involved in the component auditors' risk assessment in order to identify significant risks to the group financial statements. If such significant risks are identified, the group auditor is required to evaluate the appropriateness of the audit procedures to be performed to respond to the identified risk.

The components over which we plan to perform audit procedures are as follows:

Component	Why	Our Audit Approach	Manager
City of London	Individually financially significant	Audit of component financial information	[1] Melissa Redden [2] Deanna Baldwin
Boards & Commissions	Non-significant components; however, necessary to issue separate statutory audit opinion	Audit of component financial statements	[1] Melissa Redden [2] Deanna Baldwin

Audit risks

Significant Financial Reporting Risks

Completeness of accruals

Why is it significant?

The financial statements include certain accruals, such as legal and landfill liabilities and liabilities for contaminated sites, which involve a significant amount of management judgment and assumptions in developing.

Our audit approach

KPMG will perform the following procedures:

- Obtain an understanding of management's process and calculations for each of these areas and assess the adequacy of management's process for identifying critical accounting estimates.
- Obtain corroborative evidence to support management's assumptions and review subsequent payments where possible.
- Send legal letters to internal and external legal counsel, review Council minutes, severance agreements etc. to identify any potential unrecorded liabilities.

Audit risks

Professional Requirements

Fraud risk from revenue recognition.

Why is it significant?

This is a presumed fraud risk. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year growth or profit.

The risk of fraud from revenue recognition has been rebutted.

Our audit approach

KPMG has rebutted this presumed risk as it is not applicable to the City of London where performance is not measured based on earnings.

Audit risks

Professional Requirements

Fraud risk from management override of controls

Why is it significant?

This is a presumed fraud risk.

We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit risks

Other areas of focus	Why are we focusing here?
Capital projects and acquisitions	The City of London has a large balance of tangible capital assets and is continually spending on capital projects. There is judgment involved in determining the useful lives of capital and when the amortization period should begin.
Update of standard cost estimates for assumed assets	The City of London has engaged CD Watters Engineering Ltd. to prepare an updated estimate of standard costs to be used to value assumed assets. This requires the use of assumptions and judgment.

Our audit approach

KPMG will perform the following procedures over capital projects and acquisitions:

- Substantive testing over capital additions and disposals, including the determination of when capital expenditures are transferred from assets under construction and amortization begins.
- Review management's determination of the useful lives of capital assets and the related amortization rates, as well as recalculate amortization expense.
- Perform data and analytical procedures as outlined on page 14.

KPMG will perform the following procedures over the update of standard cost estimates:

- Obtain the final report created by CD Watters Engineering Ltd. and evaluate their competence, capabilities and objectivity to place reliance on management's expert.
- Test a selection of the inputs and source documentation provided by management to CD Watters Engineering Ltd. to develop the estimate.
- Obtain corroborative evidence to assess assumptions used by CD Watters Engineering Ltd.

Audit risks

Other areas of focus	Why are we focusing here?
Payroll and employee future benefits	The City of London provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2017, the City of London had a liability for employee future benefits of $155 million.
Taxation, user charges and transfer payments revenue	For the year ending December 31, 2017, these revenue streams amounted to more than $1.1 billion for the City of London.

Our audit approach

KPMG will perform the following procedures over payroll and employee future benefits:

- Obtain the year-end WSIB statement and agree to management's accrual.
- Test the reasonableness of assumptions provided by management to the actuaries that are used in preparing the valuation and calculating the liability.
- Test a selection of the inputs provided by management to the actuary.
- Take a combined approach to testing payroll expense, which will include both substantive and control testing.

KPMG will perform the following procedures over taxation, user charges and transfer payments revenue:

- Substantive procedures over these revenue streams, including substantive analytical procedures over taxation revenue and vouching of significant transfer payments.
- Perform cut-off procedures around year-end.

Other audit matters

Other areas of focus	Why are we focusing here?
Debt issuances	Individual debt issuances at the City of London have historically been for significant amounts.
New Boards & Commissions	New entities will require audited financial statements and consolidation into the City of London's financial statements.

Our audit approach

KPMG will perform the following procedures over debt issuances:

- Debentures totaling $55 million were issued in March 2018. KPMG will review the accounting for this transaction in detail during the audit.

KPMG will perform the following procedures over Boards & Commissions:

- The Hyde Park BIA was a new entity that was incorporated in fiscal 2017. In consideration of the limited activity in 2017, Management had decided that an audit would not be performed in the prior year. A 15 month audited financial statement will be prepared for the period ended December 31, 2018 and will be consolidated into the City of London.
- The Hamilton Road BIA is a new entity that was incorporated in fiscal 2018. In consideration of the limited activity in 2018, Management has decided that an audit will not be performed in the current year. A 15 month audited financial statement will be prepared for the period ended December 31, 2019. The 2018 financial activity of the Hamilton Road BIA is not considered significant to the consolidated financial statements of the City of London.

Other audit matters

Other areas of focus	Why are we focusing here?
Southwest Community Centre Joint Venture	During fiscal 2016, the City of London entered into a joint venture with the YMCA of Western Ontario and London Public Library to design, construct, and operate a multi-use community facility for approximately $54 million. The facility was completed in 2018.
Springbank Dam	Historically, this asset has been included within Assets under Construction until its future use could be determined. The value of its future use has been determined, resulting in an estimated write-down of $5.9 million in 2018.

Our audit approach

KPMG will perform the following procedures over the Southwest Community Centre Joint Venture:

- Perform testing through our procedures over capital projects and acquisitions.
- Review final accounting entries for appropriateness.

KPMG will perform the following procedures over Sprinbank Dam:

- Obtain Management's assessment of the value of Sprinbank Dam's future use as a park area and assess for reasonableness.

Other audit matters

Other areas of focus	Why are we focusing here?
Dissolution of the Public Utility Commission	The Public Utility Commission was dissolved October 16, 2018 and land with a value of $2.9 million was transferred to the City of London.
Municipal Accommodation Tax	This is a new revenue stream for the City of London effective October 1, 2018. Half of collections will be remitted to Tourism London.

Our audit approach

KPMG will perform the following procedures over the dissolution of the Public Utility Commission:

- Complete a final audit over the Public Utility Commission balances up to the date of the dissolution.
- Review entries to record the transfer of assets and the consolidation of the Public Utility Commission in the City of London’s financial statements.

KPMG will perform the following procedures over the Municipal Accommodation Tax:

- Obtain an understanding of this new revenue stream and determine whether further audit procedures are necessary for the current year based on significance.

Data & analytics in the audit

We will be integrating Data & Analytics (D&A) procedures into our planned audit approach. Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

Journal entry testing

Utilize computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing as a response to the fraud risk from Management override of controls.

Tangible Capital Assets - WIP

Utilize CAATs to compare the WIP detail in fiscal 2018 to the WIP detail in fiscal 2017, testing any projects that did not incur costs in fiscal 2018 and still remain in WIP. This routine will obtain audit evidence over the completeness of tangible capital assets and amortization expense.

Tangible Capital Assets – Disposals

Utilize CAATs to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. This routine will obtain audit evidence over existence of tangible capital assets.

Holdback accrual

Utilize CAATs to compare the tangible capital asset WIP listing to the holdbacks accrual listing, testing any significant WIP project that did not have a corresponding holdback accrual. This routine will obtain audit evidence over the completeness of holdback accruals.

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

Materiality

Materiality Benchmark

Prior year total expenses

$1,083,869,000

(2017: $1,020,041,000)

Materiality

$16,200,000

1.5% of prior year total expenses

(2017: $15,300,000, 1.5% of prior year total expenses)

$810,000

(2017: $765,000)

$16,200,000

(2017: $15,300,000)

- Misstatements reported to the audit committee
- Materiality for the financial statements as a whole

The misstatement threshold for reclassification misstatement is $4,050,000 (2017: $3,825,000).

Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

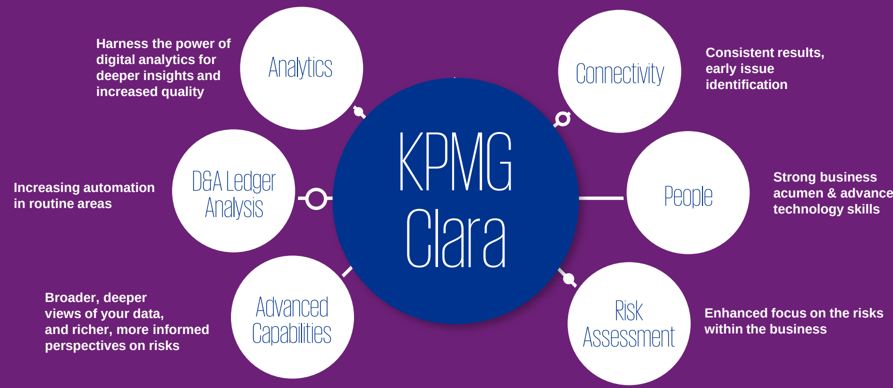
We will report to the Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts such as (teams to edit for client-specific D&A routines; i.e., revenue and receivables, salaries, purchases and payables) and journal entries.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data & Analytics Routines	Refer to page 12 for data & analytics routines performed by the audit team.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and our alliances with technology firms including Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit the City of London in the future.

We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

Technology under development

Tools	Benefit to audit
Advanced Analytics Asset Impairment Tool	The asset impairment tool delivers advanced analysis of goodwill impairment models (based on discounted cash flows) through the use of predictive analytics, enabling a more robust and independent challenge of managements assumptions. Ability to flex and vary assumptions in real time, bringing in external economic and peer group data, as well as the previous year's cash flow models. This will ensure we have timely and focused discussions on the most sensitive assumptions that form your estimates over long-lived assets and goodwill well in advance of yearend fieldwork. We are able to independently perform sensitivity analysis by changing assumptions and sharing these with management, reducing the time required by your team to run various scenarios for us.
Advanced Analytics Bad Debt Tool	The bad debt tool assists with our evaluation of management's estimate of the bad debt provision. This is accomplished through multiple features, including robust risk assessment and scenario analysis using different provisioning levels; comparing movements in total provision to macroeconomic data such as changes in CPI, GDP, private consumption growth, and employment rate; and providing insights on the accuracy of the bad debt provision rate by tracking amounts as it transitions between last aging buckets.
Cognitive IBM Watson Loan Loss Analysis Tool	Our loan loss tool currently being piloted in Canada provides us with capabilities to improve the effectiveness and efficiency of the loan review process. This works by automating the ingestion of loan contracts and related source documents and by extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. Through AI machine learning techniques, IBM Watson identifies key elements impacting the loan risk rating. Utilizing our proprietary loan risk assessment process, IBM Watson then determines the risk grade and compares that to the risk grade assigned by (name of client). Each loan grade is accompanied by a confidence level assessment and supporting information which is extracted from credit files as well as market information which Watson obtains from various sources.
Business process mining (BPM)	BPM harnesses sub-ledger analytics and provides us with a deeper understanding of your processes. Our BPM tool is currently being piloted globally and will be coming soon to Canada. The tool provides immediate visualization of how 100% of your transactions are being processed to complement your process narratives and flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks and leveraging your team's resources efficiently. It also helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.

The audit of today, tomorrow & the future

Technology under development

Tools	Benefit to audit
Artificial Intelligence Financial statement disclosure analysis Tool	Our artificial intelligence capability will compare the City of London's financial statement disclosures against existing, new, and modified accounting guidance and pronouncements, in addition to comparing them against peer companies. We'll be able to share with you not only how your disclosures compare to the requirements but also to your peer group.
Dynamic Risk Assessment	Dynamic Risk Assessment (DRA) gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk. Using network theory, DRA considers not just the traditional, two-dimensional view of severity and likelihood but also how interconnected the risks are, how fast they may emerge and how systemic they are. It will provide a holistic enterprise-wide assessment of your risks, ensuring we have identified the relevant risk exposures that need to be incorporated into our audit approach.
Sentiment Analysis	Sentiment analysis is about scanning newsfeeds, social media and public data to get a real-time view of your brands while flagging emerging risks in the process. This allows us to highlight trends globally, and can also help to identify hotspots by asset or geography. If we see a spike in 'noise,' we investigate and discuss with you, as well as make an assessment of the impact on our audit.
Optical Contract Reader & Analysis Tool	Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk.
Robotic Process Automation (RPA)	This application of cognitive computing technology allows our team to configure computer software—or a "robot"—to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems. {Teams to provide specific sentence of how this could work for their client. Consider that this could either through improving efficiencies, enabling us to re-direct our efforts to areas of greater risk or value or by increasing our coverage over more of the population and increasing our audit quality}.

Highly talented and experienced team

Team Member	Background/Experience	Discussion of Role
Katie denBok **Lead Audit Engagement Partner** kdenbok@kpmg.ca 519-660-2115	Katie has over 13 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, and a number of local private company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.	▪ Katie will lead our audit for the City of London and be responsible for the quality and timeliness of everything we do. ▪ She will often be onsite with the team and will always be available and accessible to you.
Diane Wood **Tax Partner** dianejwood@kpmg.ca 519-660-2123	Diane is a member of the Financial Planners Standards Council and the Society of Trust and Estate Practitioners. Her principal activities are in not-for-profit taxation planning and compliance, personal income tax planning and compliance, estate planning, international executive taxation and providing financial planning and taxation assistance to individuals facing early retirement or severance packages.	▪ Diane will assist with any tax related matters that arise.
Melissa Redden **Audit Senior Manager** mredden@kpmg.ca 519-660-2124	Melissa has over 8 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, as well as a number of local private and public company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.	▪ Melissa will work very closely with Katie on all aspects of our audit for the City of London and select Boards and Commissions. ▪ She will be on site and directly oversee and manage our audit field team and work closely with your management team.

Highly talented and experienced team

Team Member	Background/Experience	Discussion of Role
Deanna Baldwin **Audit Manager** deannabaldwin@kpmg.ca 519-660-2156	Deanna has over 8 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies.	▪ Deanna will work closely with Katie and Melissa and provide assistance to the main City of London audit. She will also manage select Boards and Commissions. ▪ She will be on site and directly oversee and manage the audit field team for these entities, as well as work closely with the management teams.

Key deliverables and milestones

Planning meeting
with management

Year-end
fieldwork

January 7 - 11, 2019	January 11, 2019	February 6, 2019	April 1, 2019 to June 14, 2019	June 19, 2019

Offsite year-
end planning

Audit Plan
Discussion

Audit Findings
Discussion

Proposed fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the annual consolidated financial statements	$90,000	$89,000

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter dated September 15, 2016. There have been no changes in the terms and conditions of our engagement since the date of our last letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof;
- Changes in the time of our work

Current developments and audit trends

The following is a summary of the current developments that are relevant to the City of London for the current year and became effective for fiscal periods beginning on or after April 1, 2017. See Appendix 6 for upcoming standards:

Standards	Summary and implications
PS 2200 Related Party Transactions	PS 2200 defines related party and provides disclosures requirements. *Management will be implementing a process to ensure that all related party relationships have been identified, including those with key management, members of Council or Boards of the City and its Boards and Commissions.*
PS 3210 Assets	PS 3210 provides a definition of assets and also includes disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity. *Implementation of this standard is not expected to have a significant impact on the City of London.*
PS 3320 Contingent Assets	PS 3320 defines and establishes disclosure standards for contingent assets. *Implementation of this standard is not expected to have a significant impact on the City of London.*
PS 3380 Contractual Rights	PS 3380 defines contractual rights to future assets and revenue and establishes disclosure requirements. *Implementation of this standard is not expected to have a significant impact on the City of London.*
PS 3420 Inter-entity Transactions	PS 3420 specifies how to account for transactions between public sector entities within the government reporting entity. This standard relates to the measurement of related party transactions for both the provider and the recipient. *Implementation of this standard is not expected to have a significant impact on the City of London.*

Current developments and audit trends

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG audit trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
Audit Quality 2017	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report

The 2018 Auditors' Report

Highlights of changes to your 2018 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section

Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.

Separate section on "Other Information" (e.g. Annual Report)

Expanded descriptions of management's responsibilities, including those related to assessing the Entity's ability to continue as a going concern

New description of responsibilities of those charged with governance

Expanded descriptions of the auditors' responsibilities

Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.

Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication. See Appendix 5 for the draft Independent Auditors' Report.

Appendices

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our Audit Quality Resources page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

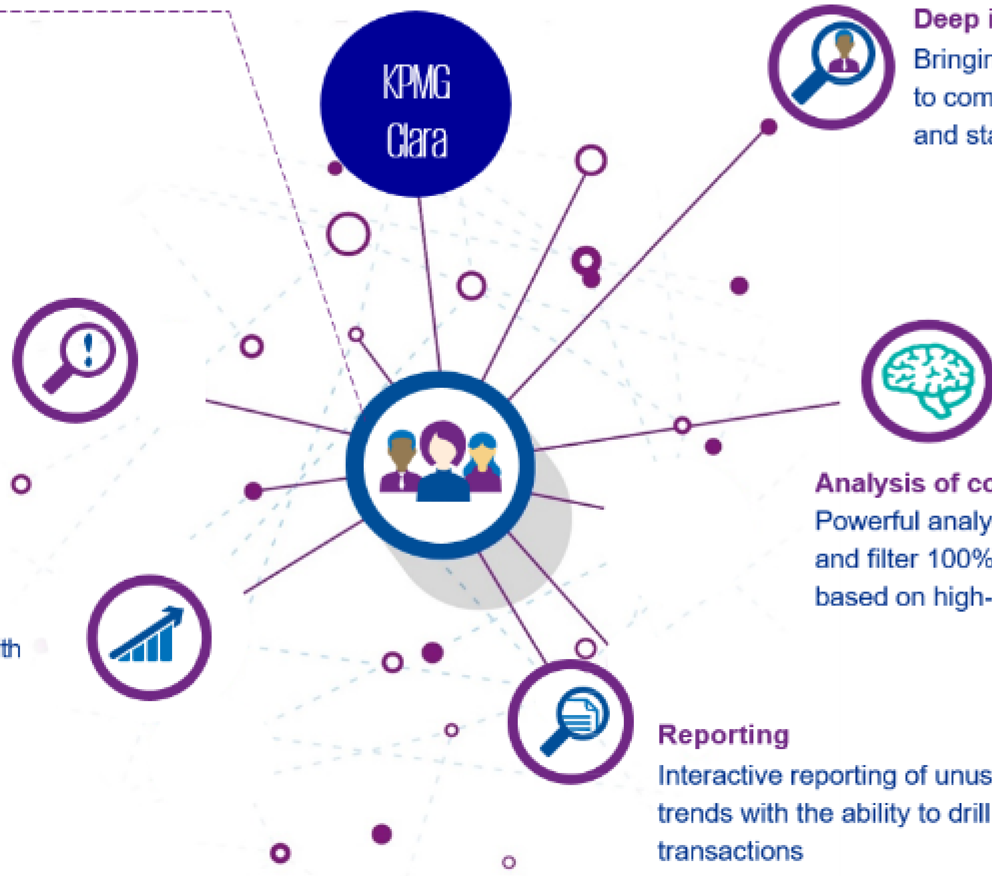
- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.



Collaboration in the audit
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification
Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers

Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 3: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters.

Management representation letter

We will obtain from management certain representations at the completion of [each interim review and] the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.

Audit planning report

This report.

Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.

Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.

Annual independence letter

At the completion of our audit, we will provide our independence letter to the Audit Committee.

CPAB Audit Quality Insights Report (October 2018) (formerly the "Big Four Firm Public Report")

Appendix 5: Draft Independent Auditors' Report

To the Members Council, Inhabitants and Ratepayers of the Corporation of the City of London

Opinion

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

- The consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations, its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the "Financial Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

Appendix 5: Draft Independent Auditors' Report (continued)

We obtained the information, other than the financial statements and the auditors' report thereon, included in the "Financial Report" as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Appendix 5: Draft Independent Auditors' Report (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Appendix 6: Current developments

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes some of the regulatory, operational and governance developments impacting public sector, charitable and not-for-profit organizations. We provide this summary to inform our clients of changes that they may impact their organization, and the trends we see in the industry based on our discussions with the management and Board members of our clients.

We attach this summary to our audit plans and audit findings reports that we provide to the Finance, Audit and Risk Committees of our public sector, not-for-profit and charity clients. Some of these developments may not impact your organization directly but we believe it is important for management and Committee members of charities and not-for-profit organizations to understand what is happening in the broader public, not-for-profit and charity sector.

Annual Accounting, Tax and Risk Update for Not-for-Profit Organizations

Each year, our local office holds a session for NPO clients, which we would hope you could attend. These sessions always focus on “hot” topics within the sector, such as Cyber Security & Risk Management. If you wish to have your name included on the invite list, please e-mail Vicki Ng at vwng@kpmg.ca.

Registered Charities

Below we provide a summary of activities and announcements that could have an impact on Canadian registered charities:

Official Donation Receipts:

All official donation receipts need to include the CRA’s name and website address. CRA’s website recently merged with the Canada.ca domain website. Therefore, official donation receipts will need to be updated to include the new website address: Canada.ca/charities-giving. Receipts issued after March 31, 2019 must include the new website address.

Social Innovation and Social Financing:

The federal government’s Social Innovation and Social Finance Strategy Co-Creation Steering Group released its report: Inclusive Innovation: New Ideas and New Partnerships for Stronger Communities. The report provides a number of recommendations to the Government to promote social innovation and social financing in Canada, and is of in significant interest to the Canadian charity and not-for-profit industry. The full report can be found at the following website: https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html.

Senate Committee on the Charitable Sector

In January 2018, The Senate of Canada established a new special committee to examine the impact of federal, provincial and territorial laws and policies governing charities and study the role that the charitable sector plays in Canadian society. The Committee will issue a report of the Committee’s findings and make recommendations on revisions to government policies at all levels to support charities fulfil their important missions. The Committee continues to hold meetings and hear from expert witnesses from the charity and other sectors. More information on the Committee can be found on the website of the Senate of Canada.

Appendix 6: Current developments (continued)

CRA's Charity Education Project

In the fall of 2017, Canada Revenue Agency announced the implementation of its Charity Education Project (CEP) initiative, as a complement to its traditional audit program. Per the CRA announcement the CEP program is "designed to conduct in-person visits with registered charities, providing them with information and assistance in understanding these obligations". A CEP visit by a CRA Charity Education Officer will include information sharing on the charity's purpose and activities, a review of the charity's books and records and T3010 information return, and a summary of findings and recommendations prepared by the Charity Education Officer. The registered charity will be requested to sign the summary of findings and recommendations to indicate their agreement with it.

CRA plans to perform 500 CEP visits per year. We are aware of registered charities receiving notification that they have been selected for a CEP visit in January 2018. At KPMG, we will be tracking these initial visits at our clients to identify patterns in CRA's approach and in their findings and recommendations, to assist our clients in preparing for future CRA visits.

To paraphrase Shakespeare's "A rose by any other name would smell as sweet"; a CRA visit by any other name smells like an audit. We encourage our registered charity clients who receive a CEP request letter to contact us to discuss how to prepare for CRA's visit and to prepare a response to the summary of findings and recommendations.

As a matter of good governance, we also encourage all registered charities to do the following on a regular basis:

1) Review the charity's operations to verify that activities directly support their charitable objectives. Consider the level of time and resources invested in fundraising or political activities, as these are two activities that CRA monitors.

2) Verify that the charity's T3010 Charity Information Return is accurate and that it strategically and faithfully represents the activities and operations of the charity. Verify that the T3010 published on the CRA's website agrees with the submitted return.

3) Assess the charity's accumulated reserves, surpluses and net assets, including the purpose for having them and support for the amounts. Consider developing a Board-approved "net asset reserve policy" documenting the purpose and amount of reserves in the context of organization risks and strategic plan.

KPMG will continue to monitor this situation and will provide updates to you.

Tax-Exempt Status of Not-for-Profit Organizations

Over the past few years, the income tax-exempt status of not-for-profit organizations and the activities that should be eligible for this exemption have been the subject of significant political and public debate.

This debate intensified with the CRA's Non-Profit Organization Risk Identification Project (the "NPORIP") looking at entities claiming the exemption from income tax under Paragraph 149(1)(l) of the Income Tax Act of Canada, and the release of their report in 2014. The report emphasized three main risk areas which in the eyes of CRA would disqualify a not-for-profit organization from claiming the income tax exemption:

- having individual activities not related to their not-for-profit objectives; or earning non-incidental profits from individual activities
- using income to provide personal benefits to members
- maintaining excessive accumulated reserves, surpluses or net assets.

Appendix 6: Current developments (continued)

Tax-Exempt Status of Not-for-Profit Organizations (continued)

In 2014, the Department of Finance announced its intention to hold public consultations with not-for-profit organizations on these issues. Since then, the Department of Finance has provided no further indication as to when, or if, it expects to begin public consultations with the not-for-profit community on the issues surrounding the tax-exempt status of not-for-profit organizations, or when legislation is anticipated.

In the interim, CRA has not performed specific audits of the income tax-exemption status of not-for-profit organizations to our knowledge. However, CRA continues to perform regular HST and payroll compliance audits of not-for-profit organizations and charities. As part of these audits, CRA has included questions relating to the accumulated surplus/net assets/reserves of the audited organization, and is seeking documented evidence of purpose, future plans and governance oversight related to these balances.

KPMG encourages the Boards and management of not-for-profit organizations, and of charities, to continue to prepare their organizations for the anticipated changes to tax legislation and regulations. Not-for-profit organizations should review and consider their not-for-profit or charitable objectives, strategic plans, risk assessments, financial results and operational practices in the context of the aforementioned risk areas identified by CRA. In particular, not-for-profit organizations should develop or update a written, approved Board policy relating to their net assets, accumulated surpluses and/or reserves explicitly documenting the reasons for maintaining these balances, how the amounts were calculated and quantified, and how the amounts will ultimately be used. Boards should also demonstrate and document their oversight of this policy on an annual basis.

KPMG continues to monitor this situation closely and will continue to update you and all of our NPO audit clients.

Decriminalization of Cannabis

On October 17, 2018, the use of cannabis for recreational purposes became legal in Canada. Most organizations are reviewing their policies with respect to the use of cannabis from a human resources perspective, such as impairment in the workplace. However, from a governance and management perspective there are also a number of policies that will also need to be considered and revised. A couple of examples:

1) What is the organization’s policy with respect to serving cannabis-infused drinks or products at official events and functions?

2) What is the organization’s policy with respect to reimbursing for cannabis-infused drinks and products on expense reports of employees, volunteers and Board members? What are the policies of your funders relating to whether these will be considered eligible costs under their contribution agreements?

Fortunately, most organizations have these policies relating to alcohol which will serve as a good starting point. We encourage our clients to review all of their policies to identify ones potentially in need of revisions to reflect this new law.

Appendix 6: Current developments (continued)

Cyber Security – Prevention and Response

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hacktivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-breach could be significant. Not-for-profit organizations are at particular risk due to the information they maintain, including research data, personal data, and health and financial information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Cyber Security is not solely about information technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should document their assessment of operational threats, implement preventative safeguards against a cyber-attack, and create a comprehensive response plan to a cyber-breach. Every organization should have a Computer Security Incident Response Team (CSIRT) consisting of individuals from many areas of the organization, including those involved in finance, human resources, procurement, customer/member relations, upper management and Board members. Key elements to consider in developing your cyber plans include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your organization’s vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to prevent a cyber-attack from being successful
- Detecting, responding and reporting a cyber-breach within your organization
- Initiating your cyber response plan, including containing and investigating the cyber breach
- Recovering from a cyber-breach and resuming business operations
- Reporting on the cyber breach, including informing authorities and affected individuals, as required by legislation and industry common practices.
- Doing a “lessons learned” process to identify improvements

Appendix 6: Current developments (continued)

Cyber Security – Prevention and Response (continued)

Not-for-profit organizations need to review their operations from the perspective of cyber risks, preventative measures against an attack and response plans for breaches. Of particular importance is the cyber response plan as most experts believe that it is now a matter of when, not if, a cyber-breach occurs. A proper cyber response plan should include at least the following elements:

1) Define sensitive data and information -- what is important to your organization and of value to hackers

2) Identify cyber breach scenarios – perform a Threat Risk Assessment of threats, vulnerabilities and likelihood of exploitation

3) Assess detection and response capabilities – what is your organization's capability to manage an incident (CSIRT structure and effectiveness, required performance metrics, business resumption, internal/external communication protocols)

4) Develop and refresh your organization's response plan – Identify a target state and address gaps, including time to discover, time to manage, severity of post-mortem reviews

5) Test and improve response plan – develop a testing strategy that includes key internal and external CSIRT responders (event simulations, live testing)

We encourage all not-for-profit organizations and charities to develop their cyber response plans and discuss them at the Board level.

Members of Audit Committees should be asking management a fundamental questions such as: How effective is our organization's cyber strategy at identifying and addressing cyber risks? Is the organization relying on the correct and accurate information to oversee and understand those risks? Is the organization addressing its data privacy and security obligations? Does the organization have a response plan in place to manage a cyber-crisis when an incident occurs?

Indirect Tax Considerations

The GST/HST is constantly evolving. The kinds and pace of the changes affecting your organization will depend on your status and activities, and may result from new legislative and regulatory rules, court cases, and changes in the CRA's administrative policies. In addition, major organization changes, such as reorganizations, cessation of activities, major capital projects, new relationships (e.g., shared service arrangements), and new revenue generating activities may have significant GST/HST implications.

The Canada Revenue Agency (CRA) continues to increase its focus on public service bodies (e.g., municipalities, universities, colleges, hospitals, schools, associations, charities, non-profits etc.) for purposes of conducting GST/HST audits. These audits may be undertaken by GST/HST audit teams dedicated to the public sector or by auditors attached to the CRA's GST/HST Refund Integrity Unit. Many organizations have undergone audits over the past couple of years. Based on our work with audited organizations, we offer the following general observations on the impact of the CRA's ongoing focus on the public sector:

Appendix 6: Current developments (continued)

Indirect Tax Considerations (continued)

• The CRA has been focusing on documentation, cost sharing and buying group arrangements, grants and sponsorships, as well as the allocation of inputs between taxable and exempt activities for input tax credit purposes (e.g. the filing of a Section 211 election and claiming of input tax credits on the use of real property).

• The CRA has not consistently been applying audit offsets (e.g., allowing unclaimed input tax credits or rebates) that would help minimize the impact of any assessments.

• Proposed assessments based on sampling and alternative valuation or allocation methodologies conducted by CRA auditors should be reviewed as fair and reasonable alternatives may be available that could significantly reduce an GST/HST assessment.

• The CRA is required to communicate the amount and basis for a proposed to the registrant, and should allow the registrant a reasonable amount of time to review and respond to the assessment (i.e., generally 30-days). It is entirely appropriate to carefully review and question a proposed assessment. Our experience is that proposed assessments can often be significantly reduced at the audit stage. If a Notice of Assessment is issued, you will have 90 days to file a Notice of Objection with the CRA.

• It is important that you have a plan in place for a GST/HST audit, including having a fixed point of contact for the auditor. Planning and managing the audit is as important as having the appropriate policies and procedures.

• Organizations that have undergone significant changes in operations are more likely to be selected for an audit. Many of these organizations are completing compliance reviews by indirect tax professionals in advance of a potential GST/HST audit to verify that the GST/HST is being appropriately handled. A proactive approach can reduce compliance costs and the time needed to deal with CRA auditors.

Our experience with GST/HST auditors has varied from audit to audit. However, in each case, the taxpayer has the burden of proof. The best approach is to be prepared in advance of receiving that audit notification from CRA.

Reporting Requirements in the United States

Over the past two years, the United States has implemented significant tax reforms impacting Canadian business and individuals with activities and investments in the United States. Given this current environment, it is prudent for Canadian charities and not-for-profit organizations to consider whether they have any reporting obligations in the United States, which is dependent on their U.S. sources of revenue and activities.

For example, Canadian registered charities may be required to file the Form 990: Return of Organizations Exempt From Income Tax, depending on whether the Canadian charity is recognized as a U.S. public charity or a U.S. private foundation and depending on the total gross receipts that the Canadian charity receives from U.S. sources (including individual and corporate donations). The Internal Revenue Service (IRS) assumes that a Canadian registered charity is the equivalent of a U.S. private foundation unless it applies to the IRS to be recognized as a public charity. Normally, a Canadian registered charity receiving more than $25,000 in gross receipts from sources within the United States will have a requirement to submit the Form 990 to the IRS.

Appendix 6: Current developments (continued)

Reporting Requirements in the United States (continued)

The Form 990 reporting requirements are significantly more extensive than the Canadian reporting requirements. The Form 990 can easily be more than 50 pages long and includes an 8-page detailed questionnaire on the organization's governance, operations and activities, and very detailed information on the organization's donors, activities outside of the United States, grants provided to other entities inside/outside the United States, executive compensation, and related party transactions. The Form 990 is a Canadian registered charity's only public document in the United States and is available on the IRS information website.

We encourage all of our charity and not-for-profit clients to review their activities and sources of revenue on a regular basis to determine whether they have U.S. reporting requirements.

Fraud Risk in Charities and Not-for-Profit Organizations

You only have to read the local and national news to understand the significant, adverse impact that a fraudulent or illegal act can have on an entity's financial position, on-going operations and public reputation. For charities and not-for-profit organizations, a fraudulent or illegal act can be absolutely devastating not only because of their reliance on public financial support but also their need to maintain public confidence and trust in their activities. With social media, and the 24-hour continuous news cycle, the financial, operational and reputational risk of a fraud on a charity or not-for-profit organization has never been higher.

Therefore, fraud risk management is now a very important element of an organization's overall governance and risk management. To protect against the risk of fraud, Boards and management need to maintain a robust fraud risk management program designed to address the core objectives of prevention, detection and response.

Prevention starts with having a heightened awareness of fraud including the key indicators that a fraud may have occurred, an understanding of the profile of a fraudster and what may drive otherwise good people to do bad things. In addition to a heightened awareness of fraud, conducting regular fraud risk assessments allows charities and not-for-profit organizations to identify the key fraud risks they are facing and what they need to do to mitigate these risks.

Detecting fraud can be difficult, so in addition to implementing and monitoring detection controls, it is critical for organizations to provide a mechanism for employees, volunteers and the public at large to report incidents of alleged fraud or wrongdoing to the Board.

An organization's response to a fraud is critical in mitigating potential damage, including reputational harm. As such, it is important to have a response plan in place before a fraud occurs, including investigation and communication protocols.

Boards and management of charities and not-for-profit organizations are beginning to incorporate fraud awareness in their training programs to increase fraud awareness, and to develop a greater understanding of the key organizational elements of a robust fraud risk management program.

Appendix 6: Current developments (continued)

The COSO Framework: Demonstrating Sound Management Practices and Internal Controls

Charities and not-for-profit organizations are facing increasing pressures and challenges from various internal and external stakeholders, who are demanding greater transparency and accountability. Chief among these is a heightened level of scrutiny and higher expectations on charities and NPOs to demonstrate sound stewardship, accountability, and achievement of results.   This includes being able to demonstrate that resources are managed in a cost-effective manner and that funding received is used to maximize the achievement of the organization's mandate.

A charity's or not-for-profit organization's ability to clearly demonstrate sound management and use of funding and the achievement of objectives are of direct interest to donors, funders, partners, stakeholders and beneficiaries, and increasingly to the Canadian general public. This, combined with a general increase in competition for scarce resources, can compound the challenges experienced by charities and not-for-profit organizations.

In this environment, your organization will be asked to demonstrate that it is using and managing funds in an economical and efficient way and that is maintains a solid control environment supporting management decisions made by the organization. National charities and not-for-profit organizations are beginning to formally adopt the "COSO Framework" of management practices and internal controls to respond to their stakeholder demands. The COSO Framework is an internationally recognized framework for the assessment of management practices and internal controls in all types of entities.

The main reason that the COSO Framework is gaining acceptance in the charity and not-for-profit sector is that it considers internal controls from the perspective of achieving organizational objectives categorized into three areas:

- Effectiveness and efficiency of operations, at the entity-wide and divisional/program levels
- Reliability of financial and non-financial reporting to internal and external stakeholders
- Compliance with applicable laws and regulations

In the current environment of transparency and accountability, charities and not-for-profit organizations must not only achieve, but also explicitly demonstrate, their performance in these three areas. COSO provides a methodology to develop and maintain an effective system of internal control that reduces, to an acceptable level, the risk of not achieving these objectives.

The COSO Framework identifies five core components (Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities) and seventeen key principles within these five components that are required for an effective system of internal control. The Framework is fully scalable to an organization's size, structure, funding sources, or mandate.

The Framework provides a recognized baseline against which existing management practices can be documented and assessed to confirm existing sound practices and identify areas for improvement to strengthen an organization's internal control structure and prioritize efforts and resources to the areas of most significance. As a recognized management control framework, an assessment of internal controls against COSO will also serve to provide both internal and external stakeholders with additional confidence in the stewardship, accountability and overall control environment of the organization.

Appendix 6: Current developments (continued)

Summary of New and Revised Accounting Standards

There was new guidance issued by the Board during 2018. PSAB previously issued the following sections that are effective in 2019 or future years:

Standard	Summary and implications
PS 3430 Restructuring Transactions	This standard prescribes measurement standards and disclosure requirements when a restructuring transaction exists. A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibilities. The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 **(The City of London's December 31, 2019 year end).**

Appendix 6: Current developments (continued)

There was new guidance issued by the Board during 2018 as follows:

Standard	Summary and implications
Asset Retirement Obligations	In August 2018, PSAB issued the new standard, Section PS 3280, Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets such as buildings with asbestos, and solid waste landfill sites by public sector entities. The new accounting standard has resulted in a withdrawal of the existing Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability. The new accounting standard proposes similar accounting for asset retirement obligations as in private sector accounting. An asset retirement obligation would be recognized when, as at the financial reporting date, ALL of the following criteria are met: • there is a legal obligation to incur retirement costs in relation to a tangible capital asset; • the past transaction or event giving rise to the liability has occurred; • it is expected that future economic benefits will be given up; and • a reasonable estimate of the amount can be made. Public sector entities would be required to capitalize asset retirement obligations associated with fully amortized tangible capital assets, except in the following instances: • Asset retirement obligations associated with unrecognized tangible capital assets should be expensed; • Asset retirement obligations associated with tangible capital assets no longer in productive use should be expensed. The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset. Includes costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use. The new Section is to apply to fiscal years **beginning on or after April 1, 2021**. Earlier adoption is permitted. This Section may be applied retroactively or prospectively. If retroactive application is selected, a public sector entity may choose to apply certain transitional provisions provided in the Section.

Appendix 6: Current developments (continued)

Standard	Summary and implications
Revenue	In June 2018, PSAB approved Section PS 3400, Revenue. The final standard is to be released by March 31, 2019. The framework is focused on two categories of revenue – exchange and unilateral. Transactions which give rise to one or more performance obligations are considered to be exchange transactions. Performance obligations are defined as enforceable promises to provide goods or services to a payer as a result of exchange transactions. Revenue from an exchange transaction would be recognized when the public sector entity has satisfied the performance obligation(s), at a point in time or over a period of time. If no performance obligations are present, the transaction would represent unilateral revenue, and be recognized when the public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources. Excluded from this standard are reporting of contributions and appropriations which continue to be accounted for as government transfers, and tax revenues, interest, dividends, gains and restricted assets. The proposed new section is expected to apply to fiscal years **beginning on or after April 1, 2022**, and be accounted for as a change in accounting policy applied retroactively with restatement of prior periods.

Appendix 7: Financial Literacy Workshop

FINANCIAL LITERACY WORKSHOP

We believe that our role as your external auditor and our strong understanding of your financial statements, place us in a position to provide other forms of value. We know that you expect this of us.

As a result of the 2018 election, the composition of Council and Boards at the local level may have changed. It is important to ensure that Council and Board members are equipped with the tools they require to enable an understanding of the financial statements. This is an essential part of providing good governance. In order to help you achieve this goal, we would be pleased to organize a tailored workshop with the objective of providing Council, as well as Boards or Audit Committees with the tools needed to leverage financial information to identify matters that are likely to be significant to the entity. This workshop will assist the Council and Boards in proactively responding to / addressing financial reporting and operational risks.

The proposed fee to facilitate a workshop of this nature is $750 per presentation. If you have additional questions or would like to schedule a Financial Literacy Workshop for your Council or Board, please contact Katie denBok (kdenbok@kpmg.ca).

The need for a strong understanding of the financial statements is a crucial aspect of providing good governance.

Appendix 8: Financial Indicators

KPMG

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	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	5. Residential taxes per household 6. Total long-term debt per household 7. Residential taxation as a percentage of average 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	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 data. Given the timing of financial reporting for municipalities, the analysis is based on 2017 FIR data with comparative information provided based upon 2016 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 (2017)	Households (2017)	Area (square km)
London	387,275	176,859	420.35
Ottawa	979,173	416,217	2790.3
Hamilton	563,480	227,641	1117.29
Windsor	220,697	99,453	146.38
Kingston	123,885	53,744	451.19
Guelph	131,790	55,970	87.22

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

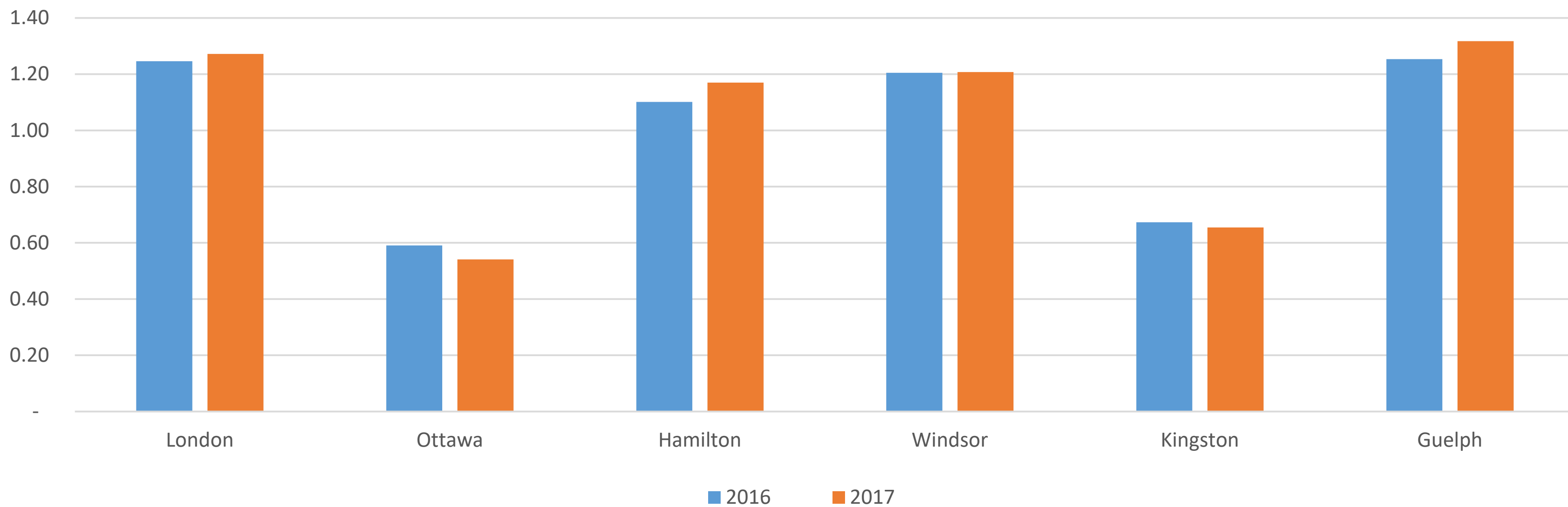
Sustainability	✓
Flexibility	
Vulnerability	

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

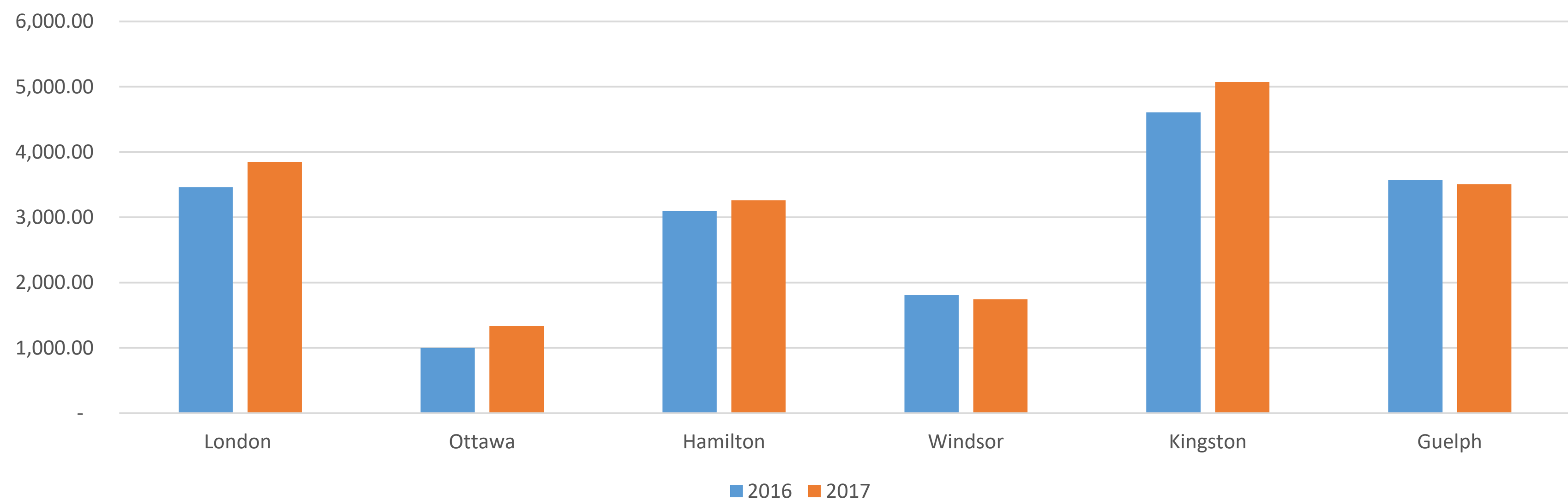
Sustainability	✓
Flexibility	
Vulnerability	

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

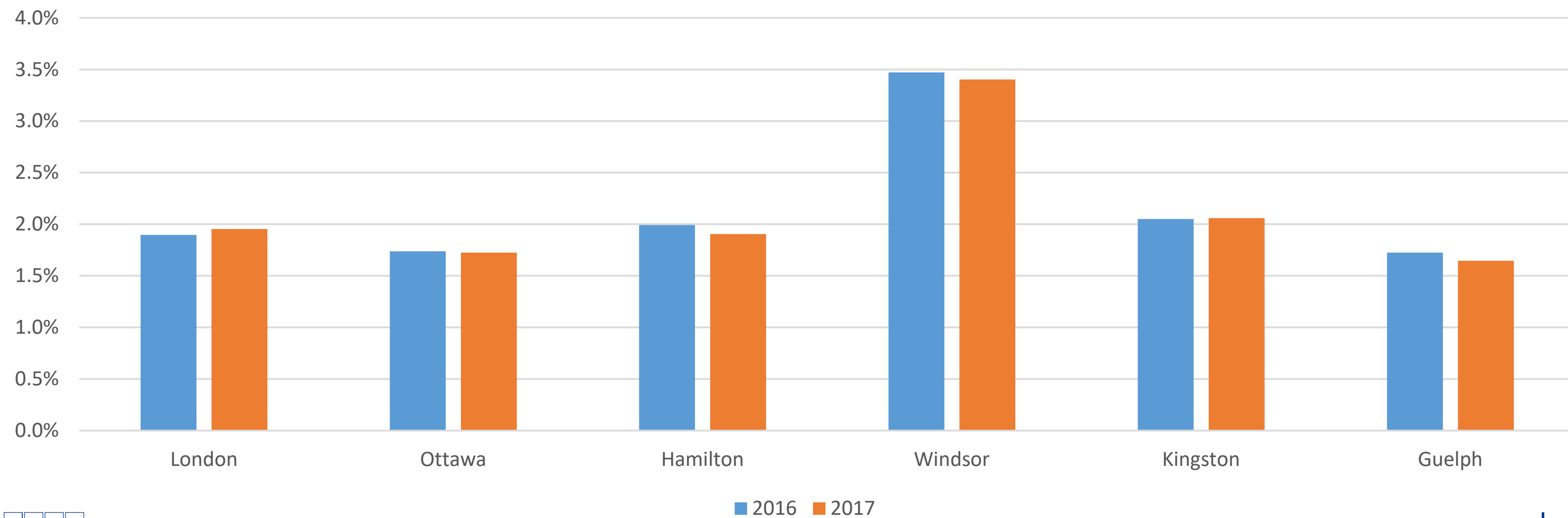
Vulnerability

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 Town'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 Town's ability to continue to deliver services at the current levels may be compromised.

TYPE OF INDICATOR

Sustainability ✓

Flexibility

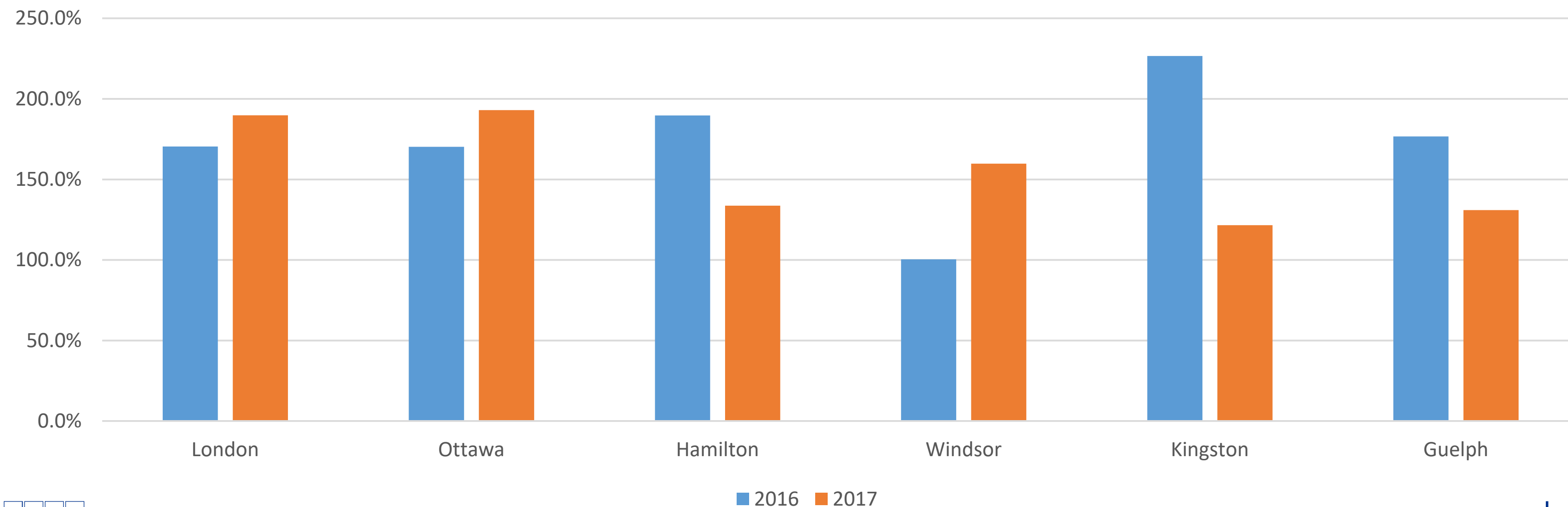
Vulnerability

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 Town'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 ✓

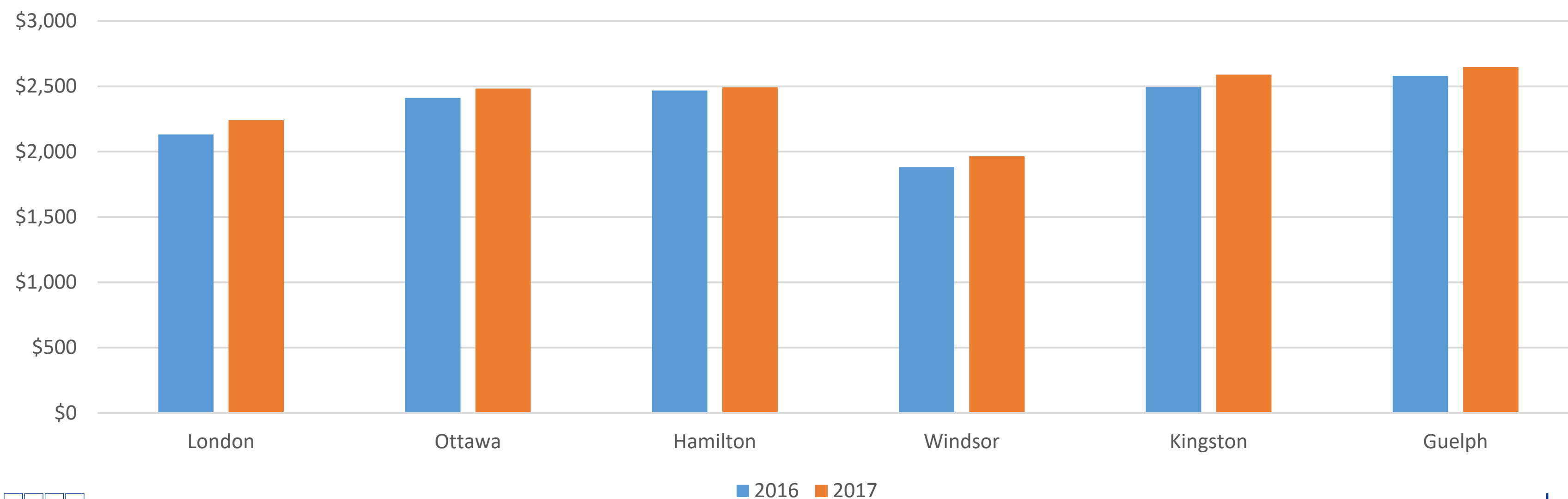
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

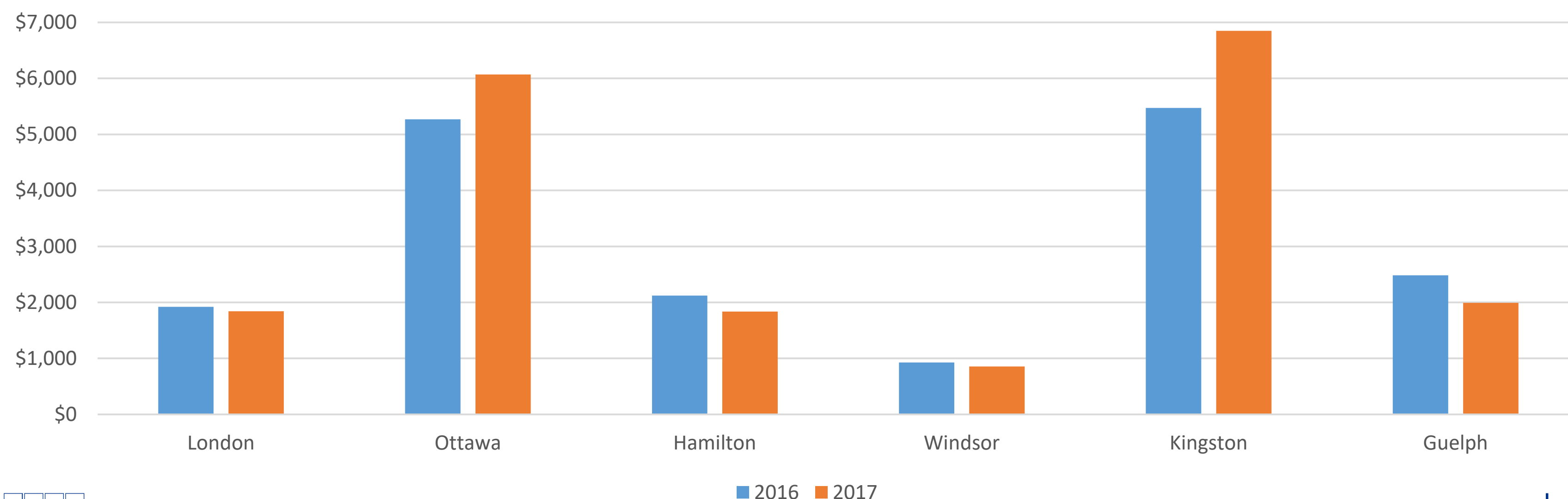
- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- This indicator is calculated based on lower-tier taxation only and does not consider upper tier or education taxes.
- This indicator does not consider the level of service provided 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		FORMULA	POTENTIAL LIMITATIONS
Sustainability		FIR Schedule 70, Line 2699, Column 1 divided by FIR Schedule 2, Line 0040, Column 1	• 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
Flexibility	✓		
Vulnerability			



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 total household income used to pay municipal property taxes.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

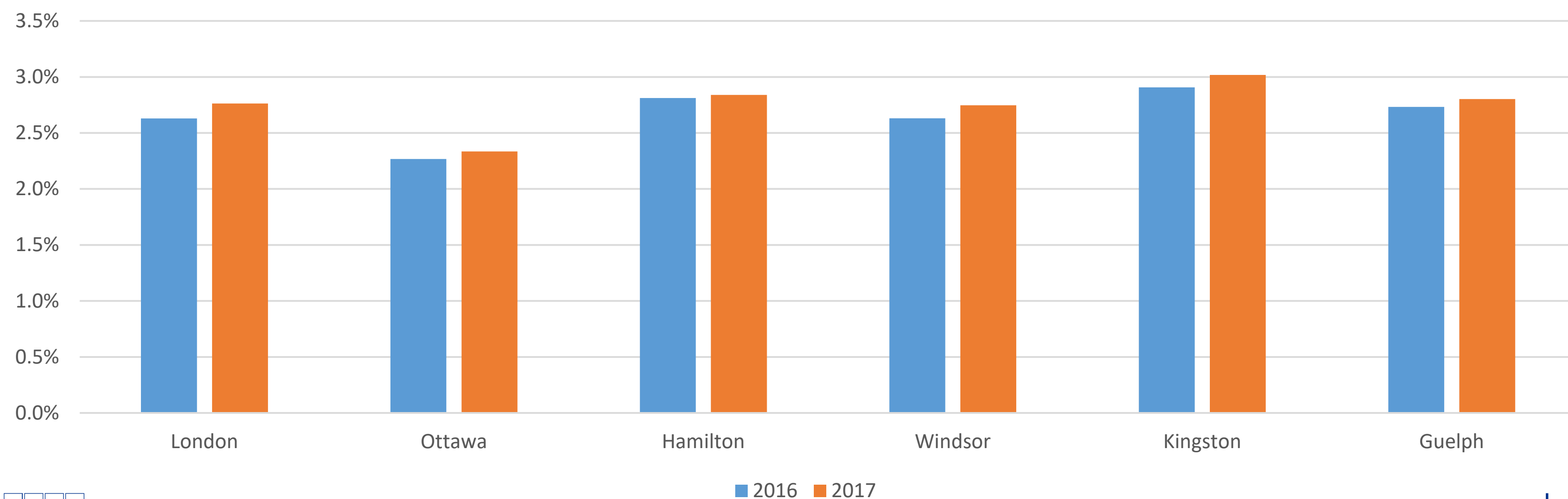
Vulnerability

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). Average household income is derived from 2016 census data.

POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average 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 general incremental revenues in the future.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

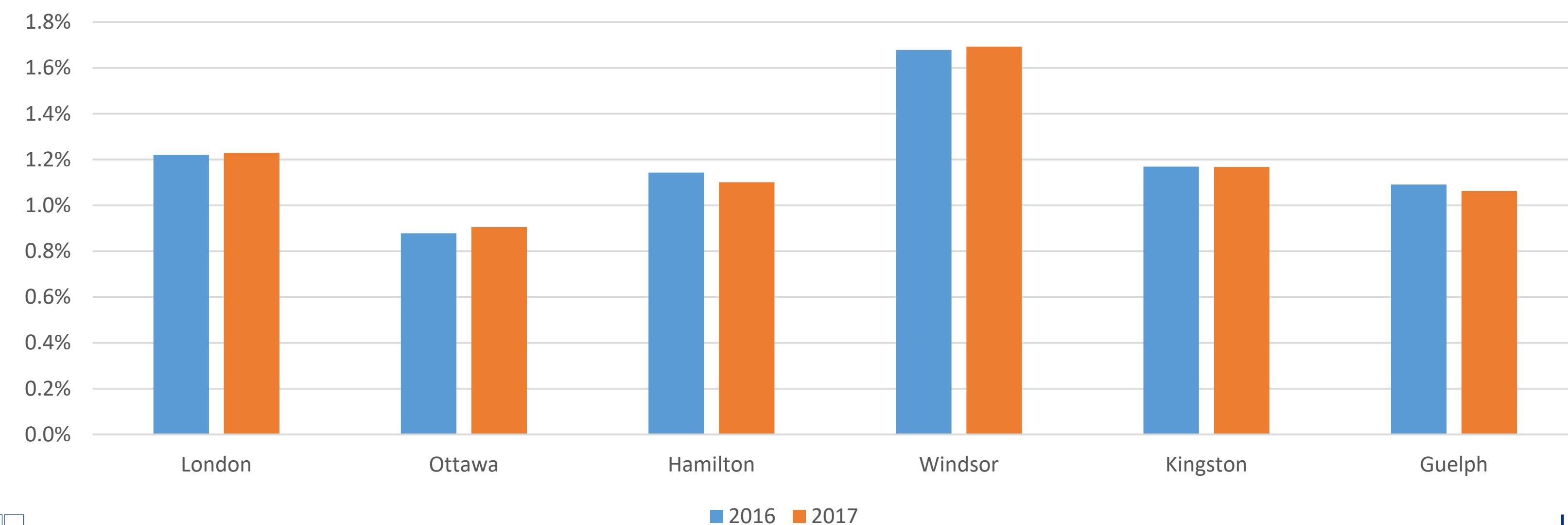
Vulnerability

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 ✓

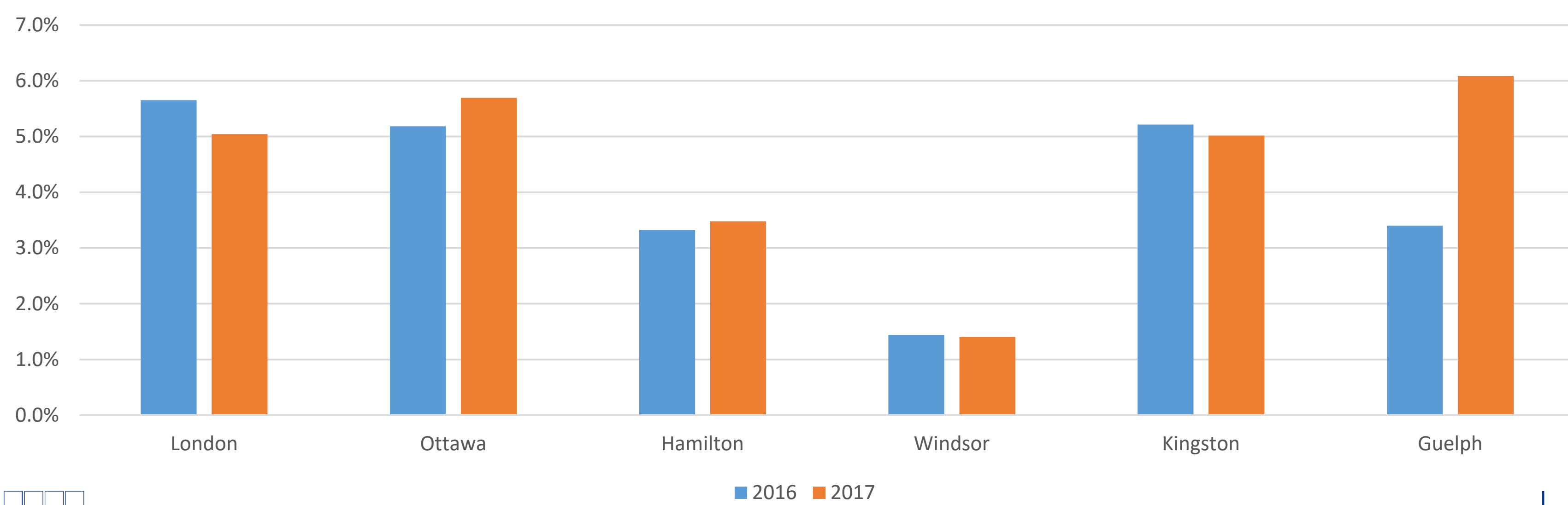
Vulnerability

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 ✓

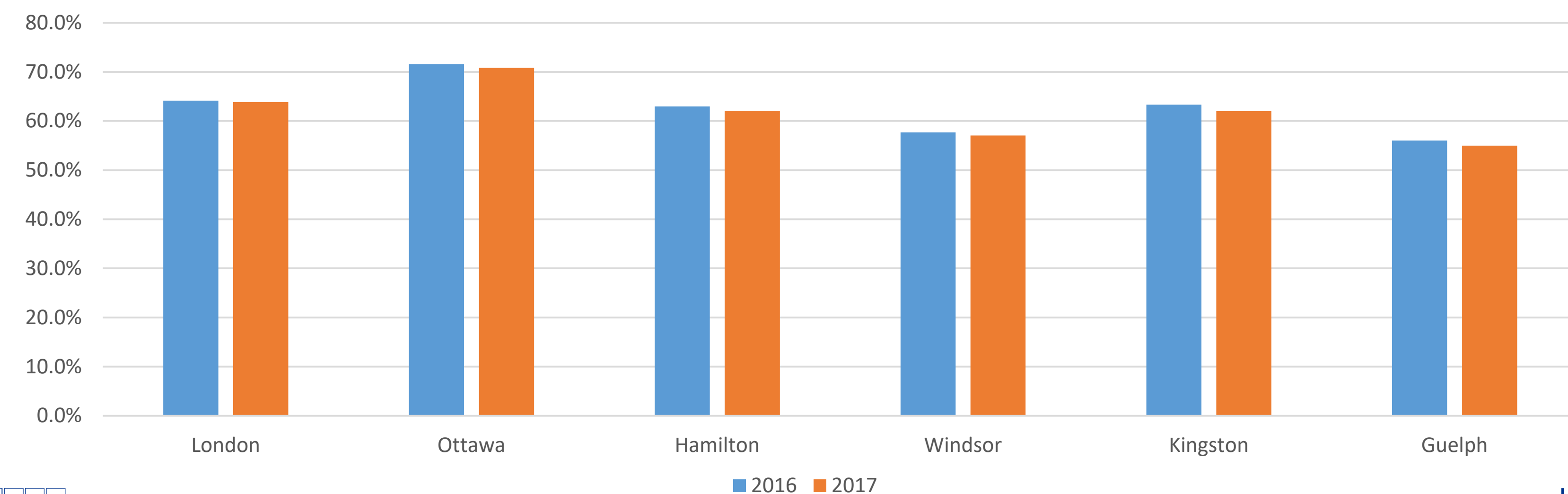
Vulnerability

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 Town's tangible capital assets, as opposed to replacement cost. As a result, the Town'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

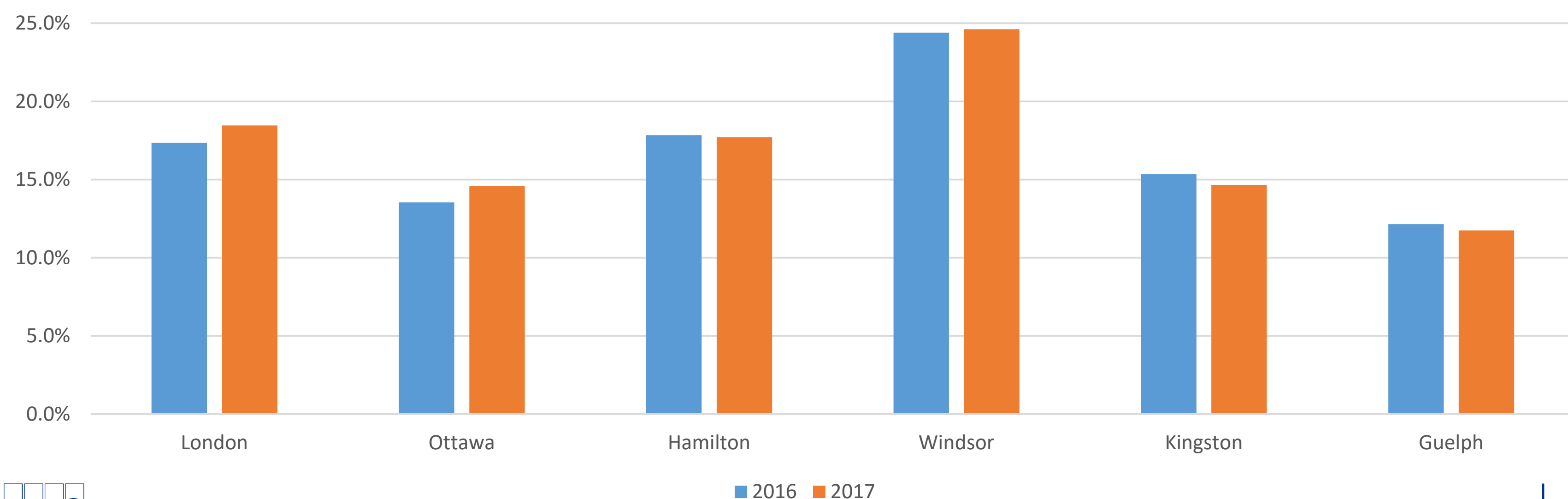
Sustainability	
Flexibility	
Vulnerability	✓

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 senior 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

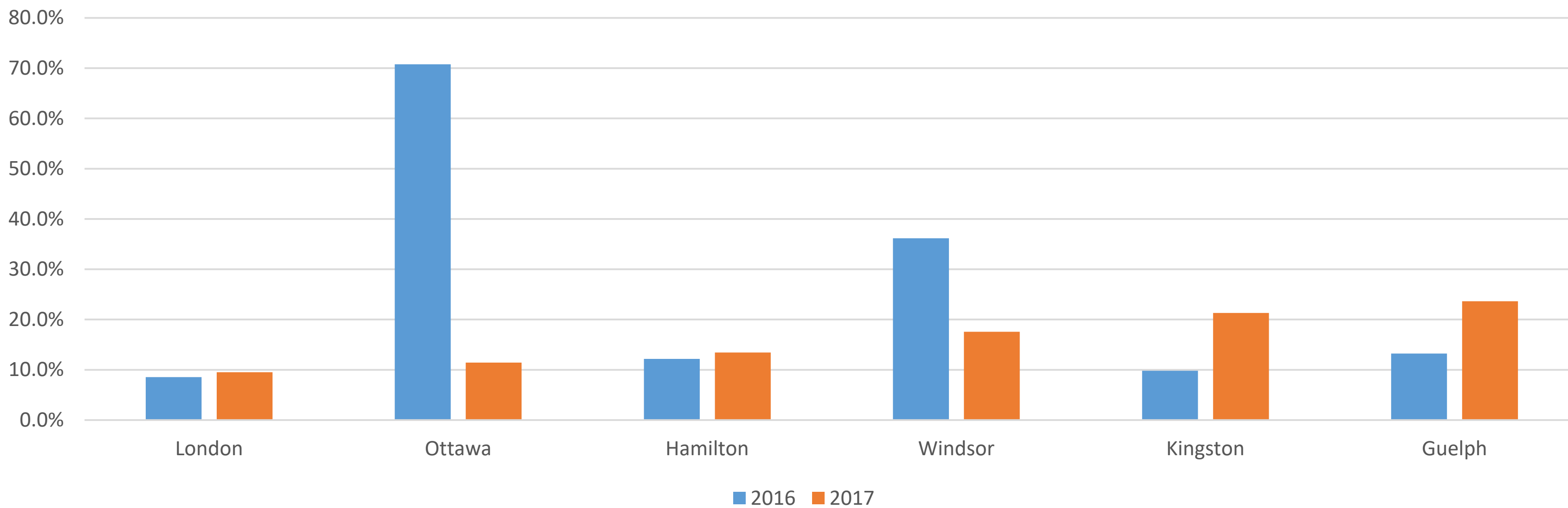
Vulnerability ✓

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 CORPORATION OF THE CITY OF LONDON

REPORT ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES FOR THE LONDON DOWNTOWN CLOSED CIRCUIT TELEVISION PROGRAM FOR THE YEAR ENDING DECEMBER 31, 2018

KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

REPORT ON SPECIFIED AUDITING PROCEDURES

To the Corporation of the City of London

As specifically agreed, we have performed the following specified auditing 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 ending December 31, 2018.

Our engagement was performed in accordance with the Canadian generally accepted standards for specified auditing procedures engagements.

We make no representation regarding the appropriateness and sufficiency of the specified auditing procedures. These specified auditing procedures do not constitute an audit or review and therefore we are unable to and do not provide any assurance on the financial information and related data assessed. Had we performed additional procedures, an audit or a review, other matters might have come to light that would have been reported. The attached findings relate only to the elements, accounts, items or financial information in the specified procedures and do not extend to any of the Corporation of the City of London's financial statements taken as a whole.

Our report is intended solely for the Management of the Corporation of the City of London and should not be distributed or used by parties other than the Corporation of the City of London.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

January 18, 2019

SCHEDULE

SPECIFIED AUDITING PROCEDURES AND FINDINGS

1 Obtain and read the "Code of Practice" dated December 13, 2004, related to the London Downtown Closed Circuit Television Program.

KPMG obtained and read the Code of Practice dated December 13, 2004. KPMG confirmed with Division Manager III, Corporate Security and Emergency Management that there have been no recent updates to the document.

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 City of London downtown core. Review the recordings for compliance with Section 12 of the Code of Practice for camera use and ensure the recordings have not monitored individuals in any manner that would constitute a violation of the Code of Practice.

KPMG selected four recordings from each month of the year for a total sample selected of 48 recordings. We noted one instance where the recording that was provided to us differed from the sample that was requested. This instance is described below:

- *Wednesday December 5, 2018 – Camera 2, 4:00PM-4:15PM – The segment provided was for Camera 3. In response, KPMG performed the following procedures:*
    - *Reviewed the December 5, 2018 log book for indications of instances of non-compliance. None identified.*
    - *Selected an alternative sample for testing – Thursday December 20, 2018, 4:00PM-4:15PM, Camera 2 – no instances of non-compliance were identified as a result of alternative procedures performed.*

We have noted no instances in the reviewed recordings where segments of data are missing.

We have noted that all recordings that we were able to review are in compliance 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 and 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, 2018 to December 31, 2018.

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.

Deloitte.

Deloitte LLP
255 Queens Avenue,
Suite 700
London ON N6A 5R8
Canada

Tel: 519-679-1880
Fax: 519-640-4625
www.deloitte.ca

Memo

Date:	January 28, 2019
To:	Members of The Corporation of the City of London Audit Committee
From:	Jim Pryce, Partner, Deloitte LLP
Subject:	Internal Audit Summary Update

Internal Audit has included a summary memo with our material to highlight major accomplishments since our last update to the Audit Committee and to draw your attention to the matters of greatest importance. We will cover these documents in more detail at the meeting and respond to all questions you may have.

1. Internal Audit Dashboard Report:

a. The approved 2017-2018 plan is near completion because not all reports are issued. Internal Audit continues to execute on the remainder of the plan and is expected to complete the remaining projects by May 2019. Internal Audit continues to have quarterly meetings with the City Manager and City Treasurer.

b. Internal Audit has not issued any reports since the last Audit Committee update, although three projects are in the final reporting stage and set to be complete in the coming weeks.

2. Internal Audit Plan

a. Internal Audit has commenced activities to refresh the 2019-2022 internal audit plan and a timeline is included within the package. Internal Audit targets to have the Audit Committee approve the draft 2019-2022 internal audit plan in April 2019.

3. Audit Observation Status Summary of High and Medium Priority Observations and past due observation trending analysis:

a. Internal Audit closed one high priority observation for Freedom of Information Process Assessment and two medium priority observations which included one for Procurement Process Assessment and one for Management Compensation Process Assessment since the last Audit Committee meeting.

b. A total of five (5) medium priority observations are past due as of January 28, 2019 compared to the four (4) high and medium priority observations past due as at October 29, 2018:

   i. Three (3) medium priority observations continue to be past due, including two (2) for Parks and Recreation Cash Handling Process Review, and one (1) for Management Compensation Process Assessment.

   ii. Two (2) medium priority observations for Building Permit Process Assessment have become past due since October 29, 2018.

We are comfortable that management is making progress to remediate open items based on the timelines established and work plans in place which they have committed and asserted to.

Deloitte.

The Corporation of the City of London

June 2017 - December 2018 internal audit dashboard as at January 28, 2019

Project status – 2017-2018 Internal audit plan

2017-2018 Audit plan projects	Percent complete	Report issued
Parks & Recreation cash handling process review	100%	✓
Freedom of information process assessment	100%	✓
Management compensation process assessment	100%	✓
Building permit process assessment	100%	✓
Parking revenue generation assessment	100%	✓
Homeless prevention assessment	100%	✓
Procurement process assessment	100%	✓
IT portfolio management and project management assessment	90%	○
Housing process assessment	85%	○
Health and safety assessment	85%	○
Class replacement project pre-implementation review*	15%	○
Construction procurement process assessment	15%	○
IT security assessment	10%	○

Internal audit activities – January – June 2019

- IT portfolio management and project management process assessment (reporting)
- Housing process assessment (reporting)
- Health and safety assessment (reporting)
- Class replacement project pre-implementation review* (fieldwork)
- Construction procurement process assessment (fieldwork and reporting)
- IT security assessment (fieldwork and reporting)

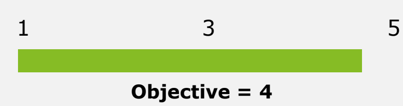
Other activities

- Internal audit plan refresh for 2019-2022 underway
- Prepare Audit Committee meeting materials
- Observation follow-ups and validation

2017-2018 Performance metrics

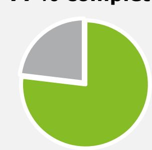
Project customer satisfaction

Overall quality of work/satisfaction level? (Based on completed reports surveys returned)



% complete of the 2017-2018 internal audit plan

77% complete



Internal audit 2017-2018 reporting

	Draft (days)	Management comment (days)	Issue final (days)	Final (days)
Objective	5.0	15.0	10.0	30.0
Performance	6.7	19.9	16.6	43.2

* - Moved to a pre-implementation review at request of management and approval of the Audit Committee. Fieldwork will be conducted throughout the implementation project.

Deloitte.

London CANADA

The Corporation of the City of London

Internal Audit Plan refresh approach and timing

For discussion purposes only

February 2019

Contents

1.1 Background and overview

Internal Audit's objective is to provide an independent, objective assurance and advisory service designed to improve the City of London's operations and support the City of London in the achievement of its objectives.

Internal Audit's work is performed in accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.

Our overall objectives in executing the proposed 2019 internal audit plan include the following:

- Assist the City's Audit Committee and Senior Leadership Team (SLT) in fulfilling their oversight responsibilities; and
- Provide independent, objective audit and advisory services designed to add value and improve the effectiveness of the City's control, compliance and governance processes.

1.2 Internal Audit universe

The current internal audit risk universe includes the functions, processes, systems and strategic initiatives covering the City of London's operations as identified in 2017 when the 2017-2018 Internal Audit Plan (see Appendix I)was developed.

- The following reviews have been completed as of February 2019:
  - Management compensation process assessment
  - Procurement process assessment
  - Building permit process assessment
  - Freedom of Information process assessment
  - Homeless prevention process assessment
  - Parks & Recreation cash handling review
- Internal Audit will be refreshing the current Internal Audit Plan with the feedback and insights of Management and the Audit Committee between February and April 2019. Updates to the audit universe will be identified and completed during this process as well.

Internal Audit Universe Areas		Risks	
Corporate Services	**Solicitor**	• Regulatory • Government Policy • Reputation	• Compliance • Illegal Acts • Catastrophic loss
	Human Resources	• Human Resources • Health and Safety • Reputation • Accountability • Security	• Compensation and Benefits • Illegal Acts • Capacity • Leadership • Organizational alignment
	Finance and Treasury	• Liquidity • Taxation • Capital Availability • Reputation	• Budgeting and Planning • Accounting Information • Regulatory Reporting
	Information Technology	• Relevance • Integrity • Change Readiness • Reputation	• Access/Security Breach • Infrastructure • Technological Innovation • Business interruption
	Corporate Communication	• Partnering • Reputation	• Contract Commitment
	Economic Innovation	• Partnering • Reputation	• Change Readiness
	Emergency Planning	• Partnering • Reputation	• Change Readiness • Health and Safety
Administration	**Planning**	• Planning	• Environmental Scan
	Compliance Services	• Regulatory • Government Policy	• Compliance • Reputation
	Building	• Regulatory • Government Policy • Reputation	• Partnering • Contract Commitment
	Environmental	• Regulatory • Government Policy	• Government Policy • Reputation
	Engineering	• Planning • Environmental scan	• Regulatory • Reputation
Services	**Housing**	• Health and Safety • Stakeholder wants • Reputation	• Government Policy • Infrastructure
	Social Services	• Health and Safety • Reputation	• Government Policy
	Dearness Home	• Health and Safety • Reputation	• Stakeholder wants
	Neighbourhood & Children services	• Health and Safety • Reputation	• Stakeholder wants
	Fire	• Health and Safety • Reputation	• Citizen Satisfaction • Partnering
	Service London	• Reputation	• Citizen Satisfaction
Parks & Recreation	**Parks & Recreation**	• Health and Safety • Reputation	• Stakeholder wants • Citizen satisfaction
Agencies, Boards, Commissions and Corporations	**Argyle Business Improvement Area Board of Management**	• Health and Safety • Reputation	• Citizen Satisfaction • Organizational alignment
	Covent Garden Market Corporation		
	Eldon house Corporation		
	Housing Development Corporation		
	London Convention Centre Corporation		
	London Downtown Business Association		
	London Hydro Inc.		
	London & Middlesex housing Corporation		
	London Police Services Board		
	London Public Library Board		
	London Transit Commission		
	Middlesex-London Health Unit		
	Museum London		
	Old East Village Business Improvement Area		
	Public Utility Commission of the City of London		
	Elgin Area Water Primary Water Supply System		
	Lake Huron Primary Water Supply System		

1.3 Internal Audit plan refresh approach

Our Internal Audit plan refresh approach consists of the following five steps.

01

Provide overview of IA planning process to leadership

Attending the SLT meeting to provide an overview of the 2019-2022 Internal Audit plan refresh process.

02

Individual meetings to gather input on 2019-2022 IA Plan

Meet with each member of the Audit Committee and SLT to gather input for the 2019-2022 Internal Audit plan.

03

Review draft 2019-2022 IA Plan with key City stakeholders

Walkthrough the draft plan with the Managing Director, City Treasurer, Audit Committee Chair, and City Manager (stakeholder). Solicit feedback from the SLT.

04

Continuous refinement of draft 2019-2022 IA Plan and submission to Audit Committee

Continue to refine the draft plan as input is gathered and submit the final draft to the Audit Committee.

05

Present draft 2019-2022 IA Plan at Audit Committee meeting for approval

The final draft of the 2019-2022 is presented to the Audit Committee as a convened meeting in April 2019.

1.4 Areas for discussion in developing the Internal Audit Plan

In developing the 2019-2022 Internal Audit plan, the following discussion items will be covered in the individual stakeholder meetings.

1. Walkthrough of Summary 2017-2020 Audit Plan by audit universe area
2. Are you comfortable with the proposed audit scope for each review tagged to your area of responsibility in the audit universe?
3. Are you comfortable with the proposed audit scope for each review outside of your area of responsibility in the audit universe? Any changes at this time?
4. What are the main risks the City is currently facing / initiatives currently underway or undertaken by the City?
5. What areas do you think would gain the most value from having an Internal Audit review?

1.5 Proposed timeline to develop the 2019-2022 Internal Audit plan

The proposed timelines to develop the 2019-2022 Internal Audit plan culminate in a presentation to the Audit Committee in April 2019.

Step 1: Provide overview of IA planning process to leadership

- Attend SLT meeting
- Present at Audit Committee meeting

Step 2: Individual meetings to gather input on 2019-2022 IA Plan

- 1 hr with each Audit Committee member
- ½ hr with each Senior Leader (8) & Director, ITS

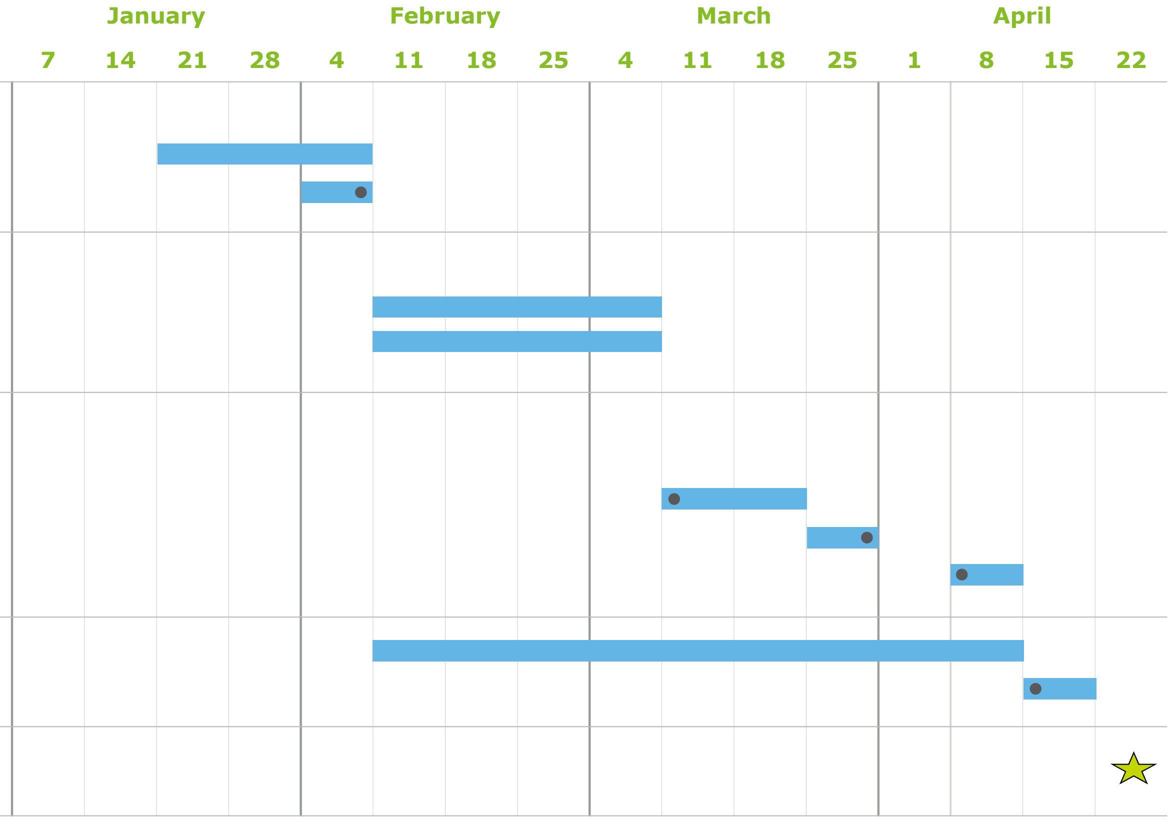
Step 3: Review draft 2019-2022 IA Plan with key City stakeholders

- Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, and City Manager (stakeholder)
- Re-distribute plan to SLT for feedback
- Meet with AC Chair to discuss draft plan

Step 4: Continuous refinement of draft 2019-2022 IA Plan

- Submission of refined draft 2019-2022 IA Plan to Audit Committee

Step 5: Present draft 2019-2022 IA Plan at Audit Committee meeting for approval



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Appendix I - Summary 2017-2020 Audit Plan by audit universe area

Internal Audit universe areas		FY 2017	FY 2018	FY 2019	FY 2020
Corporate Services	**Solicitor**	Freedom of Information Process Assessment			Court House Facility Assessment
	Human Resources	Management Compensation Process Assessment	Health and Safety Assessment	Recruitment Process Assessment	
	Finance and Treasury		Procurement Process Assessment	Electronic Fund Transfer Compliance Assessment	
	Information Technology	IT Project Portfolio and Project Management Assessment	Class Replacement Project Post-implementation Review IT Security Assessment	Computerised Maintenance Management System (CMMS) Pre-implementation Review	
	Corporate Communication	Corporate Communication will be evaluated and assessed, as relevant, as part of other audits.			
	Emergency Planning				Emergency Planning Process Review
Administration	**Planning**				Development Charges Process Assessment
	Compliance Services		Parking Revenue Generation Assessment		
	Building	Building Permit Process Assessment			
	Environmental				Public Works Process Assessment
	Engineering		Rapid Transit Project	Computerised Maintenance Management System (CMMS) Pre-implementation Review Rapid Transit Project	Rapid Transit Project

Appendix I - Summary 2017-2020 Audit Plan by audit universe area (cont'd)

	Internal Audit universe areas	FY 2017	FY 2018	FY 2019	FY 2020
Services	**Housing**		Housing Process Assessment		
	Social Services			Social Services Process Assessment	
	Dearness Home				
	Neighbourhood and Children services	Homelessness Prevention Management Process Assessment			
	Fire			Fire Process Assessment	
	Service London				Service London Process Assessment
Parks & Recreation	**Parks & Recreation**	Cash Handling Process Review	Class Replacement Project Post-implementation Review		
Agencies, Boards, Commissions and Corporations	**Argyle Business Improvement Area Board of Management**				
	Covent Garden Market Corporation				
	Eldon house Corporation				
	Housing Development Corporation		Housing Process Assessment		

Appendix I - Summary 2017-2020 Audit Plan by audit universe area (cont'd)

	Internal Audit universe areas	FY 2017	FY 2018	FY 2019	FY 2020
Agencies, Boards, Commissions and Corporations (continued)	London Convention Centre Corporation				
	London Downtown Business Association				
	London Hydro Inc.				
	London & Middlesex housing Corporation		Housing Process Assessment		
	London Police Services Board				
	London Public Library Board				
	London Transit Commission				
	Middlesex-London Health Unit				
	Museum London				
	Old East Village Business Improvement Area				
	Public Utility Commission of the City of London				
	Elgin Area Water Primary Water Supply System				
	Lake Huron Primary Water Supply System				

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City of London Audit Committee Observation Summary
As at January 28, 2019

LEGEND	
Observations closed	All observations have been addressed by management
Remediation in progress	Observations in progress are being addressed by management including observations where initial timeline was missed but a plan is in place for remediation that appears acceptable
Remediation in progress - exceptions noted	Management has missed implementation deadlines for observations and no adequate resource plan has been identified
Management accepts the risk	Management has accepted the remaining risk

Report Summary				Observation Status for Management Action Plans due January 28, 2019						
Internal Audit Plan Year	**Report**	**Report Issue Date**	**Total High & Medium Observations**	**Observations Closed Per Management**	**Closed Per Internal Audit***	**In Progress Observations (Not Due)**	**Past Due Observations**	**Observations Closed by IA Since October 29, 2018 update**	**Timing**	**Past Due Observation Commentary**
2017/2018	Parks and Recreation Cash Handling Review	Nov-17	3	1	1	0	2	**0**	**Dec-18**	• Two observations are past due as the issuance of the revised Cash Handling Policy is outstanding. Revised timeline is February 2019
2017/2018	Freedom of Information Process Assessment	Jan-18	2	2	2	0	0	**1**	**Complete**	
2017/2018	Building Permit Process Assessment	Jan-18	3	0	0	1	2	**0**	**Feb-19**	• Two observations are past due as implementation requires ITS involvement. Revised timeline is March 2019
2017/2018	Management Compensation Process Assessment	Apr-18	3	2	2	0	1	**1**	**Dec-18**	• One observation is past due as a position within Employee Systems remains vacant. Revised timeline is March 2019
2017/2018	Parking Revenue Generation Assessment	Jun-18	5	0	0	5	0	**0**	**Dec-19**	
2017/2018	Homeless Prevention Assessment	Oct-18	4	1	0	4	0	**0**	**Dec-19**	
2017/2018	Procurement Process Assessment	Oct-18	2	1	1	1	0	**1**	**Aug-19**	
Sub-total 2017/2018 reports			**22**	**7**	**6**	**11**	**5**	**3**		
Total High and Medium observations			**22**	**7**	**6**	**11**	**5**	**3**		

Closed per Management: Management has indicated that action plans due to be acted upon by January 28, 2019 are complete.
Closed per IA: Internal Audit has validated Management's assertions of observation closure through review of evidence.
In Progress Observations: Management action plans due beyond January 28, 2019 are underway or management has asserted observations are closed but Internal Audit has not yet validated.
Past Due Observations: Actions plans due by January 28, 2019 have not been fully acted upon.
Observations Closed by Internal Audit since last update: Management has indicated in the current period that action plans are complete and Internal Audit has validated through review of evidence