# Agenda
# Audit Committee

1st Meeting of the Audit Committee

February 10, 2021, 12:00 PM

2021 Virtual Meeting - during the COVID-19 Emergency

City Hall is temporarily closed to the public for in-person attendance at Standing Committees and Council meetings.

Meetings can be viewed via live-streaming on YouTube and the City website.

Members

Deputy Mayor J. Morgan (Chair), M. van Holst, J. Helmer, S. Turner, L. Higgs

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# The Corporation of the City of London

Audit Planning Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared as of January 25, 2021 for presentation to the Audit Committee on February 10, 2021

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# Executive summary

## COVID-19

COVID-19 has had and will continue to have an impact to the Corporation of the City of London's (the City's) operations and financial reporting.

See pages 2-3

## Group audit Scope

Our audit consists of 20 components over which we plan to perform:

- 17 full scope audits

See pages 4-5

## Audit and business risks

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

- Completeness of accruals
- Capital projects and acquisitions
- Payroll and employee future benefits
- Taxation, user charges, and transfer payment revenue
- Debt issuances

See pages 6-10

## Audit materiality

Materiality has been determined based on total consolidated expenses. We have determined group materiality to be $17,900,000.

Materiality will be set at lower thresholds to meet standalone subsidiary financial statement audit requirements.

See page 11

## Independence and Quality control

We are independent of the City 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 fees

Proposed fees for the annual group audit are discussed on page 18.

## Current developments and audit trends

Please refer to page 16 for Canadian auditing standard changes relevant to the City.

# COVID-19: Embedding Resilience & Readiness

COVID-19 has had and will continue to have an impact to the City's operations financial reporting.

## Potential financial reporting implications

Refer to our COVID-19 Financial Reporting site:

- Impairment of non-financial assets (e.g., TCA)
- Impairment of financial assets (e.g., financial instruments)
- Fair value measurements
- Leases
- Employee benefits and employer obligations
- Government transfers
- Provisions and contingencies
- Subsequent events

## Potential implications on internal control over financial reporting

- Reconsideration of financial reporting risks
- New or enhanced controls to respond to new financial reporting risks or elimination of on-site preventative controls
- Consideration of changes in the individuals performing the control
- Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees
- Reconsideration of ICFR impacts related to broader IT access given remote work arrangements

## Potential financial reporting implications related to disclosures

Refer to our COVID-19 Financial Reporting site:

- Events and conditions that cast significant doubt regarding going concern (including "close calls")
- New accounting policies
- Significant management judgements in applying accounting policies
- Major sources of estimation uncertainty that have significant risk

## Other potential considerations

- Cyber security risks (e.g., wire transfers schemes)

# COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements.

| Engagement Letter Rider |
|---|
| **Potential audit implications** |

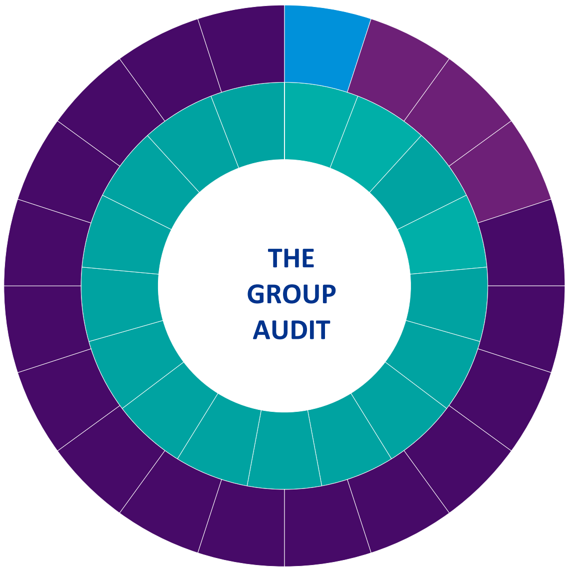
Planning and risk assessment

- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Understanding the potential financial reporting impacts, the changes in the City's environment, and changes in the City's system of internal control, and their impact on our:
    - identified and assessed risks of material misstatement
    - audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures

**Executing**

- Remote auditing
    - Increased use of other collaboration tools (Skype, Microsoft Teams etc.) and the need for written management acknowledgement for their use
    - Potential increased use of electronic evidence (and understanding the City's processes to provide such evidence to us)
- Timing of procedures may need to change

# Group audit scope




| Type of work performed | # of components | Legend |
|---|---|---|
| Significant due to risk | 0 | |
| Individually financially significant | 1 | |
| In-scope not significant* | 16 | |
| Not significant – Untested | 3 | |

*Components are not significant; however, separate statutory audits are required over these components on a stand-alone basis.

| Procedures performed by | Legend |
|---|---|
| Group team – KPMG London | |

# Group Audit Scope (continued)

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

| Component | Why | Our Audit Approach | Managers |
|---|---|---|---|
| City of London | Individually financially significant | Audit of component financial information | [1] Deanna Baldwin<br>[2] Emily Van Daele |
| Boards & Commissions | Non-significant components; however, necessary to issue separate statutory audit opinion | Audit of financial statements | [1] Dania Nabhani<br>[2] Emily Van Daele |

# Audit risks

**Relevant factors affecting our risk assessment**

Complexity Estimate Related party transaction

| Professional requirements | Why is it significant? |
|---|---|
| Fraud risk from revenue recognition.<br><br>There is no risk resulting from revenue recognition. | This is a presumed fraud risk. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performed is measured in terms of year-over-year growth or profit.<br><br>The risk of fraud from revenue recognition has been rebutted. |

## Our audit approach

– The audit team has rebutted this presumed risk as it is not applicable to the City where performance is not measured based on earnings.

# Audit risks (continued)

| Professional requirements | Why is it significant? |
|---|---|
| Risk of material misstatement due to fraud resulting from management override of controls. | This is a presumed risk of material misstatement due to fraud. We have not identified any specific additional risks of management override relating to this audit. |

## Our audit approach

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

# Audit risks (continued)

| Significant financial reporting risk | Why is it significant? |
| --- | --- |
| Completeness of accruals | 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 (continued)

| Other areas of focus | Why are we focusing here? |
| --- | --- |
| Capital projects and acquisitions | The City has a large balance of tangible capital assets and is continuously spending on capital projects. There is judgment involved in determining the useful lives of capital and when the amortization period should begin. |
| Payroll and employee future benefits | The City provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2019, the City of London had a liability for employee future benefits of $162 million. |

## 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 follows:
  - Assets under construction: Utilize Computer Assisted Audit Techniques (CAATs) to compare the WIP detail in fiscal 2020 to the WIP detail in fiscal 2019, testing any projects that did not incur costs in fiscal 2020 and remain in WIP as at December 31, 2020. 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.

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

- Test the reasonableness of assumptions provided by management to the actuaries that are used in preparing the valuation and calculating the post-employment and post-retirement benefits liability and WSIB obligation.
- Take a combined approach to testing payroll expense, which will include both substantive and control testing.

# Audit risks (continued)

| Other areas of focus | Why are we focusing here? |
|---|---|
| Taxation, user charges and transfer payments revenue | For the year ending December 31, 2019, these revenue streams amounted to more than $1.2 billion |
| Debt issuances | Individual debt issuances at the City have historically been for significant amounts. |

**Our audit approach.**

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.

KPMG will perform the following procedures over debt issuances:

- Debentures totaling $36 million were issued during 2020 with a 10-year term with an average all-in rate of 1.673%. KPMG will review the accounting for this transaction in detail during the audit.

# Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

| Materiality determination | Comments | Group amount |
|---|---|---|
| **Materiality** | Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.<br>The corresponding amount for the prior year's audit was $17,200,000. | $17,900,000 |
| **Benchmark** | Based on the prior year's total consolidated expenses.<br>This benchmark is consistent with the prior year. | $1,199,516,000 |
| **% of Benchmark** | The corresponding percentage for the prior year's audit was 1.5%. | 1.5% |
| **Audit Misstatement Posting Threshold** | Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $860,000.<br>A higher threshold has been used for reclassification misstatements. The corresponding amount for the previous year's audit was $4,300,000. | $895,000<br>Threshold for reclassification: $4,475,000 |

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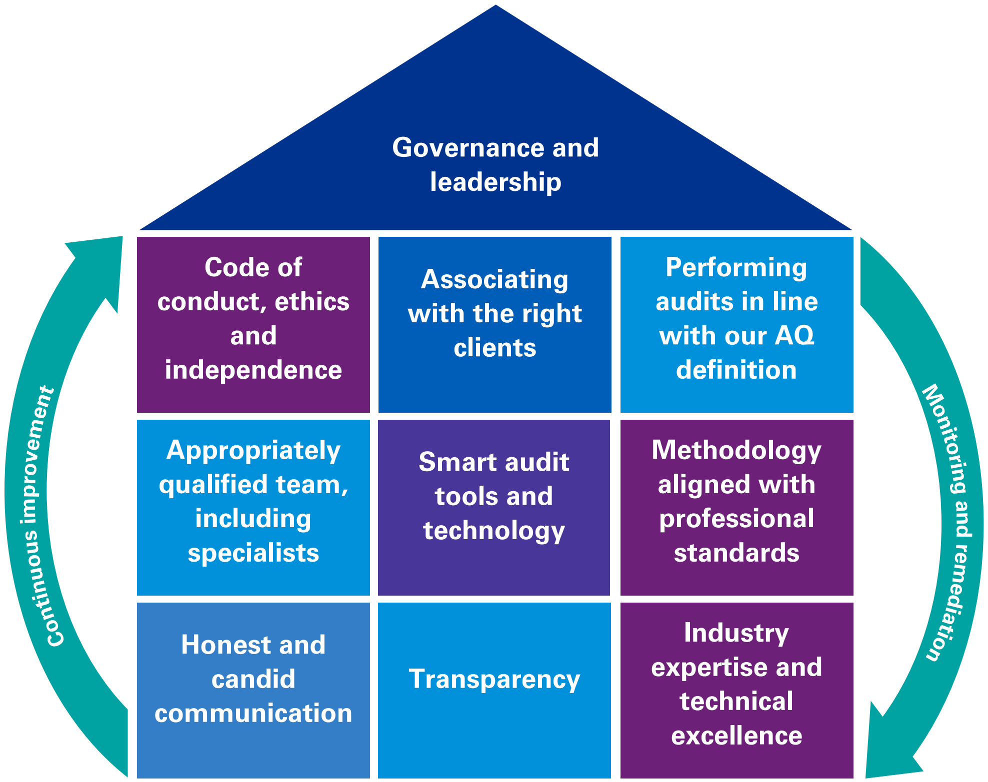
**We will report to the Audit Committee:**

- Corrected audit misstatements
- Uncorrected audit misstatements

# Audit Quality Matters

# Audit quality and transparency

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 summarizes the key elements of our quality control system.




Audit Quality Framework

### What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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

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

Our AQ Framework summarises how we deliver AQ.  Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

# Your KPMG Team

| Team member | Background / Experience | Discussion of Role |
|---|---|---|
| **Katie denBok**<br>**Lead Audit Engagement Partner**<br>kdenbok@kpmg.ca<br>519-660-2115 | Katie has over 15 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 and be responsible for the quality and timeliness of everything we do.<br>– She will be working with the team often and will always be available and accessible to you. |
| **Diane Wood**<br>**Tax Partner**<br>dianejwood@kpmg.ca<br>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. |
| **Deanna Baldwin**<br>**Audit Senior Manager**<br>deannabaldwin@kpmg.ca<br>519-660-2156 | Deanna has over 10 years of experience in public accounting serving a broad range of clients including not-for-profit and public sector organizations and a number of local private company enterprises. | – Deanna will work very closely with Katie on all aspects of our audit for the City.<br>– She will directly oversee and manage our audit field team and work closely with your management team. |
| **Emily Van Daele**<br>**Audit Manager**<br>evandaele@kpmg.ca<br>519-964-2105 | Emily has over 5 years of experience in public accounting serving a broad range of clientele, including public sector entities, not-for-profit organizations, public, and private companies. | – Emily will work closely with Katie and Deanna and provide assistance to the main City audit. She will also manage select Boards and Commissions.<br>– She will directly oversee and manage the audit field team for these entities, as well as work closely with the management teams |
| **Dania Nabhani**<br>**Audit Manager**<br>dnabhani@kpmg.ca<br>519-660-2120 | Dania has over 6 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies. | – Dania will work closely with Katie on select Boards and Commissions.<br>– She will directly oversee and manage the audit field team for these entities, as well as work closely with the management teams. |

# Key deliverables and milestones

| | |
|---|---|
| **January 19, 2021** | Planning meeting with management |
| **January/February 2021** | Offsite year-end planning |
| **February 10, 2021** | Audit Plan Discussion |
| **April 5, 2021 – June 11, 2021** | Year-end fieldwork |
| **June 16, 2021** | Audit Findings Discussion |

# New audit standards

New auditing standards that are effective for the current year are as follows:

| Standard | Key observations | Reference |
|---|---|---|
| **CAS 540, Auditing Accounting Estimates and Related Disclosures**<br><br>**Effective for audits of Entities with year-ends on or after December 15, 2020** | **Expected impact on the audit:**<br>— more emphasis on the need for exercising professional skepticism<br>— more granular risk assessment to address each of the components in an estimate (method, data, assumptions)<br>— more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions)<br>— more focus on how we respond to levels of estimation uncertainty<br>— more emphasis on auditing disclosures related to accounting estimates<br>— more detailed written representations required from management | CPA Canada Client Briefing |

# Independence Matters

# 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 group financial statements | $93,000 | $91,400* |
| Incremental fees related to the implementation of CAS 540, Auditing Accounting Estimates and Related Disclosures | $5,000 - $7,000 | n/a |

*Final billing for 2019 is in the process of being determined as of this report date

**Matters that could impact our fee**

The proposed fees outlined above are based on the assumptions described in the engagement letter.
The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof
- Changes in the timing of our work. Although we hope to undertake our audit in person in the spring, given the ever-changing conditions that COVID-19 is having, this may not be possible. If audit work needs to be done remotely, we will discuss changes to our audit with management and develop a suitable strategy.

# Appendices

## Content



# Appendix 1: Required communications

## Audit Planning Report

This report.

## Engagement Letter

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.

## Reports to the Audit Committee

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

## Representations of management

We will obtain from management certain representations at the completion of the audit.

## Matters pertaining to independence

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

## Internal control deficiencies

Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be communicated to management.

## Required inquiries

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

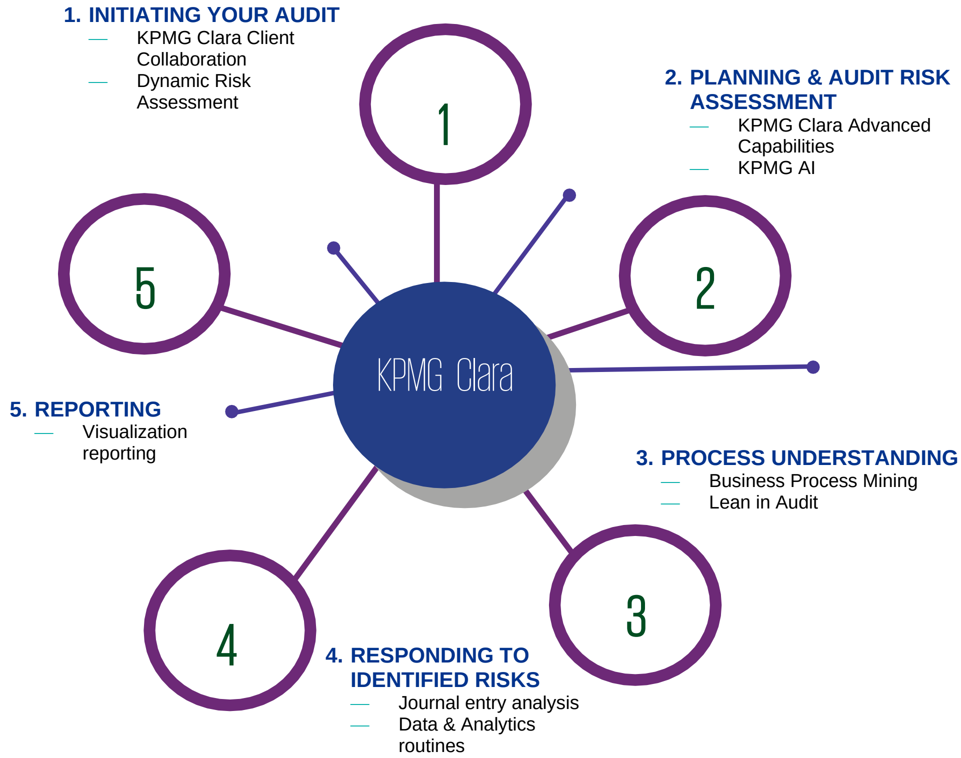
# Appendix 2: Use of technology in the audit

Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions through the use of robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

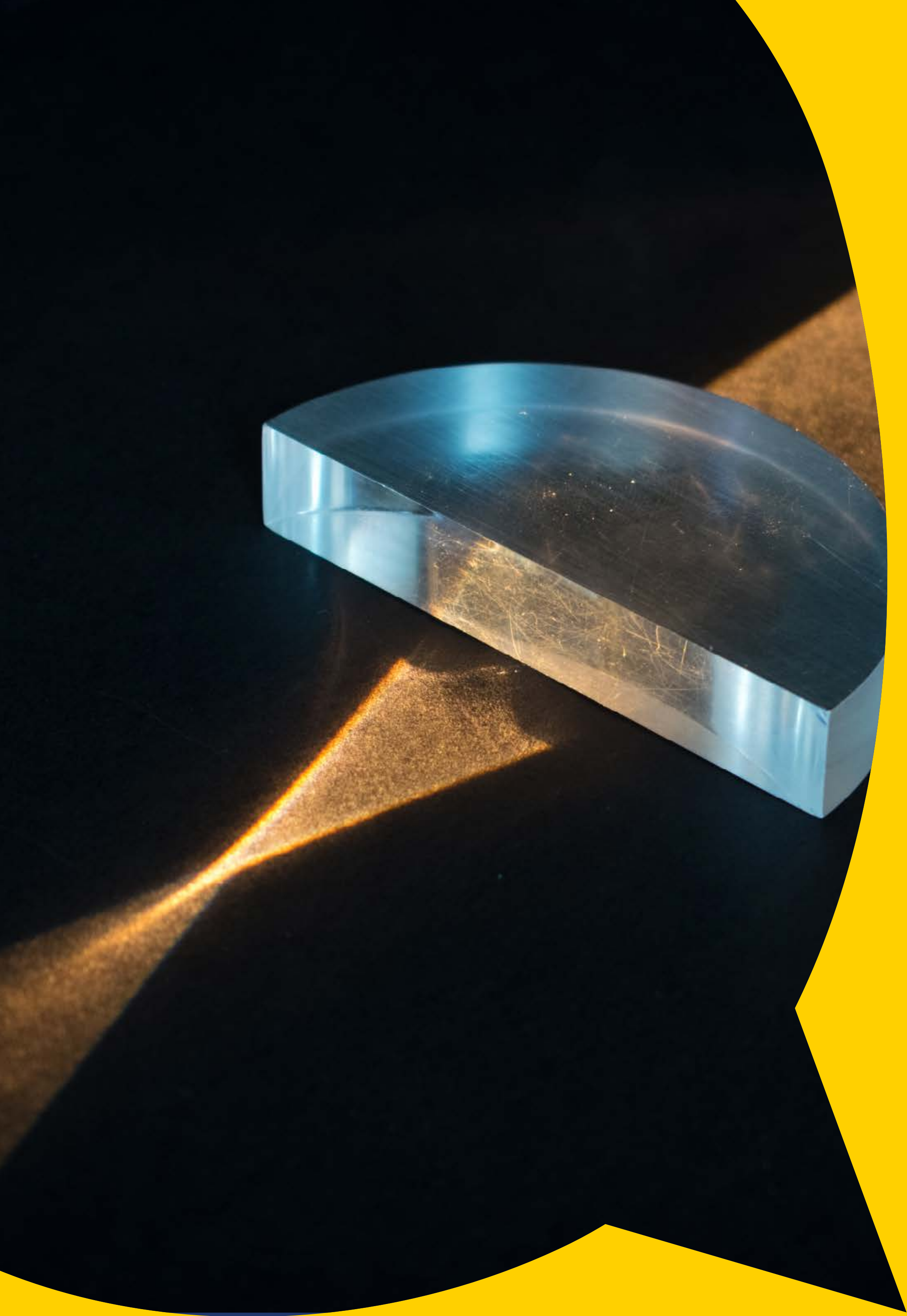
1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

## Our five-phased audit approach



# Appendix 2: FEI Understanding the Auditing Requirements for Accounting Estimates and the Use of Specialists



CAQ CENTER FOR AUDIT QUALITY

fei committee on corporate reporting

# **Understanding the Auditing Requirements for Accounting Estimates and the Use of Specialists:** Considerations for Auditors and Management

Published June 2020

# About the Center for Audit Quality

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

# About FEI

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of about 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately $10.8 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the PCAOB, SEC, and FASB. To learn more about CCR's advocacy efforts, visit the FEI website.

# Contents

# Purpose of This Resource

The Public Company Accounting Oversight Board (PCAOB) recently adopted new requirements for auditors related to:

+ auditing accounting estimates in significant accounts and disclosures, including fair value measurements,[1] and
+ the auditor's use of the work of specialists, including management's specialists and specialists employed or engaged by the auditor.[2]

The new and amended requirements are effective for audits of fiscal years ending on or after December 15, 2020 and the impact will vary based upon the facts and circumstances of each audit.

These requirements likely will have an indirect impact on other stakeholders such as chief financial officers and other members of management and staff involved in and responsible for the preparation of the financial statements. Specialists employed or engaged by companies whose work is used in the preparation of the financial statements also may be directly or indirectly impacted by the new and amended auditing requirements. While these requirements apply to the auditor, management's responsibilities including maintaining internal accounting controls and accurate books and records, among others, remain unchanged.

The Center for Audit Quality (CAQ) and Financial Executives International (FEI) have teamed up to provide auditors and management an overview of these most recently adopted and amended requirements and considerations related to how they may impact their respective responsibilities for providing investors and our capital markets with high-quality, reliable financial information.

1 The new standard AS 2501: *Auditing Accounting Estimates, Including Fair Value Measurements* (AS 2501) replaced three existing standards: AS 2501: *Auditing Accounting Estimates,* AS 2502: *Auditing Fair Value Measurements and Disclosures* and AS 2503: *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*. Additionally, auditing interpretation, AI 16, *Auditing Accounting Estimates: Auditing Interpretations of AS 2501*, has been rescinded. The PCAOB also amended AS 1105: *Audit Evidence (AS 1105)* to add a new Appendix B, *Audit Evidence Regarding Valuation of Investments Based on Investee Financial Results* and amended paragraphs .28, .52, and .60A of AS 2110: *Identifying and Assessing Risks of Material Misstatement (AS 2110)*.

2 The PCAOB amended AS 1105: *Audit Evidence* to add a new Appendix A, *Using the Work of a Company's Specialist as Audit* Evidence and added new paragraph .28A AS 2110. The PCAOB also amended AS 1201: *Supervision of the Audit Engagement* by adding a new Appendix C, *Supervision of the Work of Auditor-Employed Specialists* and replaced AS 1210: *Using the Work of a Specialist* with a new AS 1210: *Using the Work of an Auditor-Engaged Specialist*.

# Auditing Accounting Estimates

The nature of accounting estimates varies from company to company and depends on a number of factors including the nature of the company's business, its industry, types of underlying transactions and the applicable accounting framework. Changes within financial reporting frameworks over the years have led to an increase in the use of accounting estimates, including fair value measurements, in the preparation of financial statements.

Preparers of financial statements use methods (including models), data, and assumptions to determine an accounting estimate. With the changes in the financial reporting frameworks, the complexity associated with certain accounting estimates has increased as has the subjectivity that can be associated with the underlying methods and assumptions management uses to develop accounting estimates. Auditors are required to understand the methods, assumptions, data, and relevant controls used by management to develop accounting estimates. This understanding informs the auditor's risk assessment and development of procedures to obtain sufficient appropriate evidence which serves as the basis for the auditor's conclusions.

Uncertainties and volatility in the economic environment may have a significant impact on the measurement uncertainty, complexity and subjectivity of accounting estimates, in particular those estimates that are dependent on management's intent and ability to carry out certain actions or are based on cash flow forecasts or other forward-looking projections. Such estimates will require significant judgment from management. The uncertainty and volatility in the economic environment may require changes in related processes and controls to support consistent exercise of sound judgments and use of relevant, quality information. As a result, accounting estimates will receive increased attention from auditors.

# Use of Specialists

As the complexity of financial reporting has increased, including greater use of accounting estimates, specialists are increasingly being used by auditors and management in a multitude of ways that impact the preparation and auditing of the financial statements. The amendments are designed to be risk-based and scalable, so that the auditor's effort to evaluate the specialist's work is commensurate with the risk of material misstatement associated with the financial statement assertion to which the specialist's work relates and the significance of the specialist's work to that assertion. Auditors are required to determine whether a specialized skill or knowledge is needed to perform appropriate risk assessments, plan or perform audit procedures, or evaluate audit results. Specialists are defined as those who possess a specialized skill or knowledge in a field other than accounting or auditing.[3]

Specialists can be employees of the audit firm or contracted by the audit firm and used by auditors to audit accounting estimates as well as in other areas associated with the audited financial statements and disclosures. For both auditor-employed and auditor-engaged specialists the new requirements highlight the supervisory responsibilities of the auditor.

Specialists also can be engaged or employed by management to assist with development of the accounting estimates. Auditors may use the work of specialists that are employed or engaged by company management when auditing accounting estimates. The PCAOB's amendments are intended to strengthen the requirements for evaluating the work of a company's specialist, whether employed or engaged by the company.

3 For example, see note to AS 1210.01 on the definition of a specialist.

# Impact of Changes

The auditing of accounting estimates and the nature and extent of the auditor's use of the work of specialists will vary based on the facts and circumstances of each audit and estimate. In some cases, the new and amended requirements may already be reflected in current audit approaches as audit firms have made changes to their methodologies to address the evolving complexities and judgments in the auditing of accounting estimates and using the work of specialists. The new and amended PCAOB requirements are designed to be scalable as the necessary audit evidence depends on the corresponding risk of material misstatement. The summary of key changes in auditing requirements provided below should be read in conjunction with the PCAOB auditing standards[4] and should not be relied upon as a definitive or all-inclusive list of the changes and potential impacts.

## ESTIMATES

**Key Change -** Increased emphasis on and additional prompts for auditors to devote greater attention to addressing potential management bias in accounting estimates, as part of applying professional skepticism.

**Considerations for Auditors -** Auditors are required to evaluate the potential for management bias in accounting estimates and its effect on the financial statements. How the financial statements could be manipulated through management bias in accounting estimates will be a required topic of the fraud

4 See the PCAOB's final rules and accompanying releases for Estimates and Specialists, as well as the implementation pages for Estimates and Specialists that provide PCAOB specific guidance on implementation.

brainstorming discussion during audit planning. There also may be a more granular focus on the potential for management bias in management's selection of the methods, data, and significant assumptions in developing the estimate. The revised requirements remind auditors to consider (and evidence) the impact other relevant audit evidence, including contradictory evidence, obtained has on the estimate. The requirements further refine the retrospective review of the outcome of previous accounting estimates. For critical accounting estimates, the auditor should obtain an understanding of how management analyzed the sensitivity of its significant assumptions to change, based on other reasonably likely outcomes that would have a material effect on its financial condition or operating performance.[5]

**Considerations for Management -** Auditors will gain an understanding of and evaluate whether management had a reasonable basis for the significant assumptions used in accounting estimates including looking to management's documentation,[6] assessing the rationale, and analyzing critical accounting estimates[7] when evaluating the reasonableness of the significant assumptions. Auditors also may ask questions about certain other aspects of the estimate when applying professional skepticism. Auditors will be understanding and evaluating internal controls, including requesting relevant internal control documentation[8] with a contemporaneous record of and information about management's decision process when selecting from a range of assumptions, multiple data sources, and the various methods available when developing the estimate. Auditors also will want to understand the rationale and request documentation related to any changes made to methods, assumptions, and data sources.

**Key Change -** Amendments to various risk assessment standards[9] to enhance the auditor's risk assessment process in relation to accounting estimates and provide more explicit integration of the amended risk assessment requirements with the new standard for auditing accounting estimates.

**Considerations for Auditors -** While the fundamental principles of risk assessment remain the same, auditors will need to consider new risk factors when identifying and evaluating the risks associated with estimates in significant accounts and disclosures. The new risk factors include: a) degree of uncertainty associated with underlying assumptions, b) complexity of the process for developing the estimate, c) number and complexity of significant assumptions, d) degree of subjectivity associated with significant assumptions, and e) length and degree of uncertainty in forecasts (if applicable).

**Considerations for Management -** Auditors may ask more detailed or additional questions about the process management follows in order to determine their accounting estimates, including the methods, assumptions and data used and whether (and how) management uses any third parties in their process. Auditors may ask for more information regarding the processes and controls that led to the selection of methods, data, and assumptions management used in the estimate. For example, auditors will need to understand how management assessed the extent of uncertainty associated with the estimation process and the relevant controls that have been implemented to address the related risks.

5 AS 2501.18
6 See Section 13(b)(2)(A) of the Securities Exchange Act of 1934
7 See SEC Financial Reporting Release No. 72, *Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations* (Dec. 19, 2003), 68 FR 75056 (Dec. 29, 2003), at Section V ("Critical Accounting Estimates") for management's responsibilities related to critical accounting estimates.
8 See Section 13(b)(2)(B) of the Securities Exchange Act of 1934
9 See AS 2110, AS 2301: *The Auditor's Responses to the Risks of Material Misstatement, and* AS 2810: *Evaluating Audit Results.*

**Key Change -** Impact of tailored risk assessment on the audit response.

**Considerations for Auditors -** Auditors are required to perform procedures that are responsive to the identified risks of material misstatement. To do this, auditors will obtain an understanding of how the methods, data, and assumptions are selected and applied by management to determine the accounting estimate. This more in-depth risk assessment process could result in the auditor performing audit procedures that are more targeted on the sources of potential misstatement within the accounting estimate. For example, some estimates have components that are subject to significantly differing risks of material misstatement and may require different audit approaches.

**Considerations for Management -** As a result of this enhanced understanding and risk assessment, the audit response and corresponding requests for audit evidence could be different from previous years. Audit requests could vary depending on the risk identified and the evidence needed to respond to such risks.

**Key Change -** A more uniform approach to substantive testing of estimates by extending certain key requirements for auditing fair value measurements to other types of accounting estimates in significant accounts and disclosures.

**Considerations for Auditors -** The extended requirements from the previous standard on auditing fair value measurements provide more specific requirements for testing or evaluating the methods, assumptions and data used to develop accounting estimates.

**Considerations for Management -** Management may receive more focused requests specific to the accounting estimates in significant accounts and disclosures. For example, management may receive more requests around the nature of their methods for developing the accounting estimate (such as whether other methods were considered or the basis for the decision to change the method used in the prior year) and significant assumptions that are dependent on the company's intent and ability to carry out specific courses of action.

**Key Change -** Certain aspects unique to auditing fair values of financial instruments, including the use of pricing information from third parties, such as pricing services and brokers or dealers, were addressed by the addition of a special topics appendix.[10] This could impact how auditors will approach testing financial instruments whose pricing is based on information from third parties. In all cases, the auditor is required to obtain an understanding of management's process and relevant controls and in some cases, may need to test these controls.

**Considerations for Auditors -** Under the new requirements for obtaining an understanding of the nature of the financial instruments being valued, auditors may need to revisit their understanding of information from pricing services and broker quotes used as audit evidence. The enhanced understanding will drive the audit response and the procedures performed by the auditor with the focus on evaluating the relevance

10 See Appendix A of AS 2501.

and reliability of information provided by pricing services and brokers or dealers. The nature and extent of the evaluation related to information from pricing services and broker quotes also will depend on the complexity and risk of the underlying securities. Less information may be needed about an individual pricing service's processes, methods, and inputs when either management or the auditor uses information from multiple pricing services. However, the auditor will need to consider the requirements provided in AS 2501. A8 when using pricing information from multiple pricing services. For estimates with unobservable inputs, auditors will need to obtain an understanding of how unobservable inputs were determined and evaluate the reasonableness of the unobservable inputs.

**Considerations for Management -** Auditors may ask more questions about management's processes and controls for evaluating compliance with the applicable financial reporting framework when information from pricing services and brokers or dealers is used in the company's financial reporting process. The SEC staff previously reminded registrants about their responsibility to sufficiently understand the valuation techniques, assumptions and other inputs used by third-party pricing services to determine the fair value of financial instruments and to maintain effective internal controls in these areas.[11] Management may also experience auditors asking for information to understand how management determined unobservable inputs were reasonable including the information management considered when determining those inputs.

## SPECIALISTS

**Key Change -** Amendments to risk assessment standards to expand requirements for the auditor's understanding of how management uses the work of company specialists.

**Considerations for Auditors -** As part of understanding the company's information system, auditors are required to obtain an understanding of the work and report(s), or equivalent communication, of company specialists, whether employed or engaged, and the related company processes, including the nature and purpose of the specialist's work, sources of data used by the specialist and the company's processes and relevant controls for using the work of specialists.

**Considerations for Management -** Auditors are likely to ask additional questions and look for evidence related to how management uses the work of specialists. This likely will include additional focus on management's controls over various aspects of the specialist's work, including management's initial assessment of the specialist's professional qualifications and relationship to the company and management when engaging a specialist from outside, information provided to the specialist, and the specialist's findings and conclusions that were used in the financial reporting process.

11 See Remarks to the Greater Cincinnati Mutual Fund Association, Alison Staloch, Chief Accountant, Division of Investment Management.

**Key Change -** Strengthening the requirements for assessment of the company specialist's professional qualifications and relationship to the company when the auditor intends to use the work of the specialist as audit evidence.

**Considerations for Auditors -** Auditors are required to assess a company specialist's knowledge, skill, ability, and the relationship between the company and the specialist, specifically whether it could give the company the ability to significantly affect the specialist's judgments. The new standard enhances some of the requirements in this area and clarifies that the auditor's assessment applies to both the specialist and the entity that employs the specialist, if other than the company. The auditor's assessment of the specialist's qualifications and relationship to the company and the assessed risk of material misstatement, among other things, are inputs into the auditor's determination of the nature and extent of testing needed to evaluate the specialist's work.

**Considerations for Management -** In instances where auditors utilize the work of a company specialist as audit evidence, management can expect additional inquiries from audit teams about the knowledge, skill, and ability of the company specialist, including reputation and standing of the entity that employs the specialist, if other than the company. Auditors may ask more questions about the relationship between the company (including management) and the specialist, including (if applicable) the entity that employs the specialist, and how it might affect the specialist's judgments.

**Key Change -** Setting forth factors for determining the necessary evidence to support the auditor's conclusion regarding a relevant assertion when using the work of a company specialist.

**Considerations for Auditors -** Auditors will need to align their evaluation of the work of company specialists with the expanded requirements in AS 1105.A7. The nature, timing and extent of the evaluation will be driven by the auditor's assessment of the following four factors: (a) significance of the specialist's work to the auditor's conclusion regarding the relevant assertion; (b) the risk of material misstatement of the relevant assertion; (c) the level of knowledge, skill and ability of the company specialist; and (d) the ability of the company to significantly affect the specialist's judgments about the work performed, conclusions, or findings.

**Considerations for Management -** Management may expect additional auditor focus on areas that are seen as key drivers of risk related to the company specialist's work. Auditors also will look for more persuasive audit evidence in situations where the company has the ability to significantly affect the specialist's judgments or where there are doubts about the specialist's qualifications related to the work performed. Management also may expect requests for documentation around management's evaluation of the data, assumptions, and estimation methods used by the specialist (including understanding management's controls around the specialist's model(s), in particular when management does not have access to the model(s)).

**Key Change -** Expanded requirements for the auditor to evaluate the methods, significant assumptions, and data used by a company specialist.

**Considerations for Auditors -** Auditors will need to comply with expanded and more specific requirements for evaluating the methods, significant assumptions and data used by company specialists. They may need to obtain additional evidence regarding these inputs as significant assumptions or data are seen to be drivers of risks of material misstatement. The evaluation of the methods used may require specific auditor focus particularly if methods or models are proprietary.

**Considerations for Management -** Management and company specialists may receive additional inquiries and requests for information from auditors in relation to how management evaluates the methods, significant assumptions and data used by company specialists. These requests may cover management's related controls, and what support company specialists have for their methods, significant assumptions, or data. This includes their compliance with the applicable financial reporting framework, consistency of assumptions with those used in the specialist's field and other relevant information.

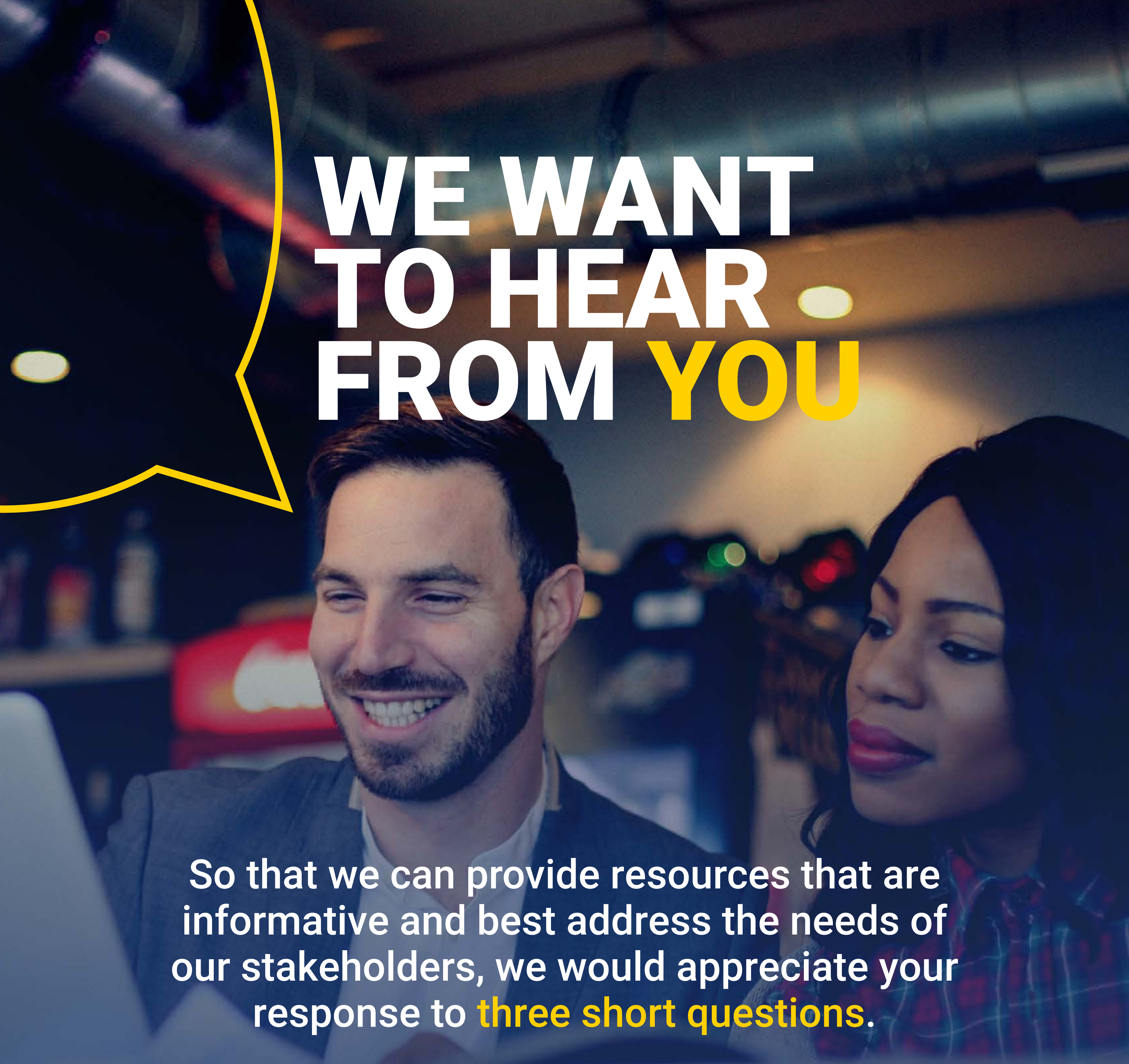
**Key Change -** Supplementing existing requirements with the objective of enhancing the coordination and evaluation of the auditor specialist's work.

**Considerations for Auditors -** The auditor is required to inform the auditor specialist—whether employed or engaged—about the work to be performed, which includes establishing and documenting an understanding with the specialist. In addition to a documented upfront understanding, the auditor will need to share relevant information with the specialist and design measures to coordinate the specialist's work.

**Considerations for Auditors -** This change impacts the requirements around the use of the auditor specialist (whether employed or engaged) so there would be minimal direct impact to management. Areas where management might see impact would include (a) more interaction with auditor specialists (e.g., participation in walkthroughs), (b) expanded inquiry and assessment related to the company's relationship to an auditor-engaged specialist and, (c) increased involvement of core audit team members in areas associated with the auditor specialist as a result of the increased supervision and review requirements.

# Conclusion

Early and ongoing communication between auditors and management will be key for a successful implementation of the new and amended PCAOB requirements. Given the wide range of estimates of varying complexities to which the requirements apply, auditors should be clear about expectations and audit evidence requirements and have timely and ongoing conversations with management. Management can look for opportunities to perform upfront planning and coordination with auditors to achieve clarity about expectations and timing, especially related to the expected documentation from both management and company specialists. Continuing dialogue between the auditors and company management will help enhance the effectiveness of the transition to these new and amended requirements and support quality audits.

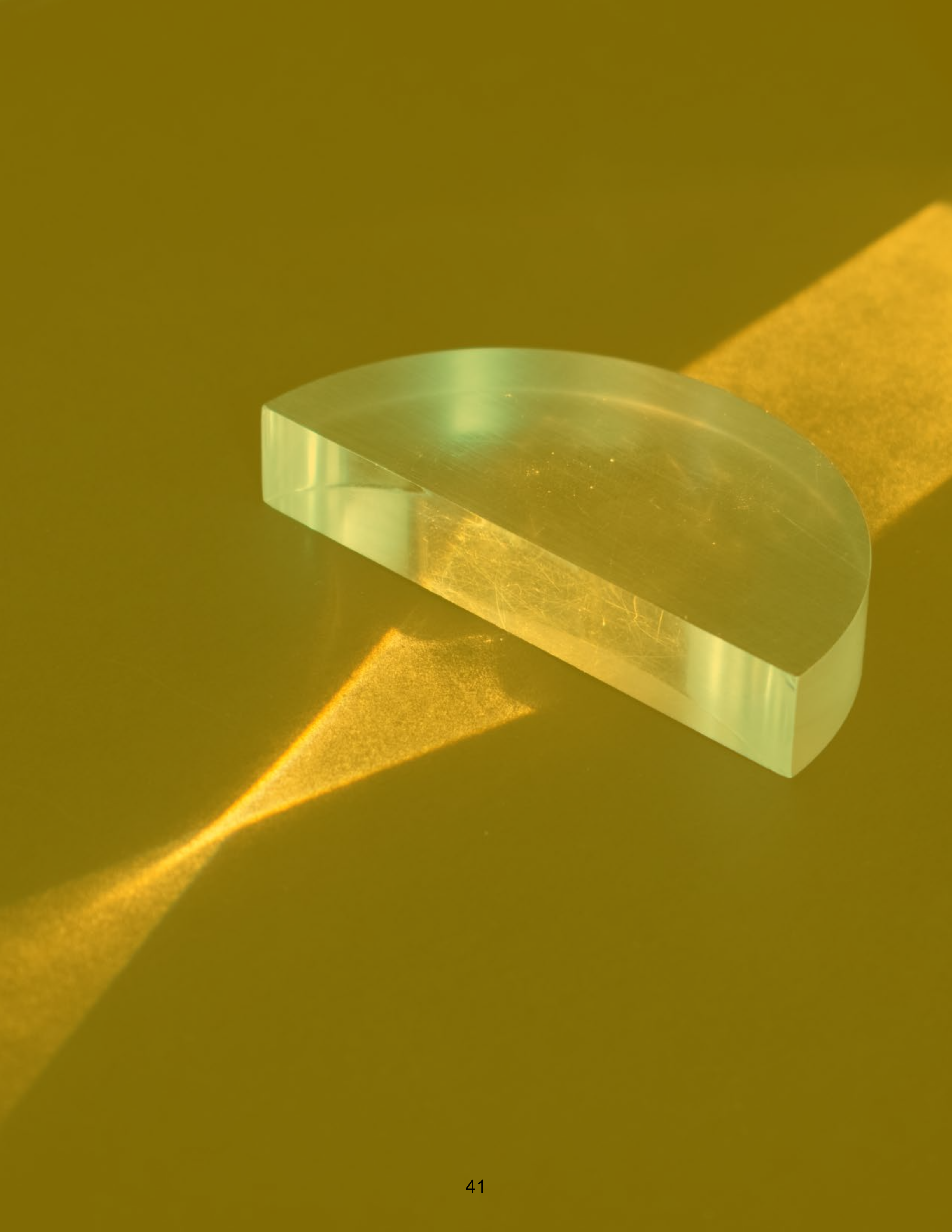


# WE WANT TO HEAR FROM YOU

So that we can provide resources that are informative and best address the needs of our stakeholders, we would appreciate your response to three short questions.

**TAKE SURVEY**

https://go.thecaq.org/l/834983/2020-06-16/lhqn



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**WE WELCOME YOUR FEEDBACK**
Please send comments or questions to info@thecaq.org

# Appendix 3: KPMG's audit approach and methodology

**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 4: Current Developments

## Public Sector Accounting Standards

| Standard | Summary and implications |
| --- | --- |
| Impact of COVID-19 | – In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19. |
| Asset Retirement Obligations | – The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.<br>– The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.<br>– The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life.<br>– As a result of the new standard, the public sector entity will have to:<br>• consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>• carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;<br>• begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. |
| Revenue | – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.<br>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.<br>– The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.<br>– The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |

| Standard | Summary and implications |
| --- | --- |
| Financial Instruments and Foreign Currency Translation | – The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.<br>– Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.<br>– Hedge accounting is not permitted.<br>– A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.<br>– In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts will be released in summer 2020 with a 90-day comment period. |
| Employee Future Benefit Obligations | – PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan.<br>– PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.<br>– Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. |

<table>
<tr><th>Standard</th><th>Summary and implications</th></tr>
<tr><td>Public Private Partnerships (“P3”)</td><td><ul><li>PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB in the process of reviewing feedback provided by stakeholders on the exposure draft.</li><li>The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.</li><li>The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.</li></ul>– The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.</td></tr>
<tr><td>Concepts Underlying Financial Performance</td><td>– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.<br>– PSAB is in the process of developing exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments.<br>– PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 Financial Statement Concepts and PS 1100 Financial Statement Objectives. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.<br>– In addition, PSAB is proposing:<ul><li>Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets.</li><li>Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).</li><li>Restructuring the statement of financial position to present non-financial assets before liabilities.</li><li>Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities).</li><li>A new provision whereby an entity can use an amended budget in certain circumstances.</li><li>Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.</li></ul></td></tr>
</table>

| Standard | Summary and implications |
|---|---|
| International Strategy | – PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021. |
| Purchased Intangibles | – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.<br>– Based on stakeholder feedback, PSAB will develop a Public Sector Guideline to clarify the guidance in the exposure draft to PS1000 *Financial Statement Concepts*, PS1100 *Financial Statement Objectives* and PS1201 *Financial Statement Presentation*. The updates to the Handbook are expected to be released in fall 2020. The accounting for intangibles may be addressed through future PSAB projects. |
| Government Not-for-Profit Strategy | – PSAB is in the process of reviewing its strategy for government not-for-profit ("GNFP") organizations. PSAB intends to understand GNFPs' fiscal and regulatory environment, and stakeholders' financial reporting needs and concerns.<br>– PSAB Is reviewing the feedback from the May 2019 consultation paper and expects to approve a second consultation paper in September 2020. PSAB will use the comments provided by stakeholders on the consultation papers to determine its next steps. |

# Appendix 5: Financial indicators

# 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*<br>2. Total reserves and reserve funds per household<br>3. Total operating expenses as a percentage of taxable assessment*<br>4. Capital additions as a percentage of amortization expense |
| Flexibility | 5. Residential taxes per household<br>6. Total long-term debt per household<br>7. Residential taxation as a percentage of median household income<br>8. Total taxation as a percentage of total assessment*<br>9. Debt servicing costs (interest and principal) as a percentage of total revenues*<br>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*<br>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 2019 FIR data with comparative information provided based upon the 2014 – 2018 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 (2019) | Households (2019) | Area (square km) |
|---|---|---|---|
| London | 397,885 | 179,342 | 420.6 |
| Ottawa | 934,243 | 373,755 | 2,790 |
| Hamilton | 579,000 | 237,200 | 1,138 |
| Windsor | 227,555 | 99,521 | 146.3 |
| Kingston | 124,060 | 54,198 | 450.4 |
| Guelph | 131,790 | 57,297 | 87.2 |

# Financial Indicators

## FINANCIAL ASSETS TO FINANCIAL LIABILITIES

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

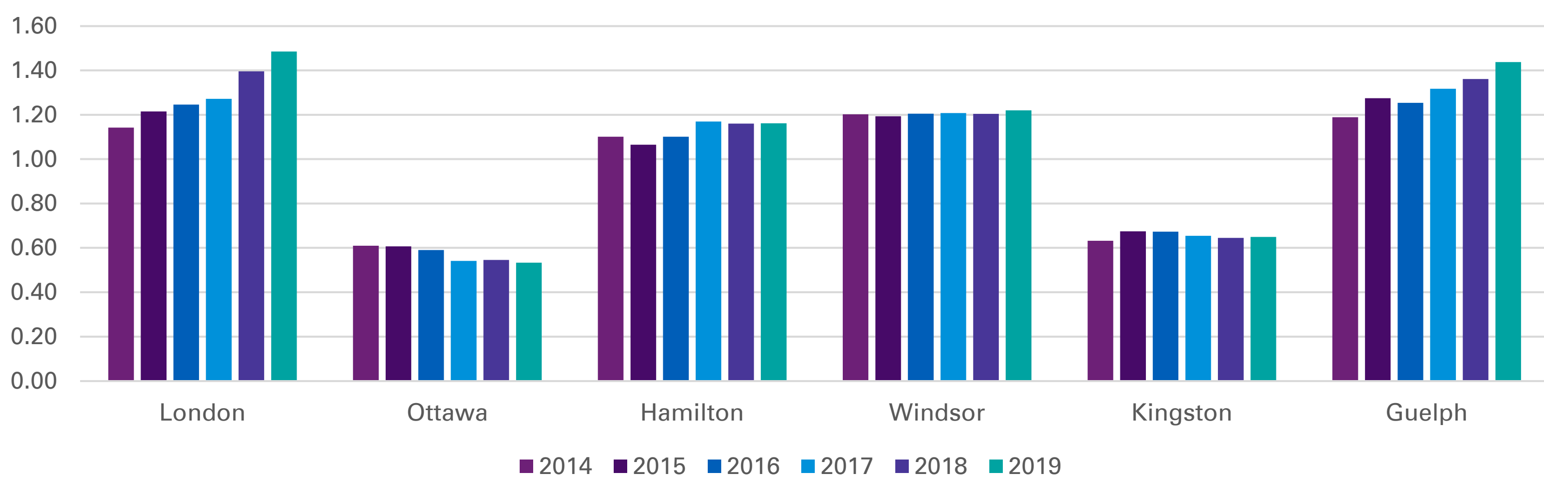
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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



# Financial Indicators

## TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

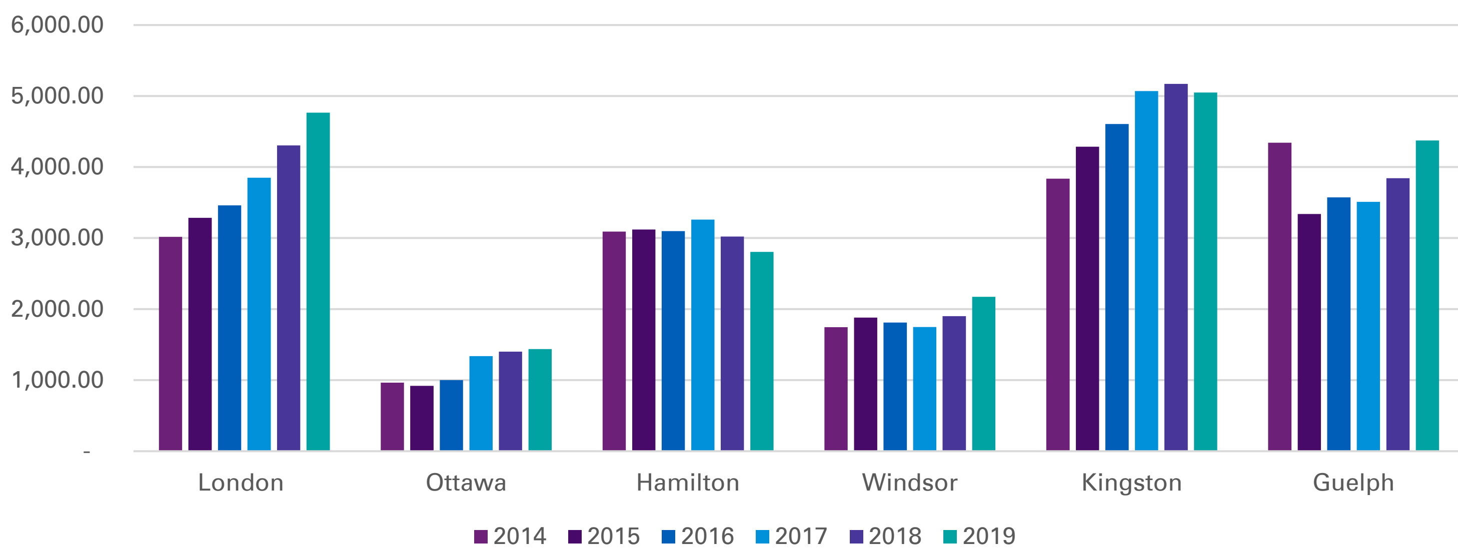
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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



# Financial Indicators

## TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

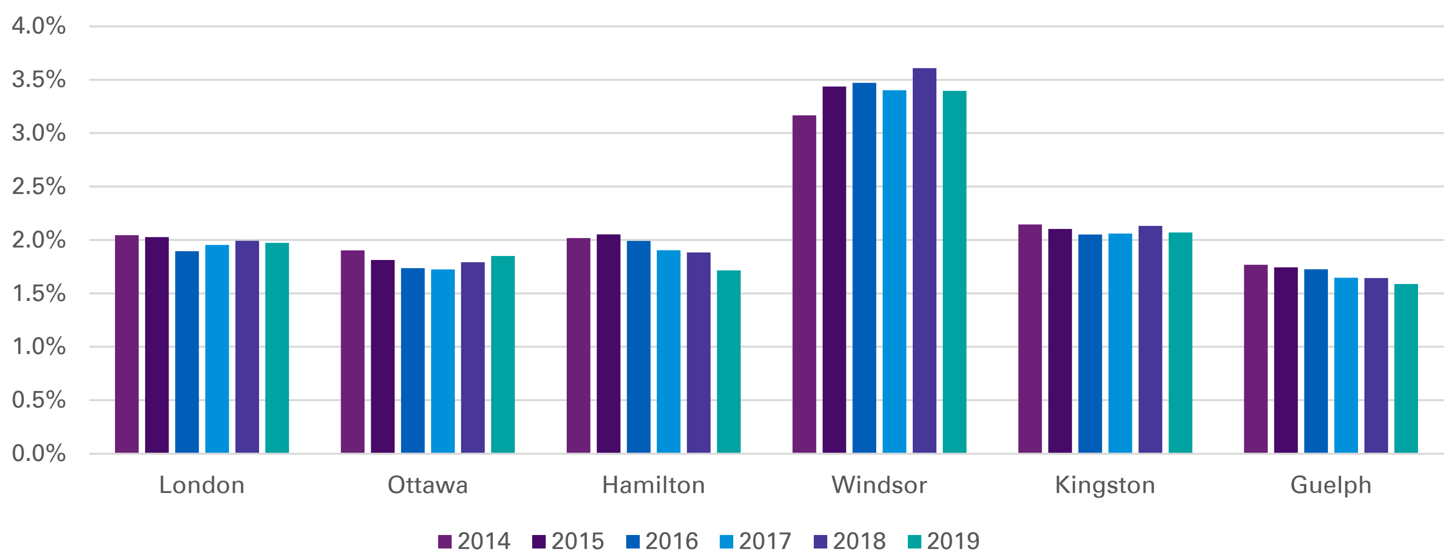
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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



# Financial Indicators

## CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

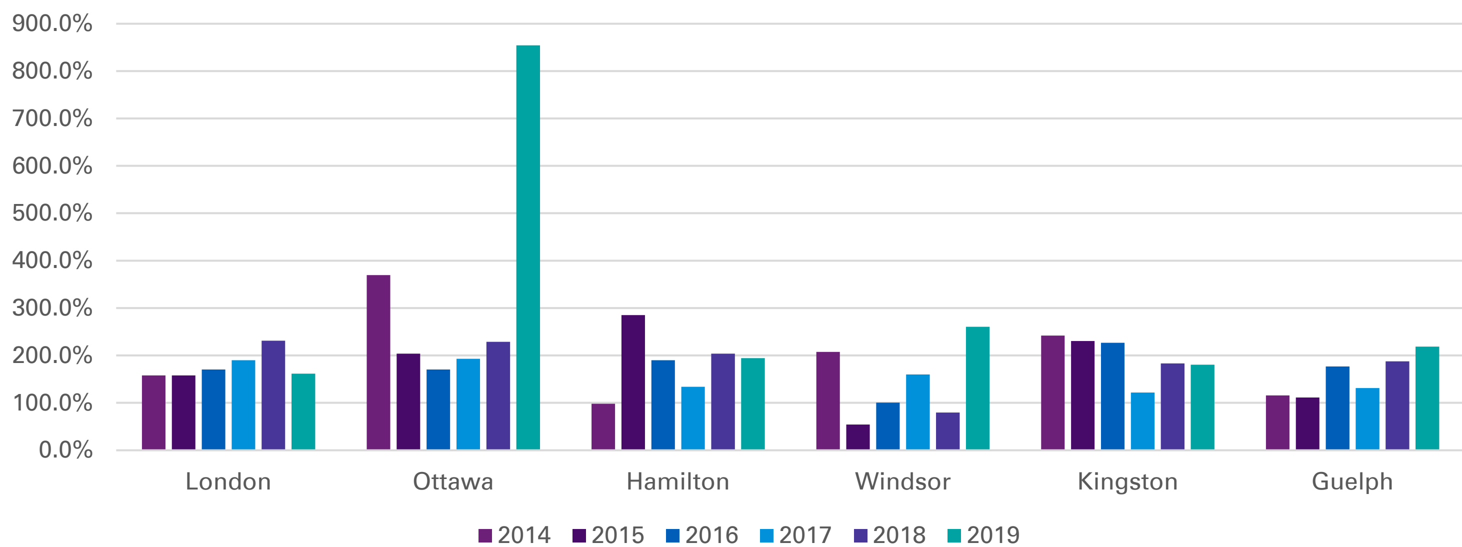
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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



# Financial Indicators

**RESIDENTIAL TAXES PER HOUSEHOLD**

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

**TYPE OF INDICATOR**

Sustainability

Flexibility ✓

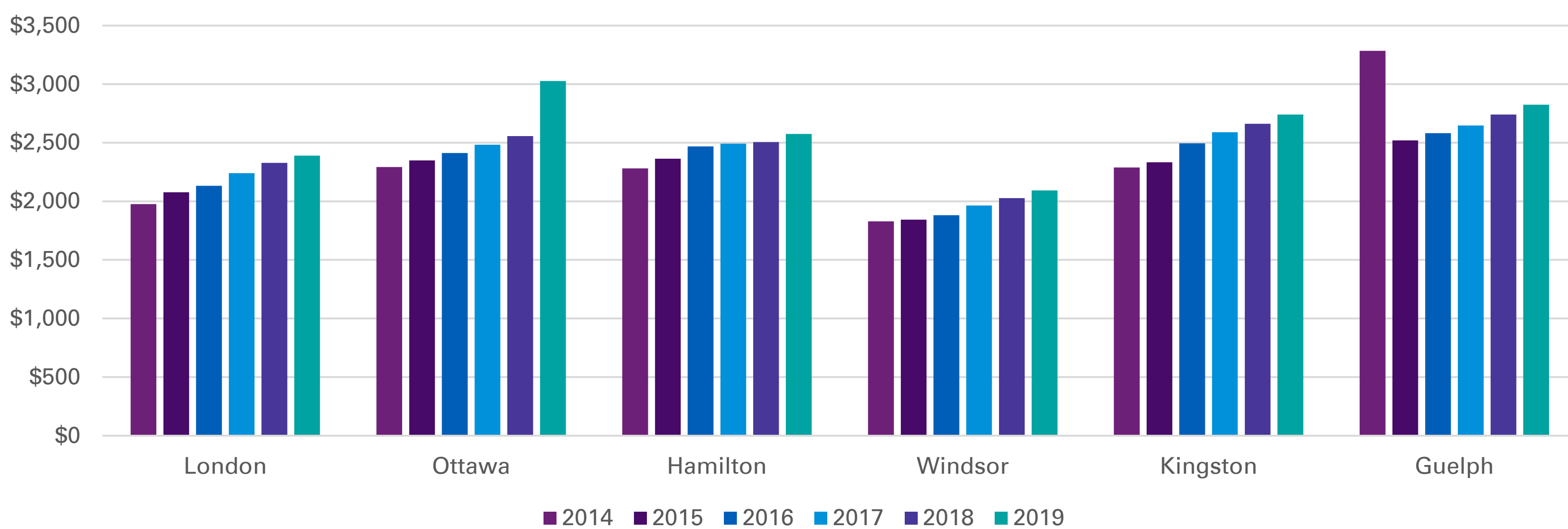
Vulnerability

**FORMULA**

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

**POTENTIAL LIMITATIONS**

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



# Financial Indicators

**TOTAL LONG-TERM DEBT PER HOUSEHOLD**

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

**TYPE OF INDICATOR**

Sustainability

Flexibility ✓

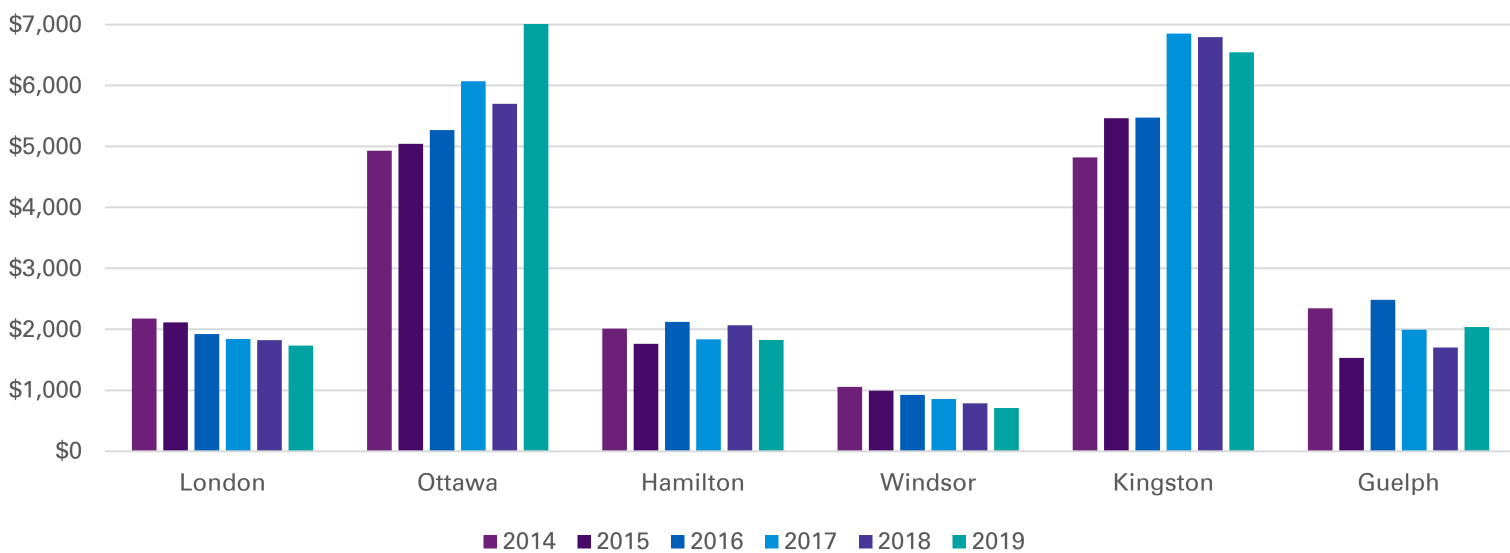
Vulnerability

**FORMULA**

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

**POTENTIAL LIMITATIONS**

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



# Financial Indicators

## RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

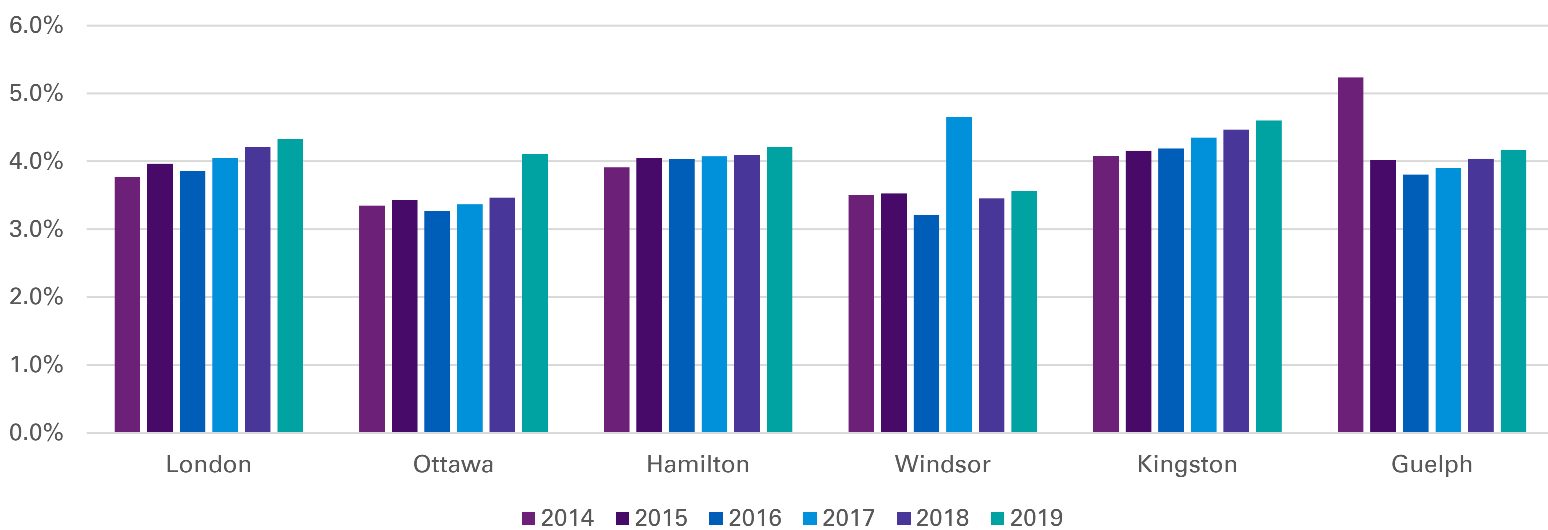
Vulnerability

### FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Median household income is derived from 2016 and 2011 census data.

### POTENTIAL LIMITATIONS

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



# Financial Indicators

## TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

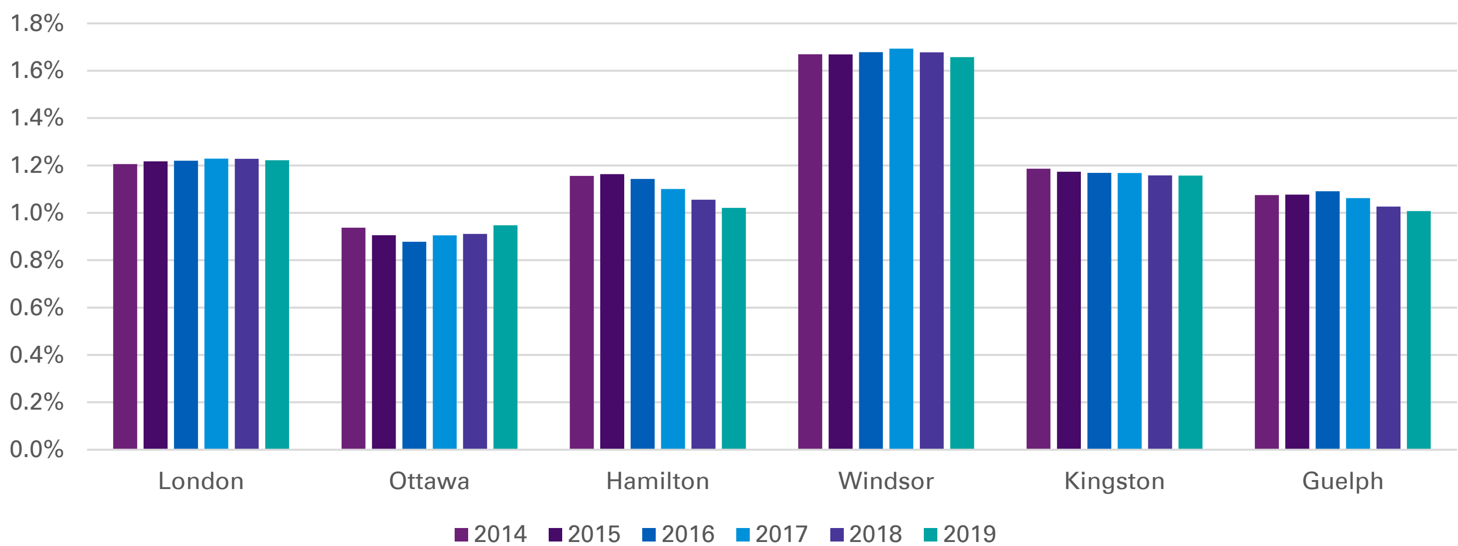
Vulnerability

### 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 ✓

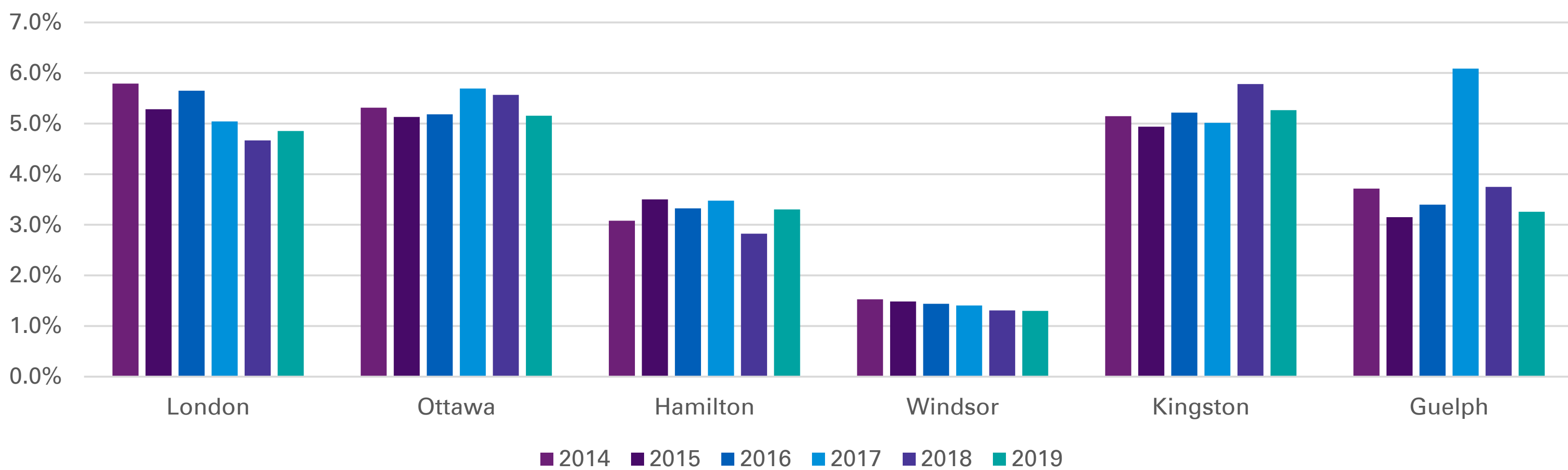
Vulnerability

### 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 ✓

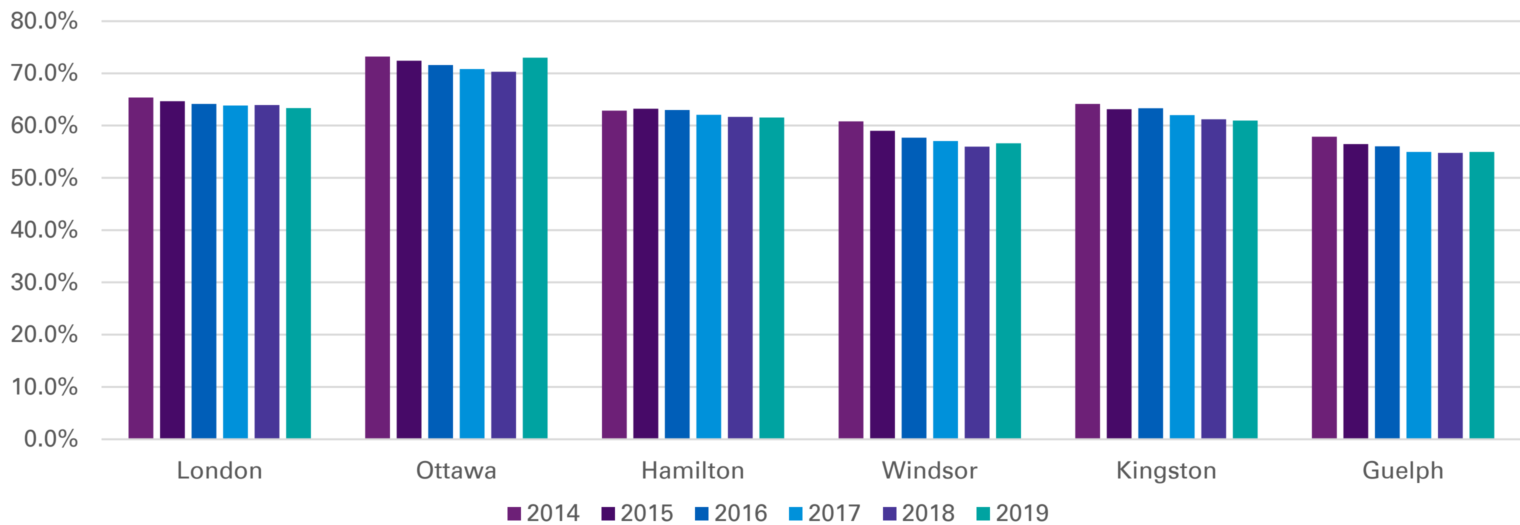
Vulnerability

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



# Financial Indicators

## OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

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

### TYPE OF INDICATOR

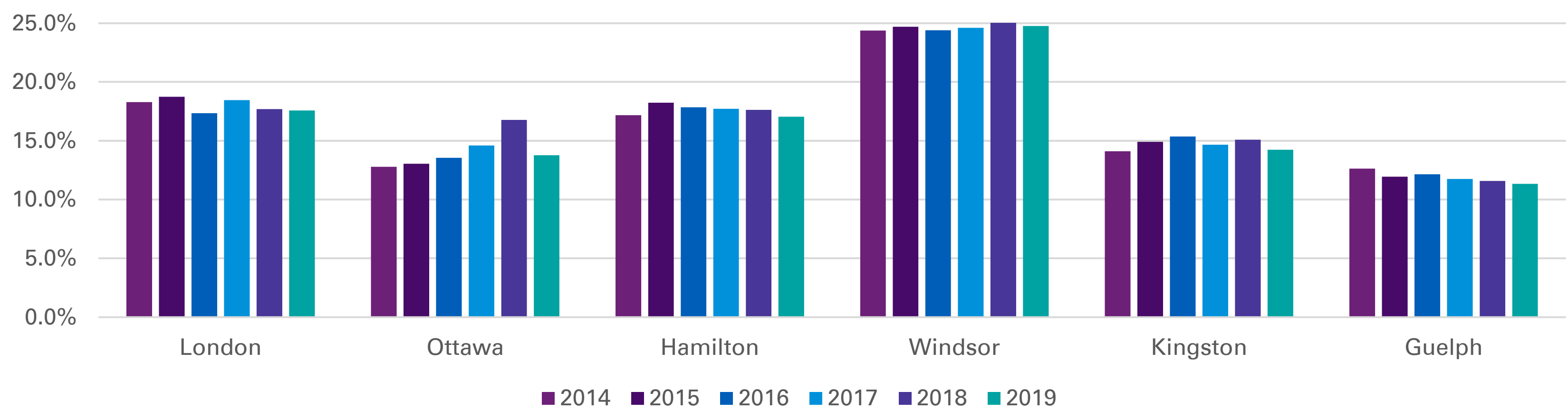
| | |
|---|---|
| Sustainability | |
| Flexibility | |
| Vulnerability | ✓ |

### FORMULA

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

### POTENTIAL LIMITATIONS

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



# Financial Indicators

**CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES**

This financial indicator provides an indication as to the City's degree of reliance on 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

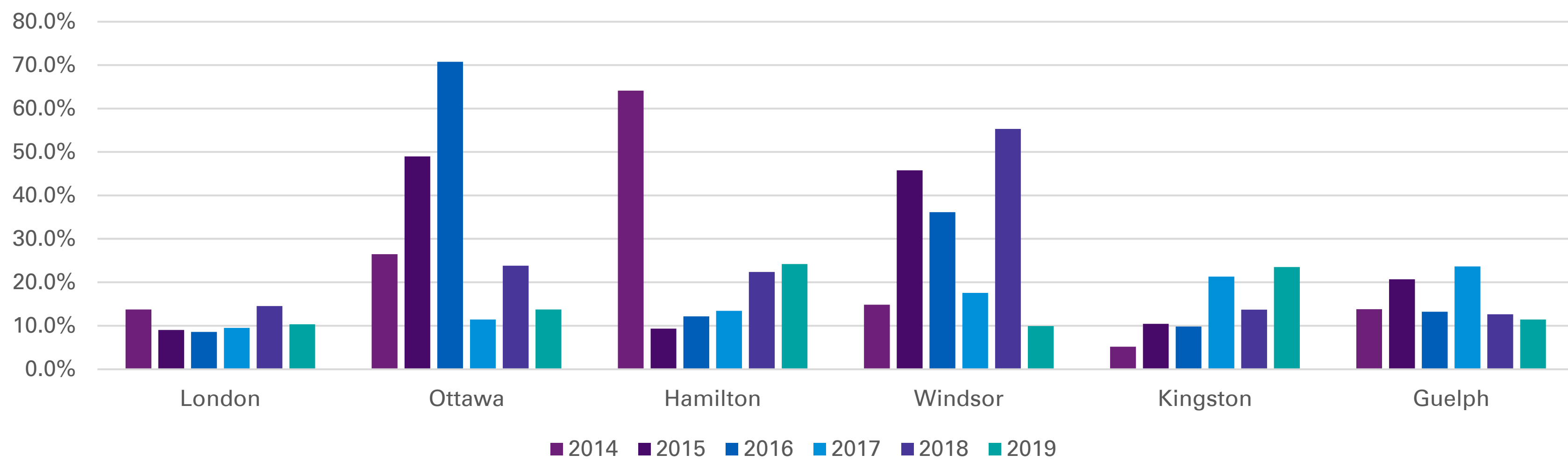
Vulnerability ✓

**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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# Appendix 6: Audit and Assurance Insights

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

| Featured insight | Summary | Reference |
|---|---|---|
| **Audit & Assurance Insights** | Curated thought leadership, research and insights from subject matter experts across KPMG in Canada | **Learn more** |
| **The business implications of coronavirus (COVID 19)** | Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat. | **Learn more** |
| | Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes. | **Learn more** |
| **Accelerate 2019/20** | Perspective on the key issues driving the Audit Committee agenda | **Learn more** |
| **Momentum** | A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit. | **Sign-up now** |
| **Current Developments** | Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US | **Learn more** |
| **Board Leadership Centre** | Leading insights to help board members maximize boardroom opportunities. | **Learn more** |

**kpmg.ca/audit**

# 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, 2020

KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4880
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, 2020.

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 28, 2021

# SCHEDULE

## SPECIFIED AUDITING PROCEDURES AND FINDINGS

1 Obtain and read the "Code of Practice" dated January 30, 2013, related to the London Downtown Closed Circuit Television Program.

*KPMG obtained and read the Code of Practice dated January 30, 2013. 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.*
*There was one segment in each of September and October that was 5 minutes long as opposed to the planned 15 minute long segments; as such KPMG selected one additional segment of 20 minutes in December in order to review the required total minutes for the year.*

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

*We have noted that all recordings that we reviewed 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, 2020 to December 31, 2020.*

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
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Suite 700
London ON N6A 5R8
Canada

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

January 29, 2021

Members of The Corporation of the City of London Audit Committee

**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. 2020 Internal audit plan completion and planning for 2021**

a. The work for 2020 based on our revised internal audit plan is nearing completion as all fieldwork is complete, and reports are all issued except for the Police Services – Time Management and Scheduling Review. After approval at the Police Services Board meeting this February 2021, it will be shared with this committee and included in our future reporting similar to other reports.

b. We have provided an updated plan for 2021 based on discussions with the Senior Leadership Team (SLT). This plan is a continuation of the plan from 2020 and does not have any new projects identified or changes in timing from our last update in September 2020. We have added in red the preliminary timing of each project in 2021. We will continue to discuss with the SLT and report to the audit committee at each meeting on changes in the audit plan.

**2. Internal Audit Dashboard Report**

a. Internal Audit continues to have ongoing meetings with the City Treasurer.

b. Internal Audit has issued two (2) internal audit reports since the last Audit Committee update:
   - Assumptions and Securities Assessment: Moderate process control or efficiency weaknesses identified. The report identified one (1) medium priority observation and four (4) low priority observations.
   - Class Replacement (PerfectMind) Reconciliation Process Assessment: Moderate process control or efficiency weaknesses identified. The report identified two (2) medium priority observations and one (1) low priority observation.

Action plans are in place, including a responsible party and timeline, to address the observations noted in the issued reports.

**2. Audit Observation Status Summary of High and Medium Priority Observations**

a. Management continues to report they are on track to implementing the recommendations for the following internal audit projects:
   i. Parking Revenue Generation Assessment
   ii. Homeless Prevention Assessment
   iii. Construction Procurement Process Assessment
   iv. Computerized Maintenance Management System Review
   v. Dearness Home Assessment

Some timelines have extended since the last committee meeting; however, we are comfortable that management is making progress to remediate open items based on the timelines and work plans in place which they have committed and asserted to completing given the current circumstances.

# Revised 2020-2022 Audit Plan by audit universe area

The following table outlines a preliminary internal audit plan summary for January to December 2021 for discussion at the February 2021 Audit Committee meeting. A full scoping exercise will be performed and documented at the planning stage for each Internal Audit project that will prioritize risk areas to be audited within the allocated budget. Furthermore; the list of projects identified in FY 2021 and FY 2022 is not final and is meant to be a repository of potential projects that internal audit could undertake in the coming years. This listing will be revisited with the Senior Leadership Team and Audit Committee to select internal audit projects in accordance with risk prioritization and the internal audit budget each quarter.

| | Internal Audit Universe Areas | FY 2020<br>Jan 1 2020 to Dec 31 2020 | FY 2021<br>Jan 1 2021 to Dec 31 2021 | FY 2022<br>Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|---|
| Corporate Services | Solicitor | | | **Clerks Office Assessment:** Assess the effectiveness and efficiency, and as required value for money, of selected processes. The review will also look at operational and management oversight controls within the Clerks Office.<br>*Rationale: Deferred by management based on prioritization and readiness of the department to undertake the review as a result of COVID.* |
| | Human Resources | | (Q3 2021) **Recruitment Process Assessment:** Assess the recruiting and hiring processes for the City with emphasis on controls, adherence to government requirements, the timeliness and effectiveness of the hiring process. | **HRIS Project Post-implementation Review:** Should the City decide to implement a new HRIS system Internal Audit would evaluate and assess the scope, user requirements and the design of the proposed controls to be established. |
| | Finance and Treasury | | (Q3 2021) **Environment and Asset Retirement Obligations Assessment:** Assess the processes and controls in place related to the identification, monitoring and reporting of environmental and financial asset retirement obligations, including compliance with requirements under Section PS 3280. | |

| | Internal Audit Universe Areas | FY 2020<br>Jan 1 2020 to Dec 31 2020 | FY 2021<br>Jan 1 2021 to Dec 31 2021 | FY 2022<br>Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|---|
| | Information Technology | | (Q2 2021) **Saas Application Review:** Provide guidance and best practices with respect to tools, policy and procedures with the intent of decreasing the potential use of unapproved and unmanaged SaaS applications. | **IT Risk Identification Process Assessment:** Evaluate and assess the IT risk identification and assessment process to understand how risks are mitigated and reported. |
| | Emergency Planning | | | **Emergency Planning Process Review:** Assess the procedures and controls in place related to the City's emergency planning process. Elements of business continuity and disaster recovery will be considered including the evaluation of end-user requirements. |
| Administration | Planning | | | **Industrial Community Improvement Plan Incentives:** Review Industrial Community Improvement Plan incentives to review best practices, assess value for money generated by these incentives and reviewing the potential for reducing or eliminating these incentives.<br>*Ongoing project:* **Smart City Strategy Implementation:**<br>In accordance with the Smart City Strategy, work with Staff and the IBI Group to develop an approach for creating a strong smart city culture within the Corporation. Help develop a governance model for advancing the strategy in the community. |
| | Development and Compliance Services | **Assumption and Securities Assessment:** Assess the control framework and processes currently in place for new development and securities. | | **Permit of Approved Works Program Review:** Assess the permit of approved works process and control framework in place for issuing permits. Including booking grants for eligible development projects in the permit reporting system. |
| | Engineering | **Ongoing Project: Computerised Maintenance Management System (CMMS) Pre-implementation Review:** Evaluate and assess the controls framework proposed and being established. | (Q1 FY 21) **Traffic Management Project Review:** Evaluate and assess the proposed scope, user requirements and controls established for the Traffic Management system. | **Public Works Process Assessment:** Assess the effectiveness and efficiency of processes and controls in place for operational and financial processes within public works. |

| | Internal Audit Universe Areas | FY 2020<br>Jan 1 2020 to Dec 31 2020 | FY 2021<br>Jan 1 2021 to Dec 31 2021 | FY 2022<br>Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|---|
| Services | Housing | | | |
| | Environmental | | | |
| | Social Services | | | **Social Services Process Assessment:** Assess the effectiveness of processes and controls in place for operational and financial processes within social services. |
| | Dearness Home | | | |
| | Neighbourhood and Children services | | | |
| | Fire | | (Q4 2021) **Fire Process Assessment:** Assess the processes and controls in place for operational and financial processes within fire services. This audit will evaluate the effectiveness of data reporting and monitoring of key performance indicators. | |
| | Service London | **Service London Process Assessment:** Review the effectiveness of processes and controls in place for operational and financial processes within Service London. | | |
| Parks & Recreation | Parks & Recreation | **Class Replacement Project Pre-implementation Review:** Evaluate and assess the controls framework established for the Class system.<br><br>**Class Replacement Project Post-Implementation Reconciliation Process Review:** For a sample of parks and outdoor facilities validate the controls surrounding the booking of revenue to the general ledger for accuracy. *Note: A final report will be issued that encompasses outstanding* | | |

| Internal Audit Universe Areas | | FY 2020<br>Jan 1 2020 to Dec 31 2020 | FY 2021<br>Jan 1 2021 to Dec 31 2021 | FY 2022<br>Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|---|
| | | *observations from the pre-implementation and post implementation review.* | | |
| Agencies, Boards, Commissions and Corporations* | Argyle Business Improvement Area Board of Management | | | |
| | Covent Garden Market Corporation | | | |
| | Eldon House Corporation | | | |
| | Hamilton Road Business Improvement Area | | | |
| | Housing Development Corporation | | | |
| | Hyde Park Business Improvement Area | | | |
| | London Convention Centre Corporation | | | |
| | Downtown London Business Improvement Association | | | |
| | London Hydro Inc. | | | |

| Internal Audit Universe Areas | | FY 2020 Jan 1 2020 to Dec 31 2020 | FY 2021 Jan 1 2021 to Dec 31 2021 | FY 2022 Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|---|
| | London & Middlesex Community Housing | | | |
| | London Police Services Board | (Reporting in progress) **Time Management and Scheduling:** Assess the processes and controls in place for time management and scheduling within the London Police Services . The audit will review the processes for recording and forecasting standard hours, approval of overtime, sick days, vacation, and other time-off. In addition, an emphasis will be placed on how time management forecasting and planning impacts the management of people from a health and wellness perspective. | | |
| | London Public Library Board | | | |
| | London Transit Commission | | | |
| | Middlesex-London Health Unit | | | |
| | Museum London | | | |
| | Old East Village Business Improvement Area | | | |
| | Tourism London | | | |
| | Elgin Area Water Primary | | | |

| Internal Audit Universe Areas | FY 2020<br>Jan 1 2020 to Dec 31 2020 | FY 2021<br>Jan 1 2021 to Dec 31 2021 | FY 2022<br>Jan 1 2022 to Dec 31 2022 |
|---|---|---|---|
| Water Supply System | | | |
| Lake Huron Primary Water Supply System | | | |

# Revised summary February to June 2021

The following table outlines the estimated budget for the potential audit projects for February to June 2021. The remaining projects will be budgeted as part of the ongoing planning process and communicated in future meetings. Our overall plan will not exceed the city's annual internal audit budget amounts.

Internal Audit Plan

Revised January 2021 to June 2021

| Potential Projects | Budget* |
|---|---|
| 1. Traffic Management Project Review | $30,000 |
| 2. SaaS Application Review | $30,000 |
| Project Management, management meetings and Audit Committee reporting and attendance | 10,000 |
| Follow-up of outstanding observations | 5,000 |
| Annual Audit Plan | Nil |
| **Total Budget (January to June 2021)** | $75,000 |

* Actuals will be billed to the City and will not exceed the above stated budget.

Deloitte.

# The Corporation of the City of London

## Internal audit dashboard as at January 29, 2021

### Project status – Revised 2020 internal audit plan

| 2020 Audit plan project | Percent complete | Est. timeframe[1] | Project status | Report issued |
| --- | --- | --- | --- | --- |
| London Police Services Time Management and Scheduling | 95% | October – December | DL | |

| 2020 Completed Internal Audit Projects | | | | |
| --- | --- | --- | --- | --- |
| Assumptions and Securities Assessment | 100% | | | |
| Class Replacement (PerfectMind) Reconciliation Process Review | 100% | | | |
| Computerised Maintenance Management System (CMMS) Pre-implementation Review | 100% | | | |
| Service London Process Assessment | 100% | | | |
| Class Replacement Project Post- Implementation Reconciliation Process Review | 100% | | | |

OT – On track DF – Deferred DL – Delayed

### Internal audit activities – February 2021 to June 2021

- Fieldwork and reporting on :
  - SaaS Application Review
  - Traffic Management Project Review
- Timing of fieldwork to be confirmed in the planning process

### Other activities

- Prepare Audit Committee meeting materials
- Observation follow-ups and validation

### 2020 Performance metrics

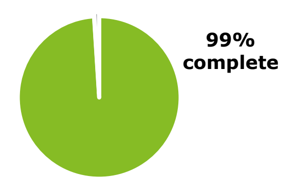
**Project customer satisfaction**

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

1 3 5

**Objective = 4**

**% Complete of the Revised 2020 internal audit plan**




**Internal audit 2020 Revised IA plan Reporting**

| | Draft (days) | Management comment (days) | Issue final (days) | Final (days) |
| --- | --- | --- | --- | --- |
| **Objective** | 5 | 15 | 10 | 30 |
| **Performance** | 3 | 15 | 5 | 23 |

**Comments**

[1] Agreed timing with management to scope project and kick-off fieldwork

Deloitte.

**City of London Audit Committee Observation Summary**
**As at January 29, 2021**

| 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 |

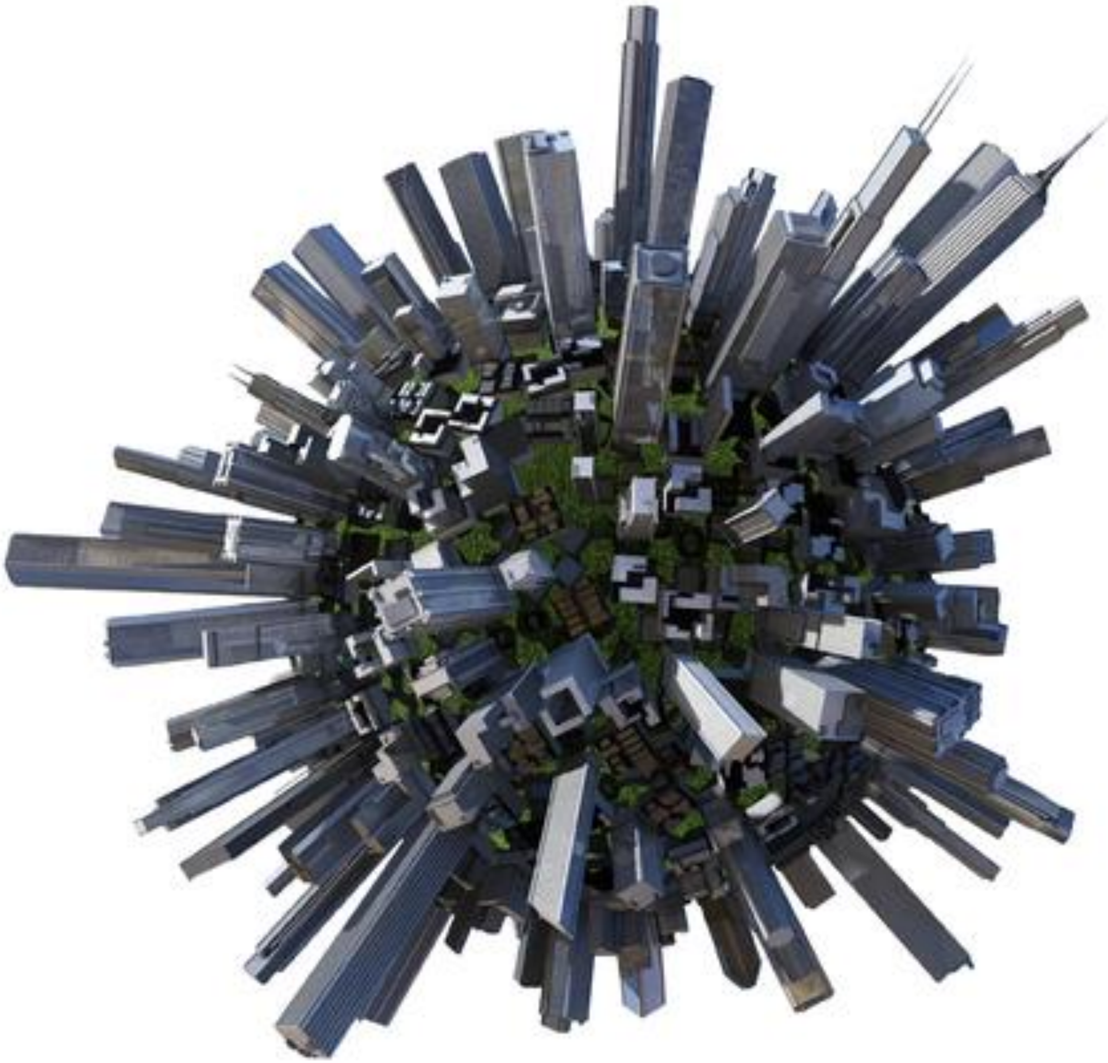
| Report Summary | | | | Observation Status for Management Action Plans due January, 2021. | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Internal Audit Plan Year** | **Report** | **Report Issue Date** | **Total High & Medium Observations** | **Observations Closed Per Management** | **Closed Per Internal Audit** | **In Progress Observations (Not Due)** | **Past Due Observations** | **Observations Closed by IA Since September 2020 update** | **Timing** |
| 2017/2018 | Parking Revenue Generation Assessment | Jun-18 | 6 | 5 | 5 | 1 | 2 | **0** | **Jun-21** |
| 2017/2018 | Homeless Prevention Assessment | Oct-18 | 4 | 2 | 1 | 0 | 3 | **0** | **Apr-21** |
| 2017/2018 | Construction Procurement Process Assessment | Aug-19 | 8 | 6 | 6 | 0 | 2 | **0** | **Jun-21** |
| **Sub-total 2017/2018 reports** | | | **18** | **13** | **12** | **1** | **7** | **0** | |
| 2019 | Dearness Home Process Assessment | Feb-20 | 4 | 0 | 0 | 0 | 4 | **0** | **Jun-22** |
| 2019 | Computerized Maintenance Management System Review | Jan-20 | 9 | 8 | 8 | 0 | 1 | **0** | **Mar-21** |
| **Sub-total 2019 reports** | | | **13** | **8** | **8** | **0** | **5** | **0** | |
| 2020 | Class Replacement (Perfectmind) Reconcilation Process Review | Jan-21 | 2 | 0 | 0 | 2 | 0 | 0 | **Oct-21** |
| 2020 | Assumptions and Secuirties Process Assessment | Jan-21 | 1 | 0 | 0 | 1 | 0 | 0 | **Oct-21** |
| **Sub-total 2020 reports** | | | **3** | **0** | **0** | **3** | **0** | **0** | |
| **Total High and Medium observations** | | | **34** | **21** | **20** | **4** | **12** | **0** | |

**Closed per Management:** Management has indicated that action plans due to be acted upon by January 29, 2021 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 29, 2021 are underway or management has asserted observations are closed but Internal Audit has not yet validated.
**Past Due Observations:** Actions plans due by January 29, 2021 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.

**Notes:**

None



# The Corporation of the City of London

## Assumptions and Securities Review

Audit Performed: October 2020 – December 2020
Report Issued: January 28, 2021

# Table of contents

# Executive summary

**Background**

Through a process of applications, inspections, and approvals, the City of London assumes responsibility for the maintenance, repair and liability of works and services installed as part of subdivisions and site plans.

This process includes financial securities, including holdbacks, which are provided prior to the execution of the subdivision agreement and are to be released by the City once the work is completed. Should the developer or owner fail to complete the agreed upon work and services or address identified maintenance deficiencies in a timely manner, the City may draw down from securities in order to complete works.

This process is currently managed by a set of professionals across Development Services, Development Finance as well as the City of London Finance team. Cross-functionally, they work to communicate and coordinate internally and externally to serve and support the growth the City of London community.

**Objectives and scope**

As part of the 2020 Internal Audit plan, Internal Audit conducted a review of the Assumptions and Securities Process. Specifically, this internal audit sought to assess the processes related to communications, release of securities and reducing securities. The audit scope focused on the effectiveness and efficiency of the governance and processes for assumptions and securities. This included evaluating the processes and tools for tracking and improving performance.

The scope of this audit did not include testing or evaluating the calculation of securities or testing the accuracy of reductions or releases. The scope was also limited to the internal stakeholders involved in the assumptions and securities process, and no developers, owners, or City representatives were engaged in the audit for information, documentation, or perspectives.

The detailed internal audit scope can be found in *Appendix 1: Internal audit detailed scope* of this report.

**Strengths**

In completion of this assessment, we identified the following areas of strength.

- Commitment to continuous improvement
- Clear understanding of roles and responsibilities
- Clearly documented processes and procedures (incl. templates)
- Strong culture and commitment to customer service

**Areas for continued enhancement**

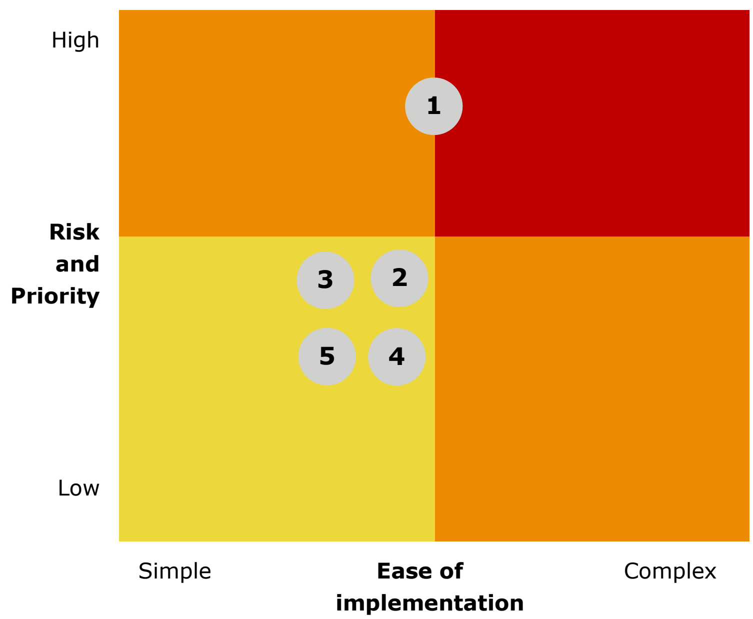
Based on our review of the reconciliation processes, we identified 1 medium risk observation and 4 low risk observations that management should consider going forward. Please refer to *Appendix 2: Internal Audit rating scale* for definitions of the four-point risk rating scale below.

| High | Medium | Low | Leading practice |
|---|---|---|---|
| 0 | 1 | 4 | 0 |

| Risk | Observation item | Observation description |
|---|---|---|
| **Medium** | ASR 1 | **Governance:** While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure creates inefficiencies to complete tasks and communicate to developers or owners regarding status, next steps, and timelines. |
| **Low** | ASR 2 | **Key Performance Indicators:** There are currently no KPIs in place to review and assess activities in the assumptions and securities process. |
| **Low** | ASR 3 | **Inspection Coordination:** The current process for coordinating and completing site inspections is reactive and is not managed through a tracking tool. |
| **Low** | ASR 4 | **Timeliness:** The timeline for releasing securities is not documented through a policy or procedure, and current processes are not designed for a two-week turnaround (internal target). |
| **Low** | ASR 5 | **Customer Service Communication:** While the current processes in place for external communication and coordination are well understood, no formal process tracking or monitoring mechanism exists to enable timely and consistent communications to developers or owners regarding status, next steps, and timelines. |

**Risk and Priority heat map**

Based on our review of the assumptions and securities process, the following image maps the areas of continued enhancement based on risk and anticipated ease of implementation.




**Conclusion**

Based on our review of the Reconciliation process, we have identified 5 weaknesses that should be addressed to improve process efficiency and effectiveness. The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

# Strengths

In the completion of this assessment, internal audit noted the following areas of strength based on our review and interviews with the stakeholders listed in *Appendix 3: Stakeholder involvement:*

**Commitment to continuous improvement:** Management and stakeholders demonstrate and communicate a clear commitment to improving operating processes, tools and systems to better serve members of the public.

**Clear understanding of roles and responsibilities**: Management and stakeholders demonstrate a clear understanding of their respective roles as well as the roles of their team members and parties with which they interact with daily.

**Clearly documented processes and procedures (incl. templates):** Management has ensured that up-to-date policies and procedures are documented that align with processes in practice. These policies and procedures are well socialized and understood by all required employees.

**Strong culture and commitment to customer service:** Stakeholders consistently expressed commitment to improving the process in order to better serve the community and provide excellent customer service.

# Areas for continued enhancement

In completing the procedures noted in *Appendix 4: Audit procedures performed*, internal audit identified the following areas for continued enhancement:

<table>
<tr><th colspan="2">ASR1</th></tr>
<tr><th>Medium Risk</th><th>1. Governance</th></tr>
<tr><td>Observation</td><td>While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure creates inefficiencies to complete tasks and communicate to developers or owners regarding status, next steps, and timelines.<br>This is evidenced by:<br>• The roles, reporting lines, and responsibilities are clearly outlined within the Security Policy. Process flow charts are included for the Subdivision Security Process and Development Security Process. The process flows and responsibilities align to those outlined by key stakeholders during the interviews.<br>• Procedures for security development, calculation, issuance, and reduction are sufficiently documented within the Security Policy in accordance with the current processes in practice.<br>• The role of Development Finance as well as Financial Planning & Policy (FP&P) in financial transactions requires communications with the Development Services team that creates inefficiencies within the process and, at time, duplicates efforts across both teams. Apart from facilitating the financial transaction, the current responsibilities of the financial professionals are understood to be of a nature that they could be absorbed by Development Services.<br>• The administrative responsibilities are spread across various members of the Development Service team, and stakeholders expressed interest in focusing on their specific job responsibilities, skills, and contributions.</td></tr>
<tr><td>Why it matters</td><td>Failure to improve efficiencies within the Securities creation and release process may further delay timelines and could lead to late or missed payments. In turn, this can result in increased time required to manage customer service communications, or reduce the satisfaction of vendors, developers, and owners.</td></tr>
<tr><td>Recommendation</td><td>Management should consider the following in order to enable efficiencies within the assumptions and securities process:<br>1. Reconsider the role of Financial professionals within the Securities process and data tracking. It is recommended that this process be embedded within the Development Service team to increase efficiencies and decrease communications across teams. It has been confirmed that a role in Finance is not required for segregation of duties.<br>2. If restructuring the governance for the assumptions and securities process, management should consider:<br>a) Adding a coordinator role to manage information and data tracking, reporting, and communication amongst internal stakeholders; and<br>b) Formalizing roles and responsibilities in the job descriptions of Development Services team members.</td></tr>
<tr><td>Management comments</td><td>• We agree with recommendation #1 above and will develop a work plan to incorporate duties currently within other Service Areas into Development Services to provide a “One Window” approach to security reductions for all development applications.<br>• We generally agree with recommendation #2 above and will review opportunities to incorporate these</td></tr>
</table>

| | | |
|---|---|---|
| | additional tasks within our existing staffing structure prior to initiating budget requests for new positions.<br>• If new staff are to be hired, these will have to be considered within the context of the Multi-Year Budget (MYB). Some workflow can be created to address the tracking of securities, but further consideration of the roles and responsibilities within the Development Services umbrella is required.<br>• Identify resources required to support the proposed change and if suitable, submit as part of the MYB update process in summer of 2021 for approval by Council in Spring 2022 | |
| **Responsible party and timing** | Matt Feldberg, Manager, Development Services (Subdivisions)<br>Jason Davies, Manager III, Financial Planning and Policy | Workplan wil be prepared in Fall 2021. Implementation will depend on MYB – based on cycle for approval, earliest is Summer 2022.<br>Transition to DS may occur ahead of MYB but must be weighed against other work. |

| **ASR2** | |
|---|---|
| **Low Risk** | **2. Key Performance Indicators (KPIs)** |
| **Observation** | There are currently no KPIs in place to review and assess activities in the assumptions and securities process. While there are tracking sheets to monitor the securities status with details of developers, financial values, key dates and comments, there are no metrics listed to provide a view into the efficiency or customer service of the process.<br>This is evidenced by:<br>• The Security Policy, Development Guidelines, and other relevant documentation does not contain formally documented KPIs to review and assess the timeliness, accuracy, and efficiency of the assumptions and securities process.<br>• Key stakeholders expressed interest in being able to identify areas of strength or continuous improvement through data and performance tracking. |
| **Why it matters** | A failure to monitor and review KPIs within the securities process may expose the City of London to reputational risk and undermine the overall customer experience. Without KPIs there is limited ability of management and team members to measure performance and identify areas of improvement or risk. |
| **Recommendation** | Management should consider the following in order to enable effective assessments of, and improvement to, the release of a security:<br>1. Document Key Performance Indicators (KPIs) and communicate to employees to better assess the success of the current assumptions and securities process. This will enable performance management and continuous improvement opportunities both within the process and for the employees involved. Management may consider the following KPIs:<br>a) # of Lots Conditionally Approved (made available for building permits)<br>b) Value of securities on hand and details of timelines, stakeholders, and risks or issues<br>c) Complaints or concerns from developers, contractors, and consulting engineers<br>d) Efficiency in inspections conducted, applying a fee for additional inspections required<br>2. Incorporate or embed KPIs into the process flows of the assumptions and securities process to ensure that the set objectives align with the current processes in place. |
| **Management comments** | • We agree that documented KPI’s would be a useful management and reporting tool and moving forward will initiate discussions internally to develop KPI’s applicable to our processes.<br>• While useful informative measures, the proposed KPI’s are more like benchmarks than key performance indicators. Management will explore additional metrics to assess service delivery and opportunities for targets to benchmark. The proposed KPIs above will inform the final versions and may be inputs to the ultimate tracking data.<br>• We agree with recommendation #2 and will review opportunities to align KPI’s as appropriate into our current processes. |
| **Responsible party and timing** | Matt Feldberg, Manager, Development Services (Subdivisions) Fall 2021 |

| **ASR3** | | |
|---|---|---|
| **Low Risk** | **3. Inspection Coordination** | |
| **Observation** | The current process for coordinating and completing site inspections is reactive and is not managed through a tracking tool.<br>This is evidenced by:<br>• Key stakeholders expressed concern with the efficiency of the inspection process. Often, inspections are booked prior to establishing required areas for inspection. Therefore, follow-up inspections are required, thus delaying the issuance of a building permit.<br>• There is no centralized tracking of inspections to identify when the developer or owner should incur a cost of $250 for the third site inspection. | |
| **Why it matters** | A failure to monitor and track inspections can result in delays in inspections, incomplete inspections, and ultimately a delay in the release of a security. Without a tracking tool there is no mechanism to measure KPIs and assess performance. Moreover, by not documenting the inspection activities and communications in a centralized manner, the City may also fail to identify cases where a $250 fee is owed by the developer or owner[1]. | |
| **Recommendation** | Management should consider the following in order to enable performance tracking and increased efficiency for site inspections:<br>1. Develop an inspection tracker or utilize current inspection booking tool in order to reduce uncertainty around inspection areas and better identify areas of improvement or areas missed in the original inspection. This would assist in expediting the development process, identifying instances where multiple inspections are required and conducted, and collecting amounts owed for additional inspection required after two initial inspections (i.e. $250 charge). Management may consider the following KPIs:<br>a) Number of inspections completed<br>b) Types of deficiencies noted<br>c) Number of inspections completed before conditional approval | |
| **Management comments** | • We agree with the recommendation to utilize an inspection tracking tool as noted. We will review opportunities based on existing tracking sheets/databases and/or new software anticipated to be utilized throughout our Service Area. | |
| **Responsible party and timing** | Matt Feldberg, Manager, Development Services (Subdivisions) | Fall 2021 for establishing a preliminary tracking tool.<br>Long term, tracking will be per Strategic Business Case in MYB. |

[1] As inspections are not currently tracked, this audit cannot provide estimated revenue leakage resulting from not charging for additional inspections.

| ASR4 | |
|---|---|
| **Low Risk** | **4. Timeliness** |
| **Observation** | The timeline for releasing securities is not documented through a policy or procedure, and current processes are not designed for a two-week turnaround (internal target)[2]. Note, our scope did not include testing the release of securities to identify timelines or inconsistencies in the timelines for releasing securities.<br>This is evidenced by:<br>• Through review of the Security Policy and Development Compliance Guideline, there is no timeline documented with regards to the release of a security.<br>• Through interviews with key stakeholders, the current processes and procedures are not designed for a two-week turnaround to account for the common barriers and risks (e.g., communications with inspectors and developers is not tracked or monitored). |
| **Why it matters** | Without a clear timeline for each process step, the process relies on the informal expectations from within the Development Services team. A failure to monitor and track the securities process can result in delays in inspections, incomplete inspections; ultimately a delay in the release of a security and cause may have an impact to the business plans of the developer, or owner. |
| **Recommendation** | Management should consider the following in order to enable timely release of a security:<br>1. Update existing policy and guidelines to outline the securities procedure within a set time frame, or timelines that align with seasonal demand as there is currently no timeline associated.<br>2. Develop a process for monitoring and tracking communications in the securities process to track and manage timeliness in establishing and releasing securities. For example, a call log to track calls and appointments with inspectors as well as an inspection checklist would help in ensuring readiness for inspections and reduce the amount of follow-up inspections required in order to release securities. This could be a role assigned to the new Coordinator or Administrative position. |
| **Management comments** | • We agree with recommendation #1 above and will review existing policies and guidelines to develop appropriate timelines associated with key tasks that fit our typical workflow and processes which may include provisions for seasonal or market related increases in workload.<br>• We agree with recommendation 2 above and moving forward we will review necessary steps to develop a monitoring and tracking process.<br>• A point of clarification - at every milestone we currently provide applicants with a "checklist" in the form of a requirements letter (Conditional Approval, Assumption…etc.) prior to any inspection occurring. This checklist will identify high-level requirements based on the subdivision agreement. The City's role in development is not to undertake the design, construction, or implementation of the agreement conditions. Developers hire consultants and have staff that are tasked with delivering on the agreement and it is their obligation to complete these and deliver on those commitments. |
| **Responsible party and timing** | Matt Feldberg, Manager, Development Services (Subdivisions)     Fall 2021 |

[2] The audit scope did not include testing the release of securities to identify timelines or inconsistencies in the timelines for releasing securities.

| ASR5 | |
|---|---|
| **Low Risk** | **5. Customer Service Communications** |
| **Observation** | While the current processes in place for external communication and coordination are well understood, no formal process tracking or monitoring mechanism exists to enable timely and consistent communications to developers or owners regarding status, next steps, and timelines.<br>This is evidenced by:<br>• Communication is enabled through email or phone calls between Compliance, Finance, and other relevant stakeholders to developers and owners.<br>• Communication with developers or owners is not tracked within a call log or any form of monitoring mechanism. |
| **Why it matters** | Without a mechanism to track customer service-related communications, it is difficult to determine progression within the securities process or identify inefficiencies. Failure to monitor and track the securities process can also result in delays in inspections, incomplete inspections, and ultimately a delay in the release of a security and development. Instead, a communication tracker would enable the team to provide consistent and relevant communication to the developer or owner and create a positive experience with the City. |
| **Recommendation** | Management should consider the following in order to enable improved and more effective communication:<br>1. (Same as 4.2): Develop a process for monitoring and tracking communications in the securities process to track and manage timeliness in establishing and releasing securities. For example, a call log to track calls and appointments with inspectors as well as an inspection checklist would help in ensuring readiness for inspections and reduce the amount of follow-up inspections required in order to release securities.<br>2. Develop a process flow for team members to follow that outlines the necessary steps to address prior to contacting the development team. |
| **Management comments** | • We agree with recommendation #1 above and will review necessary steps to develop a monitoring and tracking process related to communications.<br>• As per comments in #4 above - developers should continue to rely on their consulting engineers for advice and direction in completing their projects.<br>• We agree with recommendation #2 and will take necessary steps to develop a related process flow. |
| **Responsible party and timing** | Matt Feldberg, Manager, Development Services (Subdivisions) Fall 2021 |

# Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

**Review and assess the Assumptions and Securities business processes and relevant key controls**

- Assess whether roles, reporting lines, and responsibilities are adequately understood by staff to ensure staff are enabled to fulfill their responsibilities (incl. those in Finance)
- Assess governing guidelines and procedures in place to assure the assumptions and securities process is adhering to legislation, aligning with other securities policies and procedures (e.g., procurement), and meeting established timelines
- Review the speed to release the securities:
    - Identify the key controls and requirements of the current process
    - Validate the process' alignment to the current policy
    - Identify areas for improvement and identify areas for efficiency to improve the 14-day turnaround time
- Review and assess monitoring activities established to assure the process is achieving established metrics or key performance indicators
- Review the process in place to decline the release of a security

**Review and assess existing procedures to communicate with other stakeholders (e.g., Finance) involved in the process prior to releasing the securities:**

- Identify the key roles and responsibilities for required coordination and communications
- Evaluate the efficiency and effectiveness of current communication and collaboration
- Assess the availability of data, reporting, and information required for outstanding requirements

**Review and identify overall process improvement opportunities within the Assumptions and Securities Process:**

- Review and assess existing building permit issuance processes to identify opportunities for efficiency or standardization

# Appendix 2: Internal Audit risk rating scale

**Individual observation prioritization**
Internal Audit has prioritized each observation and recommendation within this report using a four-point risk rating scale. The four-point risk rating scale is as follows:

| Description | Definition |
|---|---|
| **High** | Observation is high priority and should be given immediate attention due to the existence of either significant internal control risk or a potential significant operational improvement opportunity. |
| **Medium** | Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term. |
| **Low** | Observation does not present a significant or medium control risk but should be addressed to improve either internal controls or process efficiency. |
| **Leading Practice** | Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices. |

# Appendix 3: Stakeholder involvement

In conducting this assessment, the following management and staff were interviewed to gain an understanding of the processes and practices employed by the relevant departments and teams.

| Stakeholder | Position |
|---|---|
| 1. Matt Feldberg | Manager, Development Services (Subdivisions) |
| 2. Jason Davies | Manager III, Financial Planning & Policy |
| 3. David Bordin | Manager, Accounting & Reporting |
| 4. Ted Koza | Manager, Development Engineering (Subdivisions) |
| 5. Mike Harrison | Senior Technologist, Development Services |
| 6. Jason Senese | Manager, Development Finance |

# Appendix 4: Audit procedures performed

As part of our review of the Assumptions and Securities process, the following procedures were performed:

- ✓ Conducted a planning meeting with Manager, Development Services;
- ✓ Updated and issued a finalized Project Charter and request for information;
- ✓ Conducted meetings and interviews with City management and staff to obtain an understanding of staff duties, processes, data management tracking and controls within the assumptions and securities process;
- ✓ Obtained documentation regarding relevant procedures and controls to perform an inspection of:
  - Policies, guidelines, and procedures, and relevant forms and templates
  - Tracking sheets and reconciliation spreadsheets
  - Organization charts;
- ✓ Drafted preliminary observations and verified observations with management;
- ✓ Conducted a closing meeting with key management stakeholders to validate and communicate our findings; and
- ✓ Issued this internal audit report with our detailed observations.

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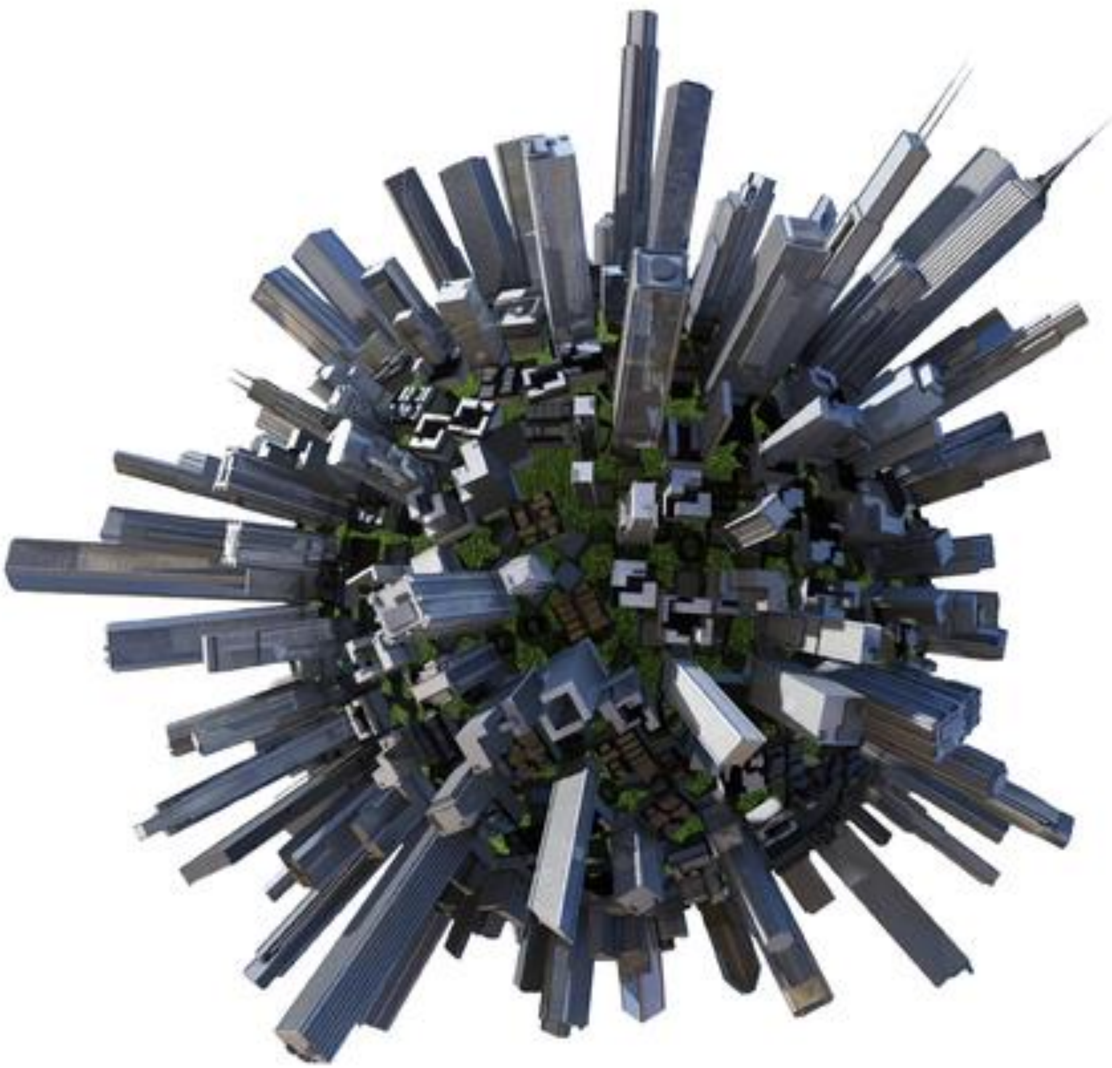


# The Corporation of the City of London

Class Replacement Project Post-Implementation Reconciliation Process Review

Audit Performed: October 2020 – December 2020
Report Issued: January 27, 2021

# Table of contents

# Executive summary

**Background**

The City of London, ("City") is home to a multitude of parks and recreational facilities which contribute to the high quality of life in London. The Parks and Recreation department's ("P&R") mission is to preserve, manage, and enhance public lands and natural resources and to develop programs for recreation and learning. As such, the department is responsible for collecting revenue from the public for services delivered and completing reconciliations and balancing transactions. This process is managed by a set of professionals across P&R as well as Financial Services.

In 2020, the City invested to replace the previous Class tool with a new system, PerfectMind. This tool is a recreation activity management system that uses cloud-based technology to manage facility and class bookings, manage memberships, operate as a Point-of-Sale (POS) system and process payments and refunds. At the time of issuing this report, the P&R and Finance teams are working cross-functionally and collaboratively to enable the sustainable implementation of the new system and identify opportunities for continuous improvement.

**Objectives and Scope**

As a part of the 2020 Internal Audit plan, Internal Audit conducted a review of the Class Replacement Project Post-Implementation Reconciliation Processes focusing on class booking, payment, and reconciliation processes. Specifically, this audit aimed to understand the current processes undertaken by the P&R and Finance Teams for conducting balancing and reconciliations, validate that the processes delivered accurate and timely results, and could identify anomalies, inaccuracies and instances of unauthorized or unusual activity.

The scope of this audit did not include testing or evaluating the system implementation or project management. The scope was limited to the internal stakeholders involved in the reconciliation process, and no representatives from PerfectMind or City of London Parks & Recreation facilities were engaged in the audit for information, documentation, or perspectives. Samples used for testing the daily reconciliation and issuing returns to customers, as well as validating the accuracy of information flow within systems were selected by the City to enable testing of the full lifecycle of activities and information.

The detailed internal audit scope can be found in *Appendix 1: Internal audit detailed scope* of this report.

**Strengths**

In completion of this assessment, we identified the following areas of strength.

- Leadership and team commitment to successful implementation to continuous improvement
- Collaborative approach across stakeholders to enable business continuity
- Knowledgeable team that is able to explain and demonstrate PerfectMind's functionality

### Areas for continued enhancement

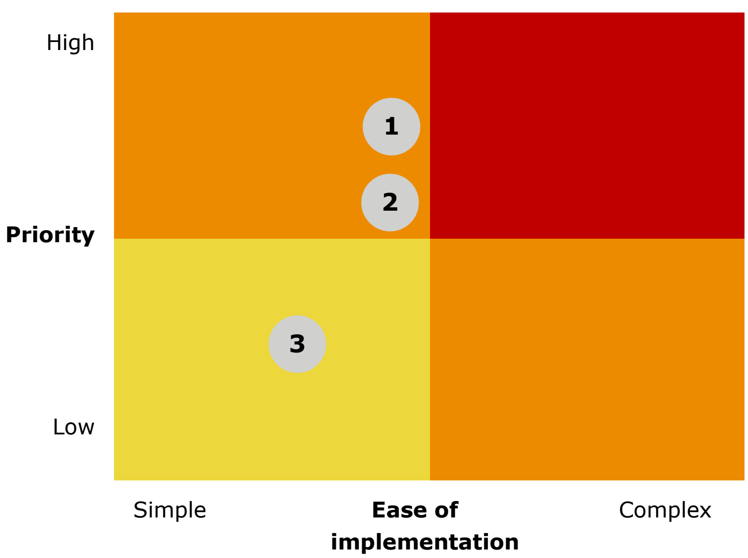
Based on our review of the reconciliation processes, we identified 2 medium priority observations and 1 low priority observation that management should consider going forward. Please refer to *Appendix 2: Internal Audit rating scale* for definitions of the four-point scale below.

| High priority | Medium priority | Low priority | Leading practice |
|---|---|---|---|
| 0 | 2 | 1 | 0 |

| Priority | Observation item | Observation description |
|---|---|---|
| **Medium** | RP 1 | **Governance (Roles and Responsibilities):** While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure and mechanisms are not defined regarding certain reconciliation tasks. |
| **Medium** | RP 2 | **Governance (Finance Issues Log):** While the Finance Issues Log serves a key function to the sustainable implementation of PerfectMind, the governance structure and functionality does not enable users to identify, prioritize, communicate, and address risk and issues. |
| **Low** | RP 3 | **Process Documents:** While process documents outline procedures and include screenshots of various interfaces to aid the user in how to action and complete processes, some procedures appear to be missing dependent steps and refer users to other documents. |

### Priority heat map

Based on our review of the reconciliation process, the following image maps the enhancement opportunities based on priority and anticipated ease of implementation.




### Conclusion

Based on our review of the Class Replacement Post-Implementation Reconciliation process, we have identified 3 weaknesses that should be addressed to improve process efficiency and effectiveness. The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate relevant risks.

# Strengths

In the completion of this assessment, internal audit noted the following areas of strength based on our review and interviews with the stakeholders listed in *Appendix 3: Stakeholder involvement:*

**Leadership and team commitment to successful implementation continuous improvement:** Management and stakeholders have exhibited leadership and communicated a commitment to enhancing operating processes, tools and systems to increase process efficiency and effectiveness, and better serve members and the public.

**Collaborative approach across stakeholders to enable business continuity**: Throughout our review, stakeholders expressed a constructive and collaborative approach to identifying and resolving risks and issues related to the implementation of PerfectMind. This was especially pertinent in the COVID-19 business environment.

**Knowledgeable team that is able to explain and demonstrate PerfectMind's platform functionality.** Throughout our review, the stakeholders were knowledgeable about the functionality of PerfectMind and were able to articulate the value it is expected to deliver.

**Comment from management**

Management acknowledges that the implementation of PerfectMind during a pandemic was extremely challenging and are proud of the detailed documentation that was achieved. During the implementation, many city staff were redeployed and/or assigned additional tasks due to the pandemic.

Management wishes to recognize all members of the cross-functional team for their efforts during this implementation.

# Areas for continued enhancement

In completing the procedures noted in *Appendix 4: Audit procedures*, internal audit identified the following areas for continued enhancement:

| **RP1** | |
|---|---|
| **Medium Priority** | **1. Governance – Roles and Responsibilities** |
| **Observation** | While roles, reporting lines, and responsibilities are adequately understood by staff, the governance structure and mechanisms are not defined regarding certain reconciliation tasks.<br>This is evidenced by:<br>• Roles and responsibilities to execute processes and adhere to the procedures are not identified. Specifically, when preparing the Daily Cash Balance, the procedure states that signatures must be obtained by both the preparer and reviewer but does not clarify the job titles or define the level that can serve in these roles.<br>• There is lack of clarity regarding the roles and authority of the three unique signatures required for daily cash balancing and bank deposits (e.g., there is one unique signature on the bank deposit, and two unique signatures on the Daily Cash Balancing Report, one presumed to be the preparer, and one presumed to be the reviewer). |
| **Why it matters** | Without clearly documented processes there may be inaccuracies or confusion regarding reconciliation roles, responsibilities, and procedures. Documented governance structures and processes also provide rationale for resources required to manage the reconciliations.<br>A failure to adhere to segregation of duties controls, and proper signoff, exposes the City of London to theft and fraud risk. Moreover, without appropriate signoff, there can also be confusion or non-compliance regarding the responsibility and accountability for the transactions. |
| **Recommendation** | Management should consider the following in order to further enhance the reconciliation process by:<br>1. Clearly defining roles, responsibilities and accountabilities for personnel and job titles expected to execute all processes and procedures.<br>2. Empowering the management to assign signatory privileges based on level.<br>3. Obtaining approval and sign-off on processes and procedures from an independent reviewer, possibly Financial Services Management.<br>4. Requiring signatories to state job titles and acting roles (i.e. Preparer, Reviewer etc.), and state when signatures are needed.<br>5. Continue to build the *Shared Folder: PerfectMind* where all relevant procedures are stored and easily accessible to personnel, specifically new hires or promotions. |
| **Management comments** | *For recommendation points 1 through 3, the City's Cash Handling Procedure, Section I clearly outlines the responsibilities of the various stakeholders involved in cash handling. For the purposes of the procedure, this includes payment cards and other methods of payment. Specifically, Section I of the Cash Handling Procedure requires the Cash Site Manager to undertake all of the actions noted under the recommendation section of this report, with support being provided by Financial Services.* |

| | | |
|---|---|---|
| | *For recommendation point 4, Management will amend section B.1 Cash Reconciliation & Balancing of the Cash Handling Procedure to include a requirement for both the preparer and reviewer to identify their role during sign-off. However, due to the number of roles involved in the cash handling process at the City and both the variability and seasonality of many locations, it is not practical to require the Cash Site Managers to list specific job titles within their cash site procedures.*<br>*For recommendation point 5, management agrees and will continue to build out the Shared Folder.* | |
| **Responsible party and timing** | *Ian Collins, Director, Financial Services*<br>*Scott Oldham, Manager of Administration and Attractions, Parks and Recreation* | *September 2021* |

| **RP2** | |
|---|---|
| **Medium Priority** | **2. Governance – Enhance Finance's issues Log** |
| **Observation** | While the Finance Issues Log serves a key function to the sustainable implementation of PerfectMind, the governance structure and functionality does not enable users to identify, prioritize, communicate, and address risk and issues.<br>This is evidenced by:<br>• There is no governance structure that defines the ownership of the file<br>• There does not appear to be owners for each issue<br>• There is no criteria for assigning issue ownership to relevant personnel<br>• There is no role matrix/identification that determines access privileges<br>• There is no definition of what constitutes an issue or a risk<br>• There is no quantitative criteria that identifies issue importance and prioritization<br>• There was one instance where a correction was not resolved in a timely manner (i.e., more than six months) |
| **Why it matters** | A robust Issues Log can be leveraged to facilitate the identification of risks or issues throughout the implementation. A failure to identify, prioritize and assign ownership of issue resolutions can undermine the effective communication, expose the City to mitigatable risks, delays issue resolution, and weakens accountability.<br>Without specific guidance and structures to track and assign issues, the relevant stakeholders may duplicate efforts or be unable to prioritize issues and address them in a timely manner. |
| **Recommendation** | Management should consider the following to enhance the Issues Log and effectiveness of issue-resolution:<br>1. Defining the governance structure of the Issues Log, including roles, responsibilities and accountabilities and access privileges of personnel using the Log.<br>2. Establishing criteria for assigning issue ownership.<br>3. Establishing definitions and criteria for issues and risks that enables prioritization.<br>4. Setting timing expectations for issue resolution.<br>5. Defining the communication process/gating mechanisms for interaction between Financial Services Management and the P&R team.<br>6. Holding reoccurring touchpoints with agendas to accelerate issue resolution and determination communication to PerfectMind as required. |
| **Management comments** | *Management agrees that some additional information would be beneficial to the Issues Log process. Management will document the structure, establish criteria & definitions, and expectations for the issues log. Recommendations 5 and 6 were implemented in Fall of 2020. Currently there are ongoing team meetings between Finance and the P&R group to discuss and resolve issues. As administrations experience with PerfectMind matures, the finance issues log will evolve accordingly.* |
| **Responsible party and timing** | *Angela Gilker, Manager of Accounting, Financial Services*<br>*Scott Oldham, Manager of Administration & Attractions, Parks and Recreation*<br>*October 2021* |

| **RP3** | |
|---|---|
| **Low Priority** | **3. Stand Alone Process Documents** |
| **Observation** | While process documents outline procedures and include screenshots of various interfaces to aid the user in how to action and complete processes, some procedures appear to be missing dependent steps and refer users to other documents.<br><br>This is evidenced in/by:<br><br>PerfectMind Daily BCARD Balancing Process:<br>• Step 2 directs the user when investigating a discrepancy to refer to the bank master file, compare the export lines to CHASE\Paymentech and record any variance in the Short/Over account.<br>• Step 3 directs the user to '*Refer to the Manual Reconciliation process'* instead of providing details of the steps to complete the process.<br><br>PerfectMind Daily Cash Balancing Process:<br>• Step 6 directs the user to a separate document (Manual Reconciliation Process) for a mandatory process that is required to reconcile the deposits for the day. |
| **Why it matters** | A failure to have all encompassing process documents with detailed procedures that include all of the steps required may lead to user error and inefficiencies, cause confusion, resulting in non-compliances. Furthermore, services to the public may be impacted if payments are entered erroneously and create overages/shortages. |
| **Recommendation** | Management should consider the following recommendations to further enhance their over/under balance identification procedures by:<br>1. Developing all-encompassing process documents that incorporate all relevant and required procedures as opposed to directing users to other documents. All process documents should 'stand on their own'.<br>2. Including frequent/common causes for overages/shortages in the process documents to help guide users in remediation activities. |
| **Management comments** | *Management agrees and will enhance the procedures to include user friendly links to all relevant steps and frequently encountered issues as per our finance issues log.* |
| **Responsible party and timing** | *Angela Gilker, Manager of Accounting, Financial Services*     *October 2021* |

# Appendix 1: Internal Audit detailed scope

Specifically, the internal audit addressed the following areas:

- Understand the current processes undertaken by the Parks and Recreation Team and Finance Team for conducting balancing and reconciliations.
- Validate the process for ensuring accuracy and that differences are explained and investigated:
    - Review and assess procedures to review reconciliations to assure daily reconciliations are performed accurately and evidenced by a preparer and reviewer to ensure segregation of duties (where possible);
    - Review and assess procedures to review balances that are over/under to identify and investigate unusual activity as well as balancing to system generated reports;
    - Review and assess procedures to review transactions to identify anomalies that may be indicative of unauthorized changes within the system; and
    - Assess the accuracy of data and information flow to PerfectMind as well as to JD Edwards within the reconciliation process to validate accuracy and timeliness.
- Understand the process for issuing returns through PerfectMind and tracking the validity of the return as part of the reconciliation process.
    - Review and assess procedures used to confirm the validity of a return and to assure the return was issued to the correct party, for the correct amount.
- Assess communication and coordination between relevant stakeholders with regard to timeliness of responses or actions required during the balancing and reconciliation process.

# Appendix 2: Internal Audit rating scale

**Individual observation prioritization**
Internal Audit has prioritized each observation and recommendation within this report using a four-point rating scale. The four-point rating scale is as follows:

| Description | Definition |
|---|---|
| **High** | Observation is high priority and should be given immediate attention due to the existence of either significant internal control risk or a potential significant operational improvement opportunity. |
| **Medium** | Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term. |
| **Low** | Observation does not present a significant or medium control risk but should be addressed to improve either internal controls or process efficiency. |
| **Leading Practice** | Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices. |

# Appendix 3: Stakeholder involvement

In conducting this assessment, the following management and staff were interviewed to gain an understanding of the processes and practices employed by the relevant departments and teams.

| Stakeholder | Position |
|---|---|
| 1. Ian Collins | Director, Financial Services |
| 2. Scott Stafford | Managing Director Parks and Recreation |
| 3. Scott Oldham | Manager of Administration and Attractions, Parks and Recreation |
| 4. Sharon Swance | Manager of Accounting |
| 5. Angela Gilker | Manager 1, Accounting |
| 6. Mike Szarka | Customer Service Supervisor, Parks and Recreation |
| 7. Melinda Patterson | Senior Customer Service Representative, Parks and Recreation |

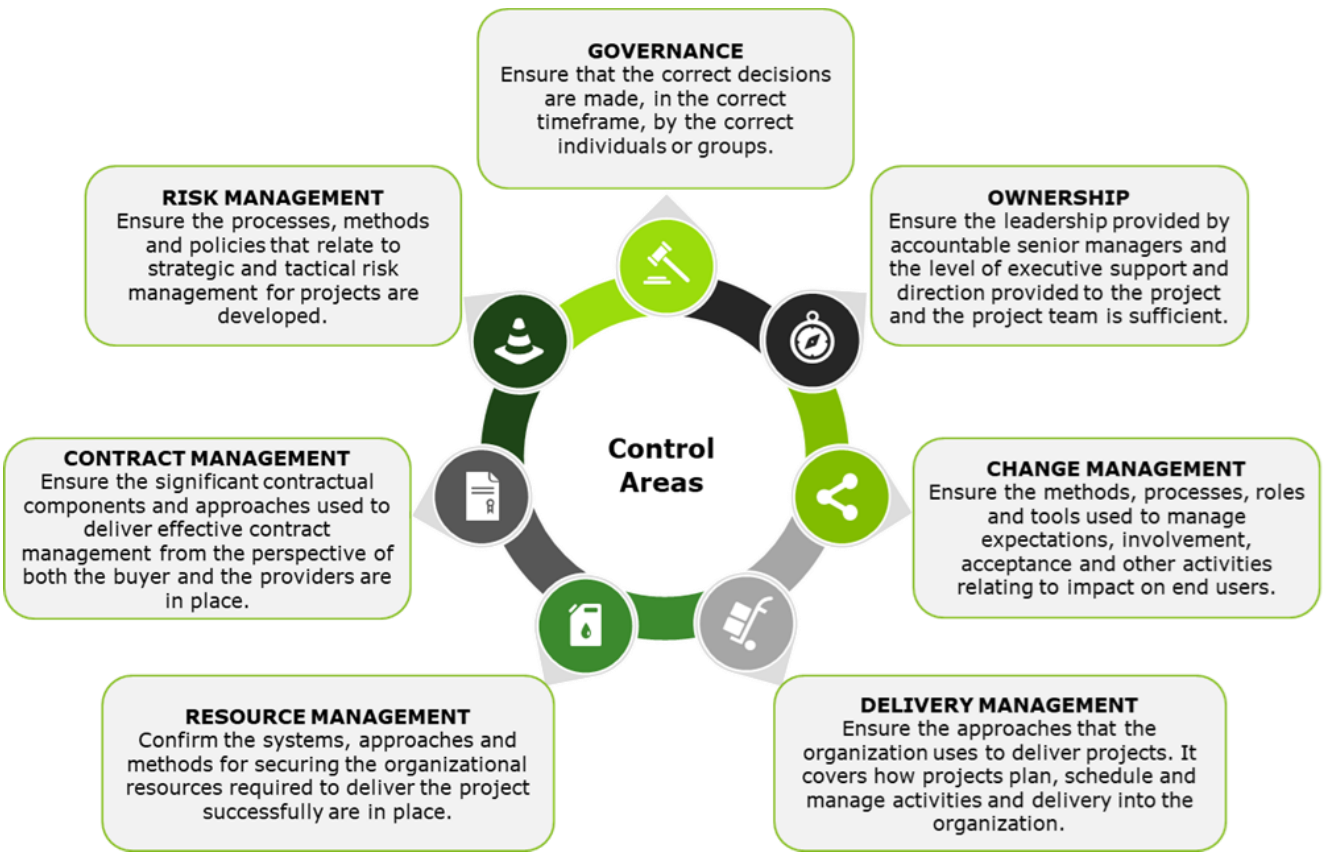
# Appendix 4: Audit procedures performed

As part of our review of the CLASS Replacement Post-Implementation Reconciliation Processes, the following procedures were performed:

- ✓ Held Project kick-off meeting to discuss and agree on roles and responsibilities; logistics; timeframes; project milestones; team communication and reporting methods.
- ✓ Developed and validated project methodology.
- ✓ Reviewed background documentation supporting current practices and controls, along with relevant policies and City requirements.
- ✓ Created interview schedule.
- ✓ Created information request.
- ✓ Conducted interviews with relevant stakeholders to document internal control environment and understand the relevant processes and practices.
- ✓ Collected and examined documentation for testing, perform process and controls testing.
- ✓ Assessed process performance and document results.
- ✓ Assessed process performance and control gaps.
- ✓ Conducted follow-up questions/ observations and draft recommendations.
- ✓ Documented observations and recommendations.
- ✓ Delivered draft report for review.
- ✓ Received management comments and compiled final report.
- ✓ Delivered report to relevant management and Audit Committee.

# Appendix 5: Leading practices for system implementation

As part of our review of the CLASS Replacement Post-Implementation Reconciliation Processes, management requested leading practices to inform future system implementations. Below are relevant dimensions for managing an implementation project. These control areas must always be considered, but the maturity and robustness of the underlying plans, approaches, processes, frameworks and practices within these control areas should depend on the complexity of the project. Depending on the type of project, management of other dimensions may be needed.




Listed below are a series of questions that the project team should be able to clearly answer. It is common for many clients to have plans, approaches, processes, frameworks and practices developed within these control areas, but because the complexity of projects is often underestimated, the underlying plans, approaches, processes and frameworks are immature and ultimately ineffective.

**Ownership:**

- How does the project team govern itself?
- How are executive expectations managed?
- What is the approach to executive sponsor oversight?

**Governance:**

- What is the Project Manager accountable for?
- How is the Business contribution to the project defined?
- How is the Project Manager's performance managed?
- How is business performance and the achievement of business targets being supported by the project?
- How is the budget controlled?
- How are priorities managed in the project?
- What systems for project reporting are in place?
- What approach is used to manage project scope?
- How are issues captured, tracked, escalated, and resolved?
- Are project roles/job descriptions clear?
- Are responsibilities and accountabilities clear?

**Change Management:**

- What is the approach to change management?
- Have all impacted stakeholders been identified?
- Have impacted stakeholders been involved in building the business case and identifying requirements?
- Have expectations been adequately set?
- Has the breadth of change been identified?

**Delivery Management:**

- How are the impacts of external dependencies on the schedule managed?
- How is resource load managed in the schedule?
- How are conflicts between the Project and Business Units managed?
- What is the approach to managing uncertainty?
- How is the Project's rate of progress measured?
- What is the project management approach to testing?
- How are milestones decided and defined?

**Resource Management:**

- How are internal staff resources allocated to the Project?
- How is the commitment of internal staff resources to the Project managed?
- What resource planning approach is used?

**Contract Management:**

- What methods are used to track contract deliverables?
- How are vendor competencies assessed?
- What is the approach to contract issue management?
- Are vendor payments tied to benefit realization?
- What metrics are used to measure vendor performance?

**Risk Management:**

- Is there a risk management framework?
- How are risks managed?
- Do project stakeholders understand the project complexity drivers?
- What types of risks are managed?
- How are contingency plans prepared and used to manage risk?
- What approach is used to manage contingency costs?
- Are the technical challenges and risks well understood?

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