

Agenda

Audit Committee

1st Meeting of the Audit Committee

February 9, 2022, 12:00 PM

Virtual Meeting during the COVID-19 Emergency

Please check the City website for current details of COVID-19 service impacts.

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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Pages

1. Call to Order

1.1. Disclosures of Pecuniary Interest

1.2. Election of Vice Chair for the term ending November 14, 2022

2. Consent

3. Scheduled Items

3.1. Introduction of MNP - Deepak Jaswal, Senior Manager, Enterprise Risk Services, MNP

4. Items for Direction

4.1. Audit Planning Report for the Year Ending December 31, 2021 2

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4.4. Internal Audit Summary Update 47

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4.7. Fire Process Assessment 62

4.8. Fleet Allocation and Utilization Management Assessment 76

5. Deferred Matters/Additional Business

6. Adjournment

The Corporation of the City of London

Audit Planning Report
for the year ended December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared as of January 12, 2022 for presentation
to the Audit Committee on February 9, 2022

KPMG

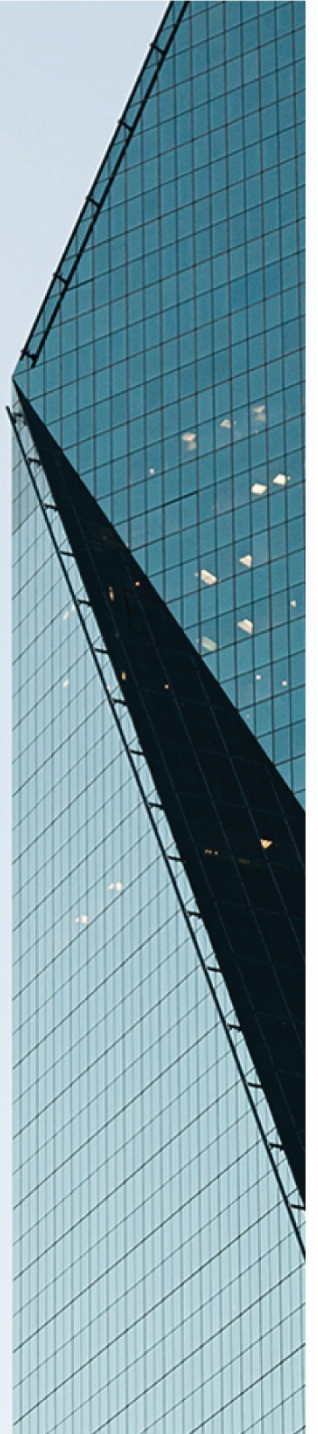


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KPMG contacts

The contacts at KPMG in connection with this report are:



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Our refreshed Values

What we believe



We do what is right.



We never stop learning and improving.



We think and act boldly.



We respect each other and draw strength from our differences.



We do what matters.

Executive summary

Audit quality

See page 2 for how we deliver audit quality.

Materiality

Materiality has been established by considering various metrics that are relevant to users of the financial statements, including total consolidated expenses, total consolidated revenues, and consolidated accumulated surplus. We have determined group materiality to be \$18,000,000.

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

See page 3.

Group audit scope

Our audit consists of 20 of 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:

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

See pages 6 – 8.

Proposed fees

Proposed fees for the annual group audit are discussed on page 11.

This report to the Audit Committee is intended solely for the information and use of management, the Audit Committee, Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit Quality: How do we deliver audit quality?



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

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

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

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

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



Doing the right thing. Always.



Materiality

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

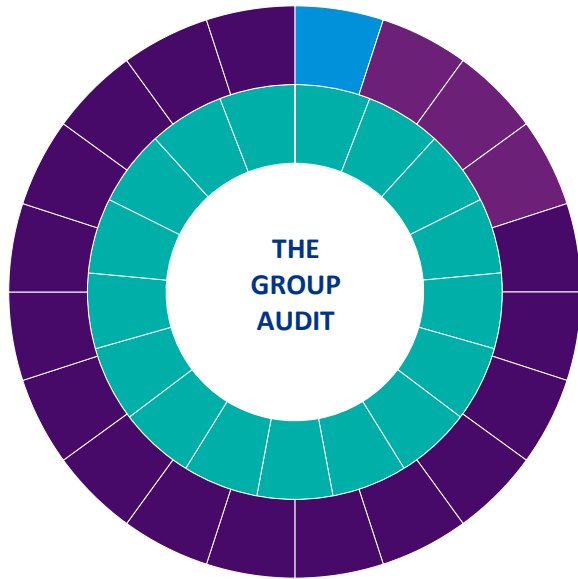
To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality or, in the case of a group audit, component materiality).

Materiality determination	Comments	Group amount
Materiality	The corresponding amount for the prior year's audit was \$17,900,000.	\$18,000,000
Benchmark	Based on the prior year's total consolidated expenses. This benchmark is consistent with the prior year.	\$1,161,379,000
% 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 \$895,000. A higher threshold has been used for reclassification misstatements. The corresponding amount for the previous year's audit was \$4,475,000.	\$900,000 Threshold for reclassification: \$4,500,000

We will report to the Audit Committee:

-  Corrected audit misstatements
-  Uncorrected audit misstatements

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 (unconsolidated)	Individually financially significant	Audit of component financial information	[1] Melissa Redden
Boards & Commissions	Non-significant components; however, necessary to issue separate statutory audit opinion	Audit of financial statements	[1] Dania Nabhani [2] Melissa Redden

Audit risks

Significant risk - professional requirements

Why is it significant?

Presumption of the risk of fraud involving improper revenue recognition

We have not identified any risk of material misstatement resulting from fraudulent revenue recognition

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

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

Our audit approach

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

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)

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, 2020, the City of London had a liability for employee future benefits of \$182 million. There is complexity associated with this estimate, both through the method and assumptions used. Management judgment is required.

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 2021 to the WIP detail in fiscal 2020, testing any projects that did not incur costs in fiscal 2021 and remain in WIP as at December 31, 2021. 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, as well as input data, 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, 2020, these revenue streams amounted to more than \$1.26 billion. In fiscal 2021, the City anticipated to receive between \$50 million to \$60 million approximately of COVID funding (subject to final reconciliation and recognition principles).
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.

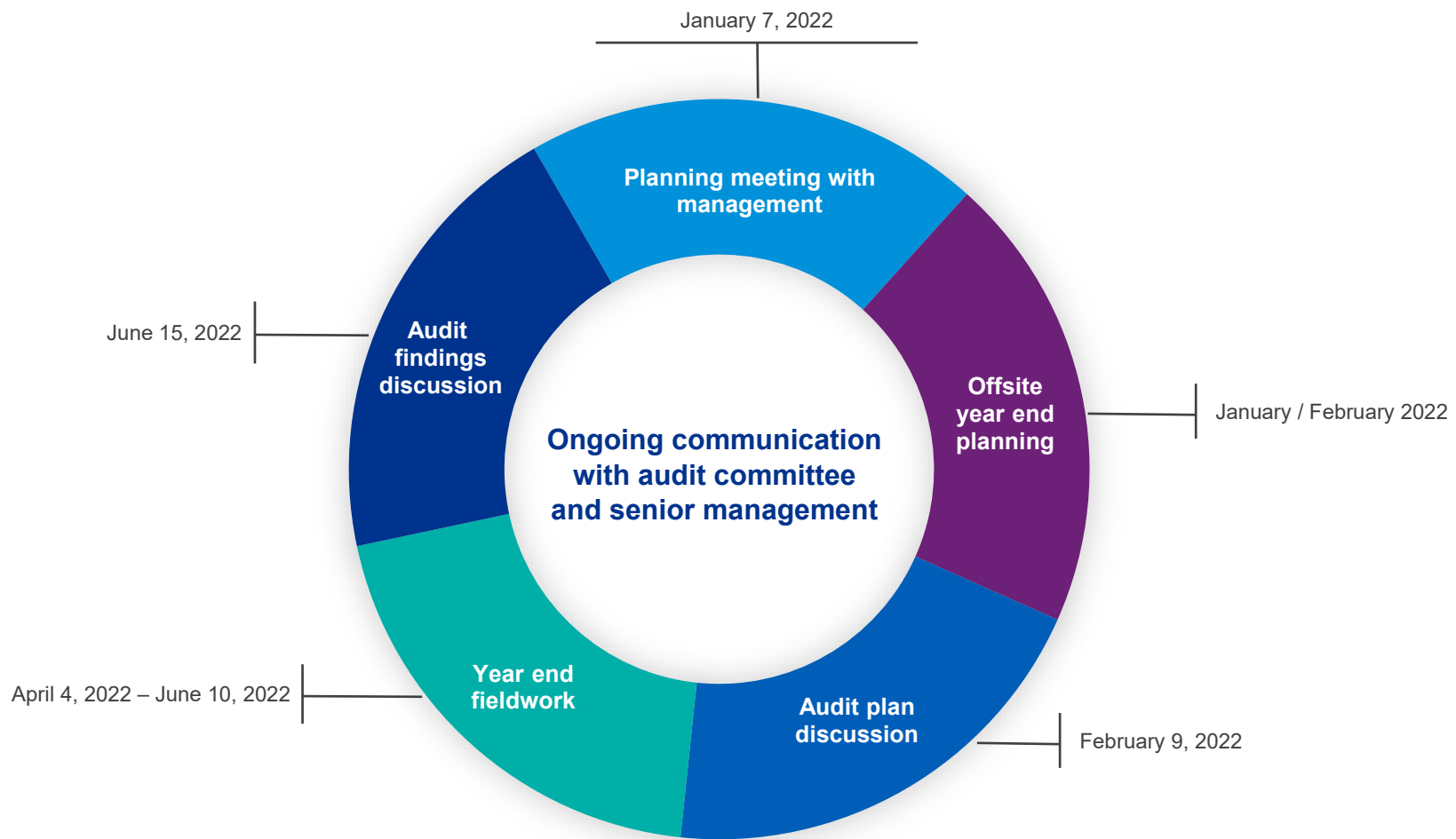
For the COVID funding recognized during the year:

- Vouch significant amounts to receipt of funds and obtain agreements to verify appropriate recognition.

KPMG will perform the following procedures over debt issuances:

- Debentures totaling \$23 million were issued during 2021 with a 10-year term with an average all-in rate of 1.819%. KPMG will review the accounting for this transaction in detail during the audit.

Key milestones and deliverables



Report to the audit committee

Your KPMG Team

Team member	Background / Experience	Discussion of Role
<p>Katie denBok Lead Audit Engagement Partner kdenbok@kpmg.ca 519-660-2115</p>	<p>Katie has over 16 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.</p>	<ul style="list-style-type: none"> – Katie will lead our audit for the City, as well as the Boards and Commissions, and be responsible for the quality and timeliness of everything we do. – She will be working with the team often and will always be available and accessible to you.
<p>Diane Wood Tax Partner dianejwood@kpmg.ca 519-660-2123</p>	<p>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.</p>	<ul style="list-style-type: none"> – Diane will assist with any tax related matters that arise.
<p>Melissa Redden Audit Senior Manager mredden@kpmg.ca 519-660-2124</p>	<p>Melissa has over 11 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, as well as a number of local private and public company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.</p>	<ul style="list-style-type: none"> – Melissa will work very closely with Katie on all aspects of our audit for the City, as well as select Boards and Commissions. – She will be on site and directly oversee and manage our audit field team and work closely with your management team.
<p>Dania Nabhani Audit Manager dnabhani@kpmg.ca 519-660-2120</p>	<p>Dania has over 6 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies.</p>	<ul style="list-style-type: none"> – Dania will work closely with Katie on select Boards and Commissions. – She will directly oversee and manage the audit field team for these entities, as well as work closely with the management teams.

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.

Estimated fees	Current period (budget)	Prior period (actual)
Audit of the group financial statements (includes the implementation of the new auditing standard over accounting estimates in prior period)	\$102,500	\$99,000

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

Appendices

Content

Appendix 1: Required communications

Appendix 2: Use of technology in the audit

Appendix 3: Current developments

Appendix 4: Financial indicators

Appendix 5: Audit and Assurance Insights

Appendix 1: Other required communications

Report	Engagement terms
This report.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.
Reports to the Audit Committee	Representations of management
At the completion of the audit, we will provide our findings report to the Audit Committee.	We will obtain from management certain representations at the completion of the audit.
Matters pertaining to independence	Control deficiencies
At the completion of our audit, we will provide our independence communications to the audit committee.	On a timely basis, identified significant deficiencies will be communicated to the audit committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

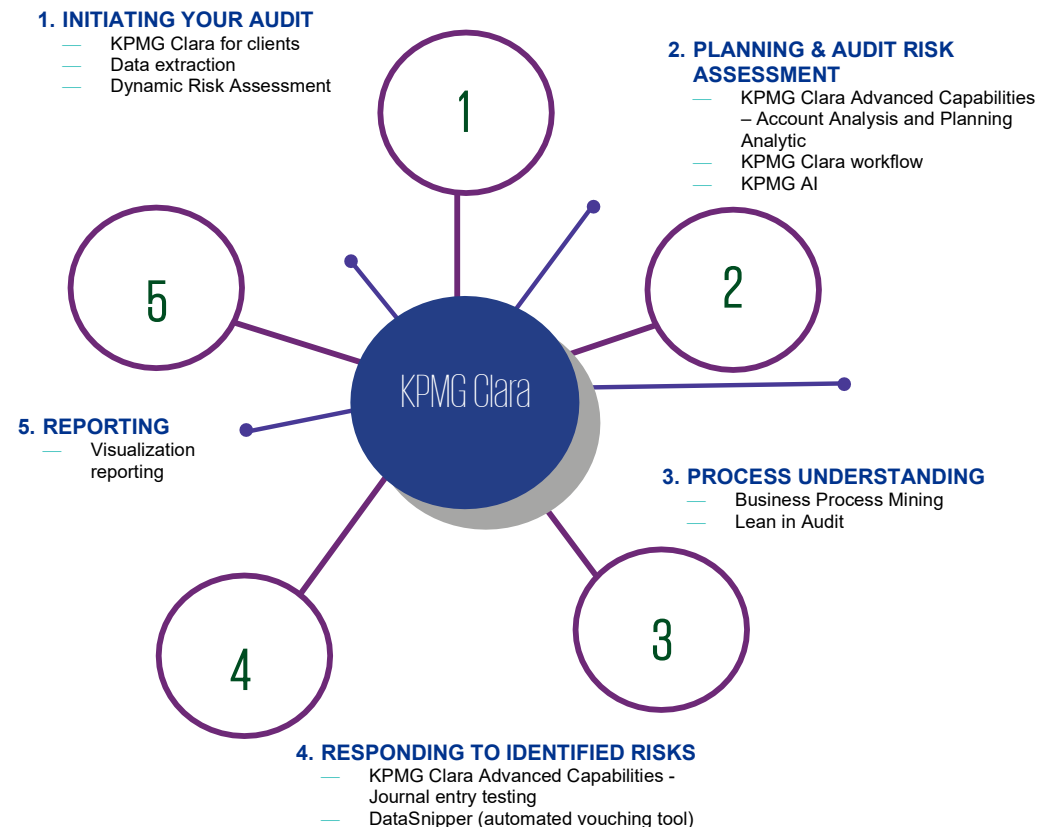
Appendix 2: Use of technology in the audit

KPMG Clara is our integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. KPMG Clara embeds analytics throughout all phases of the audit and allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures. 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 and identifying areas to embed robotic process automation (“KPMG Bots”).

Our five-phased audit approach



Appendix 3: Current Developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> – The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 <i>Financial Instruments</i> 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 <i>Financial Instruments</i>. The exposure drafts were released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, <i>Employee Benefits</i> in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Standard	Summary and implications
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> – PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023, and may be applied retroactively or prospectively. – The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. 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. – In addition, PSAB is proposing: <ul style="list-style-type: none"> • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of rereasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none"> – 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. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
Government Not-for-Profit Strategy	<ul style="list-style-type: none"> – 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. – PSAB released a second consultation paper in January 2021 which summarizes the feedback received to the first consultation paper. It also describes options for the GNFP strategy and the decision-making criteria used to evaluate the options. PSAB recommends incorporating the PS4200 series with potential customizations into PSAS. This means reviewing the existing PS4200 series to determine if they should be retained and added to PSAS. Incorporating the updated or amended PS4200 series standards in PSAS would make the guidance available to any public sector entity. Accounting and/or reporting customizations may be permitted if PSAB determines there are substantive and distinct accountabilities that warrant modification from PSAS. – PSAB is in the process of considering stakeholder comments.
2022 – 2027 Strategic Plan	<ul style="list-style-type: none"> – PSAB’s Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities – The Strategic Plan emphasizes four key priorities: <ul style="list-style-type: none"> – Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB’s due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. – Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. – Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. – Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

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

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

Our analysis is based on Financial Information Return (FIR) data. Given the timing of financial reporting for municipalities, the analysis is based on 2020 FIR data with comparative information provided based upon the 2016 – 2019 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 (2020)	Households (2020)	Area (square km)
London	402,659	181,841	420.6
Ottawa	1,018,001	434,013	2,790
Hamilton	578,000	237,420	1,138
Windsor	230,900	100,084	146.3
Kingston	124,148	54,426	451.2
Guelph	131,794	57,225	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

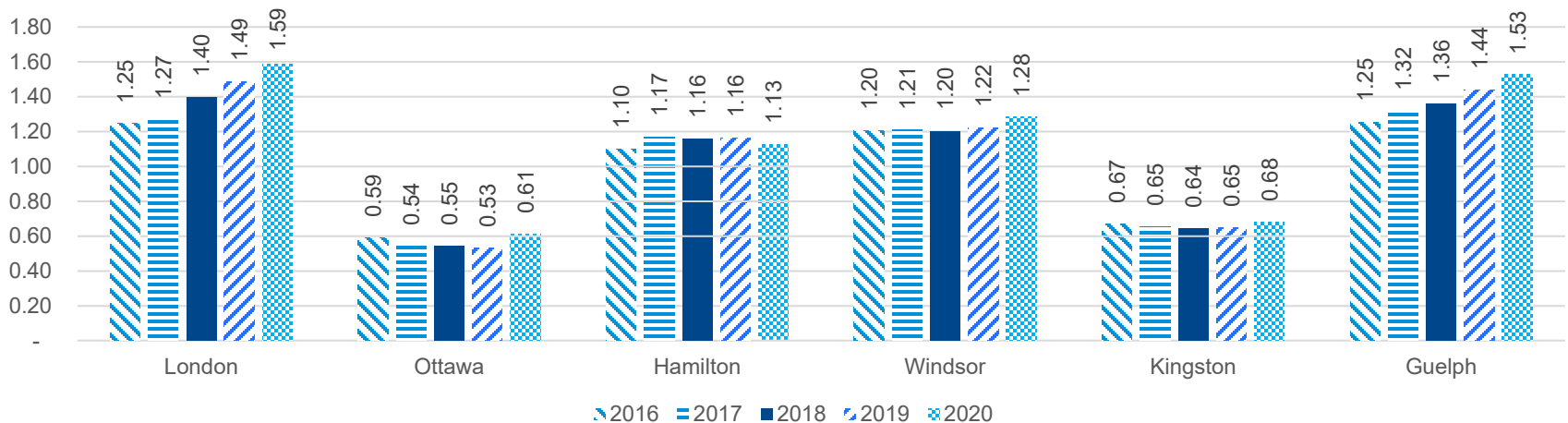
Sustainability ✓
 Flexibility
 Vulnerability

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

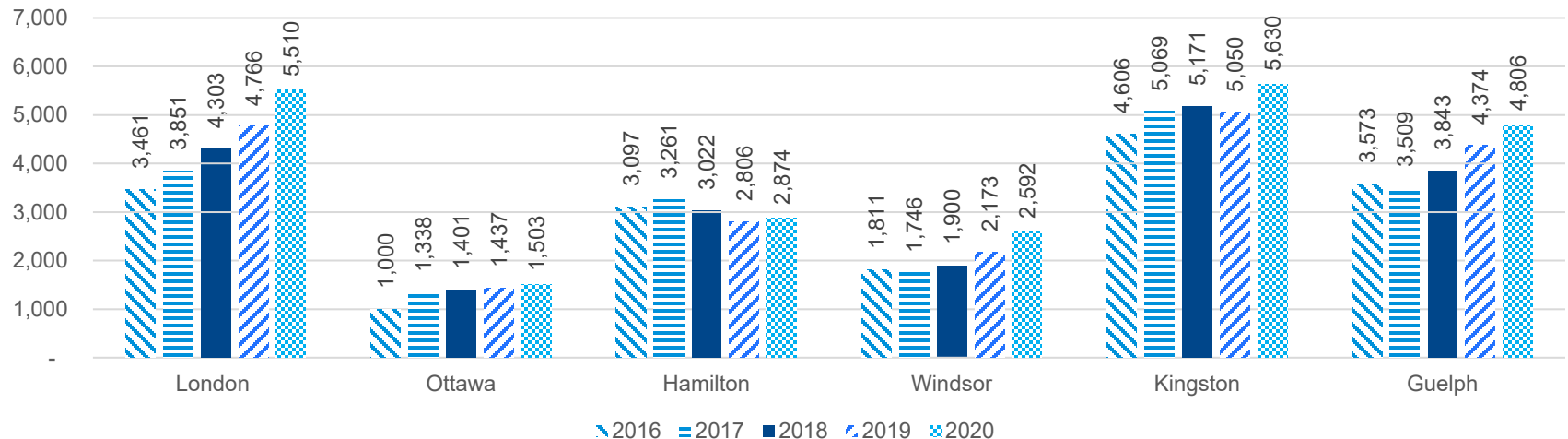
Sustainability ✓
Flexibility
Vulnerability

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

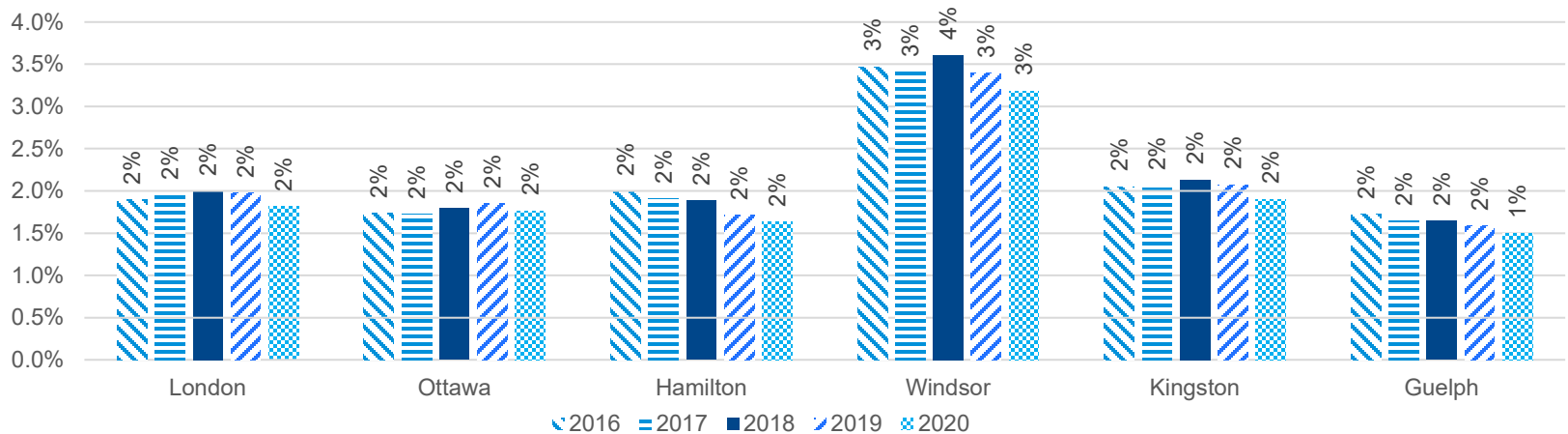
Sustainability ✓
 Flexibility
 Vulnerability

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

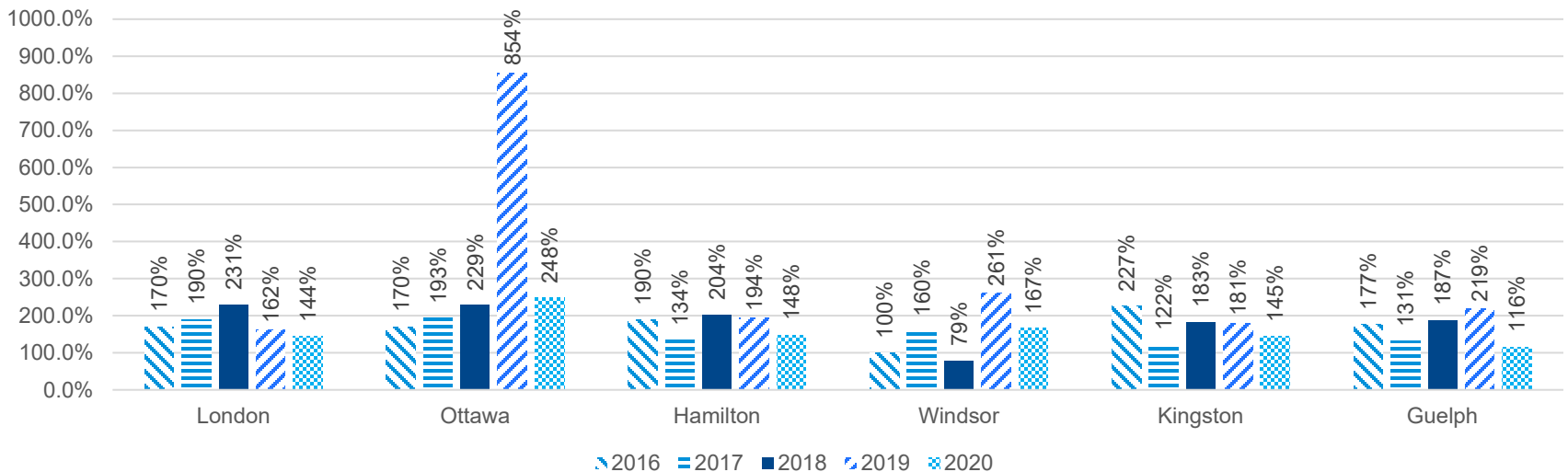
Sustainability ✓
 Flexibility
 Vulnerability

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 ✓

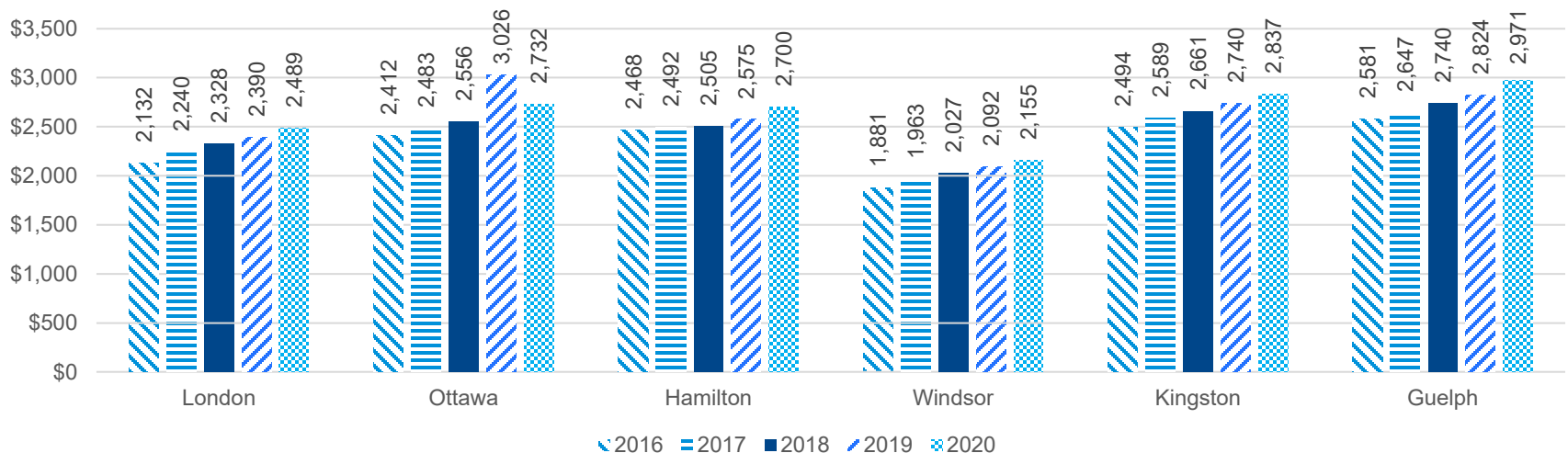
Vulnerability

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 ✓

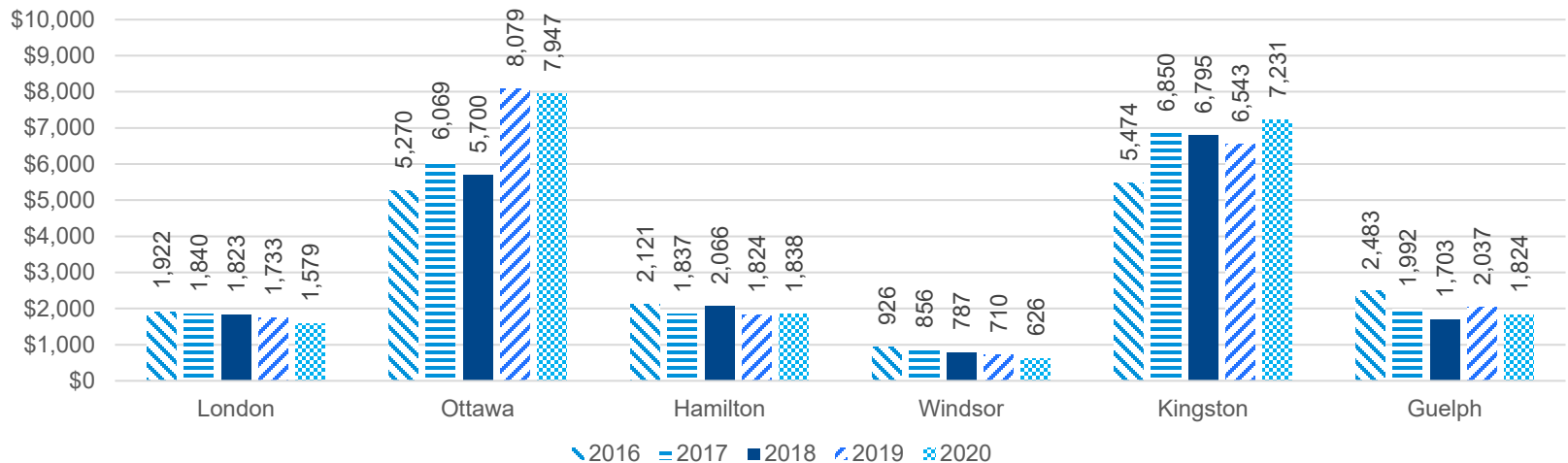
Vulnerability

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 ✓

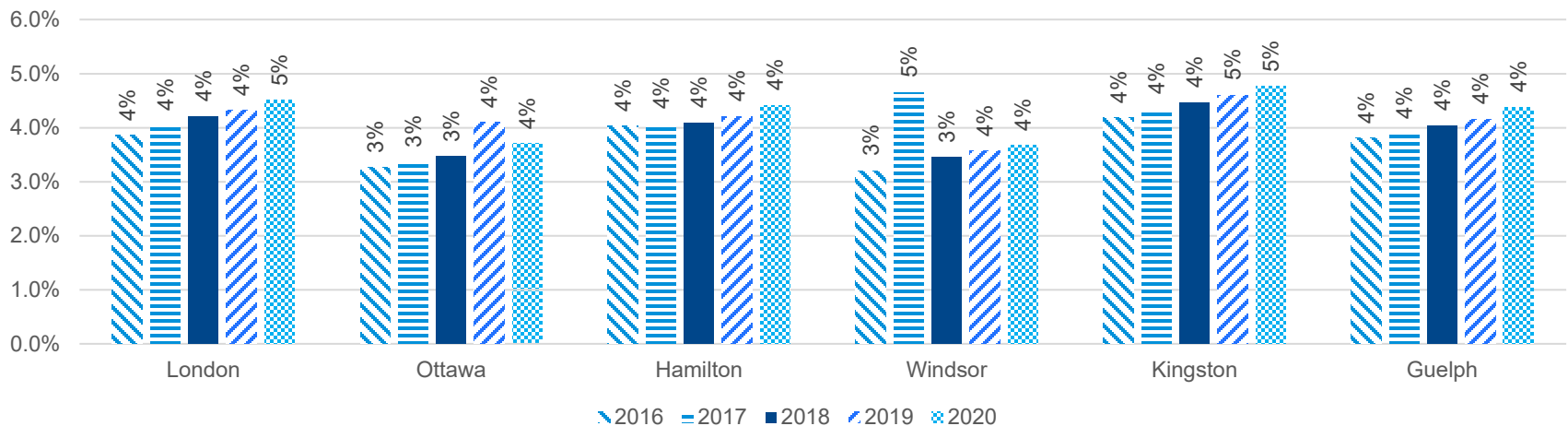
Vulnerability

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 generate incremental revenues in the future.

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability

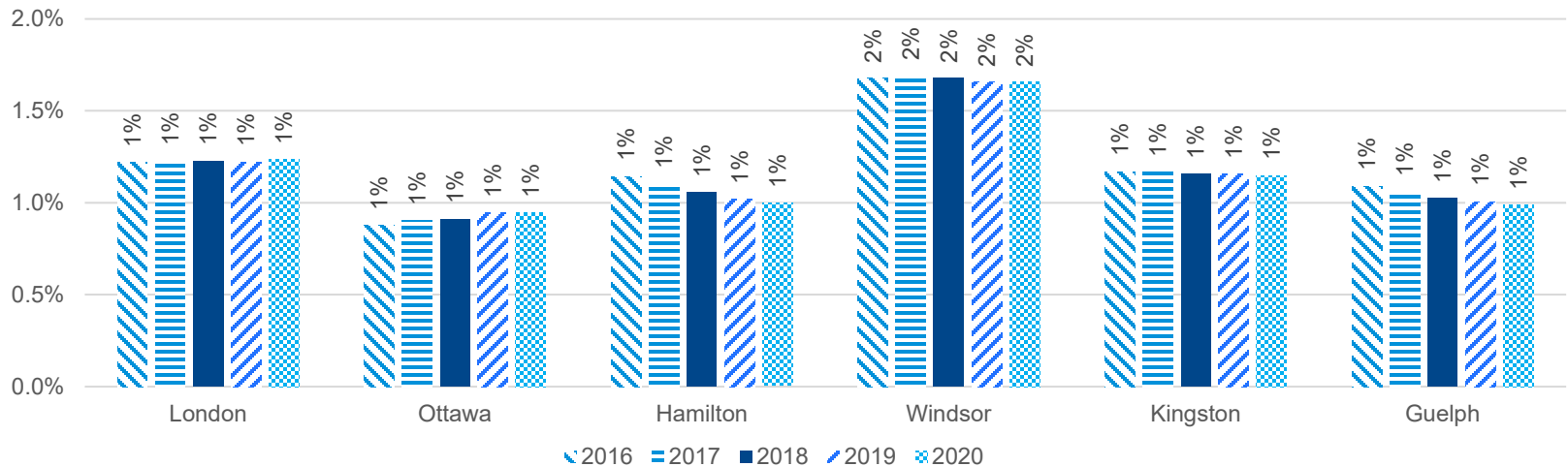


FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

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

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

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability

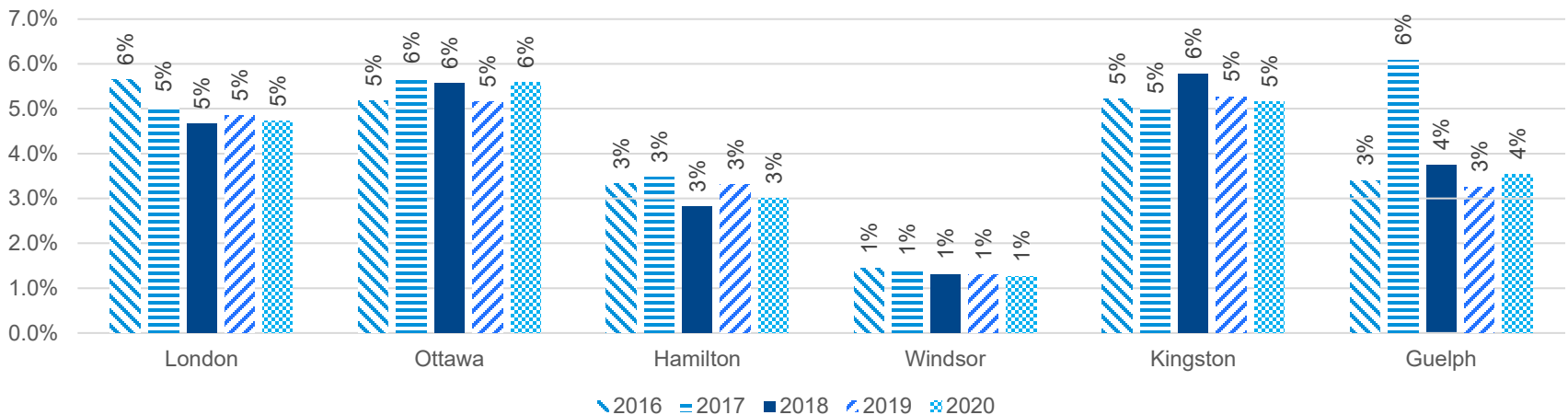


FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

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

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

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability

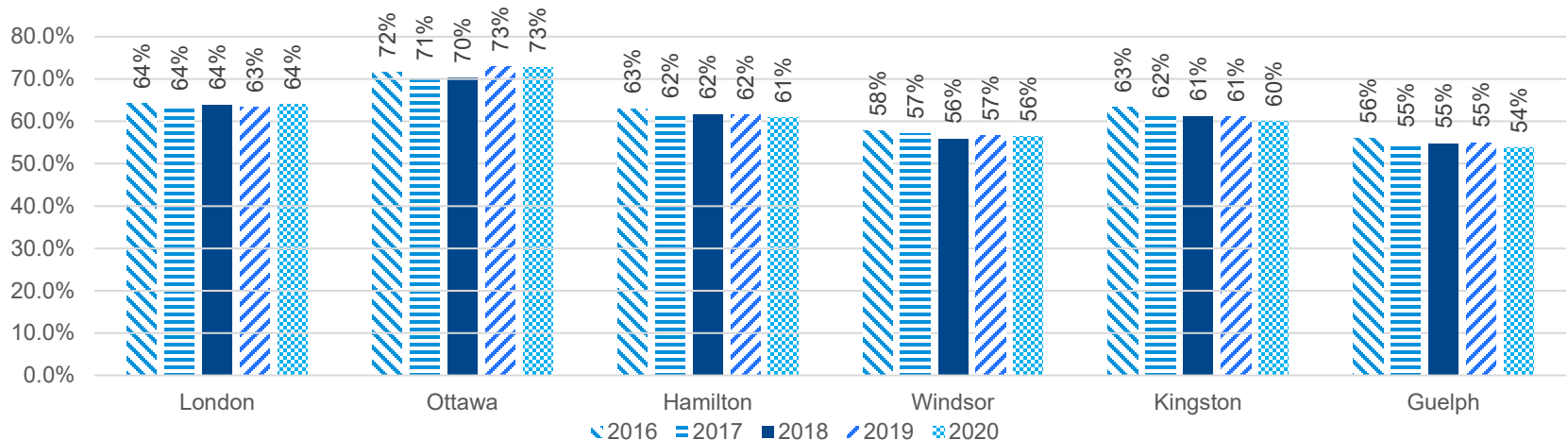


FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

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

TYPE OF INDICATOR

Sustainability

Flexibility

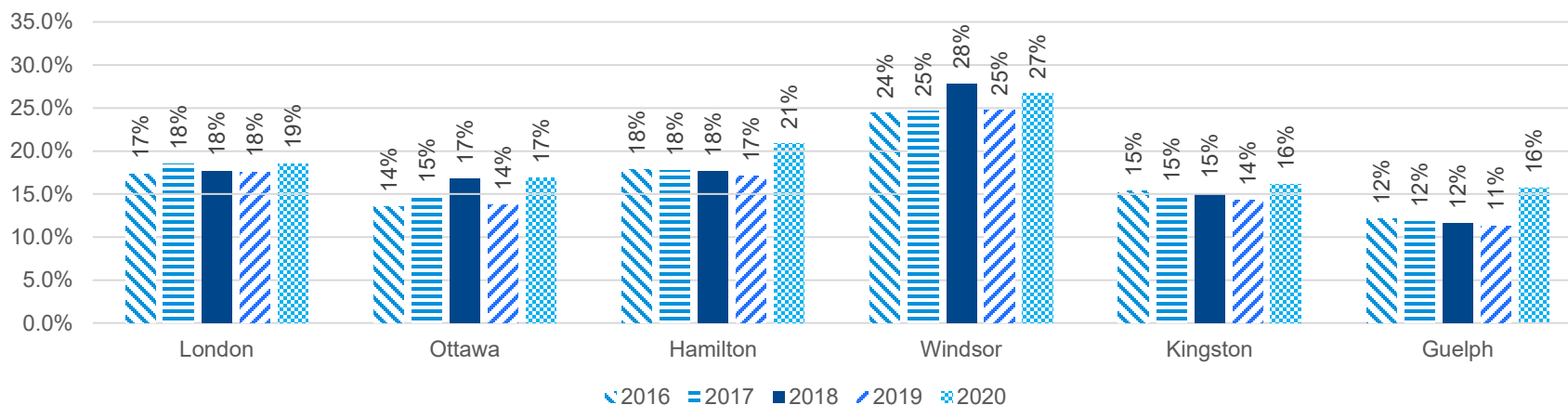
Vulnerability ✓

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

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

TYPE OF INDICATOR

Sustainability

Flexibility

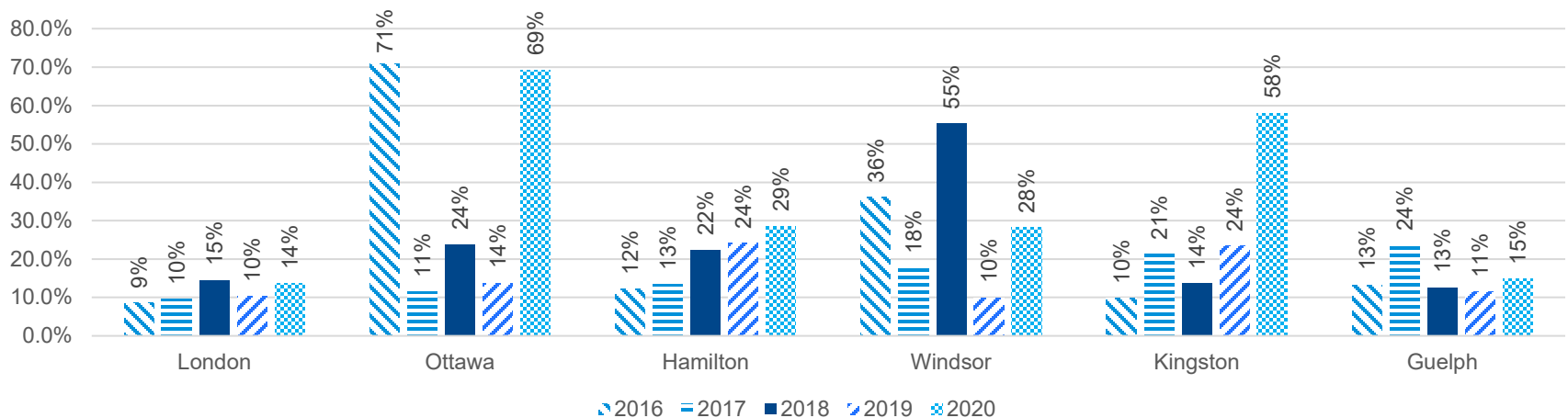
Vulnerability ✓

FORMULA

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

POTENTIAL LIMITATIONS

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





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

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Appendix 5: Audit and Assurance Insights

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

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>COVID-19 Financial Reporting Resource Centre</u>	Resource centre on the financial reporting impacts of coronavirus
<u>Board Leadership - Audit committee insights</u>	The KPMG in Canada Board Leadership Centre (BLC) engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting, and more.
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>The ESG journey: Lessons from the boardroom and C-suite (kpmg.us)</u>	To build on our work in ESG, strategy and the long view, the Board Leadership Center interviewed directors and officers of major corporations, including Morgan Stanley, Tyson Foods, Ford Motor, Microsoft, Mars, and Whirlpool, among others.
<u>ESG, strategy, and the long view (kpmg.us)</u>	To help boards understand and shape the total impact of the company's strategy and operations externally—on the environment, the company's consumers and employees, the communities in which it operates, and other stakeholders—and internally, on the company's performance, this paper presents a five-part framework.
<u>Inclusion and diversity practices</u>	Getting started on the inclusion and diversity journey. Unique inclusion and diversity considerations for boards.
<u>Preparing for the ONCA transition: What organizations need to know</u>	The Ontario Not-for-Profit Corporations Act, 2020 (OCNA) has been proclaimed into force effective October 19, 2021. Find out the legal changes relevant for organizations incorporated provincially.
<u>The Future of Cities</u>	The future of cities is outcome led – leveraging informed digital technology to create an experience-centric and decentralized city model. We invite you to explore this page and unpack KPMG's global research and insights on The future of local government
<u>Accelerate</u>	The key issues driving the audit committee agenda in 2022.



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THE CORPORATION OF THE CITY OF LONDON

**REPORT ON THE RESULTS OF APPLYING SPECIFIED
AUDITING PROCEDURES FOR THE LONDON DOWNTOWN
CLOSED CIRCUIT TELEVISION PROGRAM FOR THE YEAR
ENDING DECEMBER 31, 2021**



KPMG LLP
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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, 2021.

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.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

January 14, 2022

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 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 a total sample of 48 recordings throughout 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, 2021 to December 31, 2021.

- 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.

The Corporation of the City of London Internal audit dashboard as at January 31, 2022

Project status – 2021 internal audit plan

2021 Audit plan project	Percent complete	Est. timeframe ¹	Project status	Report issued
• SaaS Application Review	 100%	March – June	complete	
• Automated Traffic Management System (ATMS) Project Review	 100%	June - Sept	complete	
• Recruitment Process Assessment (Note 2)			DF	
• Fire Process Assessment	 100%	Sept-Dec	complete	
• Fleet Process Review	 100%	Sept-Dec	complete	

OT – On track

DF – Deferred

DL – Delayed

Comments

¹ Agreed timing with management to scope project and kick-off fieldwork
² Recruitment Process Review is deferred and will be considered for the 2022 Internal Audit plan

Internal audit activities – February 2022

- Transition to new Internal Audit team.

Other activities

2021 Performance metrics

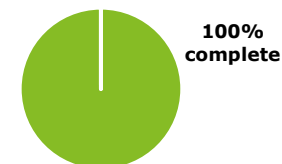
Project customer satisfaction

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



Objective = 4

% Complete of the Revised 2021 internal audit plan



Internal audit 2021 Revised IA plan Reporting

	Draft (days)	Management comment (days)	Issue final (days)	Final (days)
• Objective	5	15	10	30
• Performance	14	18	5	37

January 31, 2022

Members of The Corporation of the City of London Audit Committee

Subject: Internal Audit Summary Update

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

1. Internal Audit Dashboard Report

- a. Internal Audit continues to have ongoing meetings with the City Treasurer.
- b. Internal Audit has issued 3 reports since the last committee meeting (Automated Traffic Management System (ATMS) Project Review, Fleet Process Review and Fire Process Review).
- c. One project, Recruiting Process Review, was deferred and will be considered for the 2022 Internal Audit plan when that process begins.

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

- a. Findings relating to the Assumptions and Securities Process Review are now fully remediated.
- b. Management continues to implement the recommendations from the following internal audit projects:
 - i. Dearness Home Assessment
 - ii. SaaS Application Review.
- c. Items related to the 3 new reports have been added to the observations for 2021.

3. Transition of Internal Audit team

We want to thank the City of London Audit Committee, management and staff for the opportunity to work with them over the last several years. We are working with the City management and the new internal auditor to make the transition as seamless as possible.



City of London Audit Committee Observation Summary
As at October 22, 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 to January 31, 2022						
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 November 2021 update	Estimated completion in prior update (November 21)	Current Estimated Completion
2019	Dearness Home Process Assessment	Feb-20	4	0	0	0	4	0	Jun-22	Jun-22
Sub-total 2019 reports			4	0	0	0	4	0		
2020	Assumptions and Securities Process Assessment	Jan-21	1	1	1	0	0	1	Jan-22	Complete
Sub-total 2020 reports			1	1	1	0	0	1		
2021	SaaS (Cloud) Application Review	Sep-21	1	0	0	1	0	0	Mar-22	Mar-22
2021	Fleet Process Assessment	Jan-22	2	0	0	0	0	0	N/A	Dec-23
2021	Fire Process Assessment	Jan-22	3	0	0	0	0	0	N/A	Dec-22
2021	Advanced Traffic Management System (ATMS) Project Review	Jan-22	4	0	0	0	0	0	N/A	Jun-22
Sub-total 2021 reports			10	0	0	1	0	0		
Total High and Medium observations			15	1	1	1	4	1		

Closed per Management: Management has indicated that action plans due to be acted upon by January 2022 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 2022 are underway or management has asserted observations are closed but Internal Audit has not yet validated.

Past Due Observations: Actions plans due by January 2022 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 City of London Advanced Traffic Management System (ATMS) Project Review

Audit Performed: December 2021
Report Issued: January 28, 2022

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Executive Summary

Background

The City of London (the “City”) is implementing an Advanced Traffic Management System (ATMS) to replace the current traffic signal system with a new intelligent transportation technology. The ATMS project is being implemented as part of the Transportation Intelligent Mobility Management System (TIMMS) program, which is aligned to City of London’s strategic objective to improve all transportation modes, get London moving, now and into the future.

Objectives and scope

A review of the ATMS project was incorporated into the 2021 Internal Audit Plan. The review was performed by Internal Audit with a focus on the project management governance and controls. This is to ensure the project is being delivered using the appropriate project management methodologies in planning, monitoring, and controlling in regards to its scope, cost, and schedule. The intent of the audit is to assess the controls for the remainder of the ATMS project and allow for any relevant learnings to be applied to the projects being implemented under the TIMMS program.

Please refer to Appendix I for detailed information on review scope.

Summary

Based on our review of the City’s ATMS project, part of the TIMMS program, we identified four medium and one low observations that the City of London should consider going forward. Please refer to *Appendix 2: Internal Audit rating scale* for definitions of the four-point scale.

	High priority		Medium priority		Low priority		Leading practice
	0		4		1		0

The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate relevant risks. Below is a summary of each identified observation. Please note the identifier ‘TM’ in each Observation Id stands for Traffic Management and is included for consistency across Internal Audit reports.

Priority	Observation Id	Observation Summary
Medium Priority	TM 1.01	Lack of controls for cost management and reporting on actuals against forecast
Medium Priority	TM 1.02	Lack of program oversight including limited interdependency management, and informal status reporting
Medium Priority	TM 1.03	A project risk log is in place although risk monitoring activities are not documented, including risk owners
Medium Priority	TM 1.04	No process for benefits realization management including baselining and quantification of benefits
Low Priority	TM 1.05	Change Management activities are being undertaken by a third party (Parsons) but no overall Change Management Plan is in place

Areas for Continued Enhancement

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

Medium Priority	TM 1.01 - Lack of controls for cost management and reporting on actuals against forecast.
Observation	<p>A project budget is the total amount of monetary resources that are allocated for a project to achieve the stated goals and objectives. The purpose of project cost management is to estimate project costs, and monitor and track actuals during the project life cycle.</p> <p>The City has a budget and sub-ledgers to track costs of the projects under the TIMMS program. There are three sub-ledgers assigned to the ATMS project. However, there is a lack of controls around cost management and financial reporting:</p> <ul style="list-style-type: none"> Although payment certificates are managed on a monthly basis the sub-ledgers are reviewed semi-annually to evaluate the total costs spent. There is not a level of granularity below the sub-ledgers to understand how costs are being spent and against forecasted costs. This makes it difficult to understand if the project is under or over budget at a given point in time of the project’s lifecycle. There is a lack of reporting of costs to the Steering Committee to highlight the financial health of the ATMS project. Further, there are no financial metrics reported (e.g., total budget, actual cost, and estimate to complete.)
Implication	<ul style="list-style-type: none"> Risk of running over budget. Missed opportunities for the City to reduce cost as it fails to identify unnecessary expenses.
Recommendation	<ul style="list-style-type: none"> Increase granularity on tracking of project costs. Track actual costs against the baselined budget on a monthly basis. Report financial metrics to Steering Committee including total budget, actual costs and estimate to complete.
Management Comments	<p>Increased granularity has been implemented to track project costs. Traffic Engineering will work with Finance to obtain monthly tables to relate spending by subledger back to the overall TIMMS program. This will be reported monthly at the Steering Committee meetings.</p>
Responsible Party and timing	<p>Shane Maguire, Divisional Manager, Traffic Engineering with support from Finance</p> <p>Completed January 2022.</p>

Medium Priority	TM 1.02 - Lack of program oversight including limited interdependency management, and informal status reporting.
Observation	<p>A program is a collection of projects that form a connected package of work. The different projects are related to assist the program in achieving its objectives. While ATMS is a project under the TIMMS program, that aims to modernize the city’s traffic control system, there is a lack of program oversight to manage these projects as a program. To elaborate:</p> <ul style="list-style-type: none"> • There isn’t a detailed program schedule to identify and manage project-related interdependencies and risks. • There is a lack of detailed project status reporting in relation to cost, schedule and scope at the program level.
Implication	<ul style="list-style-type: none"> • Delivery of projects under TIMMS may have an impact (schedule, cost, scope) on the ATMS project. • ATMS decision making is difficult due to lack of transparency in overall program status.
Recommendation	<p>Document a TIMMS program schedule that includes high level milestones, activities and their independencies for all projects within the program.</p> <p>Implement a dashboard to display high level metrics, for each project, to provide an up-to-date summary of Program status. Suggested items include:</p> <ul style="list-style-type: none"> • Budget status, comparing actual spend with estimated budget. • Key risks with assigned owners, mitigation plan and progress status. • Key milestones or deliverables before the next reporting cycle, with estimated completion time.
Management Comments	<p>The TIMMS program schedule was presented to the Steering Committee at the onset of the program and updates on specific projects have been provided on a monthly basis. Management will establish a living program schedule similar to what has been done with individual projects and develop high-level metrics for updates at Steering Committee meetings.</p>
Responsible Party and timing	<p>Shane Maguire, Divisional Manager, Traffic Engineering with support from Information Technology Services</p> <p>June 30, 2022</p>

Medium Priority	TM 1.03 - A project risk log is in place although risk monitoring activities are not documented, including risk owners.
Observation	<p>Risk management is a process that allows individual risk events and the overall project risk profile to be understood and managed proactively, optimizing delivery success by minimizing threats and maximizing opportunities. If risks materialize, they become issues that are required to be resolved.</p> <p>Although risks have been identified in a risk log there is limited information in the risk planning and risk monitoring section, there is no information that would suggest the risks are being actively monitored and deliberately addressed. For example, there are no assigned risk owners and mitigation plans to track how the risks are being managed.</p>
Implication	<ul style="list-style-type: none"> • Risks not well managed may materialize as issues which can cause delays to the project schedule and increase costs. • The full risk profile of the project is not known, which means the schedule and budget contingency is not well understood leading to less well managed timelines and costs.
Recommendation	<p>Reassess and update the risk register on a periodic basis.</p> <p>Document risk owners with risk monitoring actions and updates.</p>
Management Comments	<p>Management will undertake a full review of the Risk Log with the ATMS vendor with a focus on risk ownership and monitoring. Moving forward this will be reviewed minimum on a quarterly basis.</p>
Responsible Party and timing	<p>Shane Maguire, Divisional Manager, Traffic Engineering</p> <p>June 30, 2022</p>

Medium Priority	TM 1.04 - No process for benefits realization management including baselining and quantification of benefits.
Observation	<p>A benefit is a quantifiable and measurable improvement resulting from an outcome. The benefit typically has a tangible value expressed in monetary or value terms.</p> <p>The benefits of implementing the ATMS project have been identified; however, not all of them have been quantified. Moreover, there is no evidence of a baseline measurement and no outlined process for benefit monitoring and realization.</p>
Implication	<ul style="list-style-type: none"> • The benefits of the ATMS project will not be known after implementation. • A lack of linkage between business case and actual outcome. • Return of investment (ROI) for the project is unknown.
Recommendation	<p>Develop, implement and execute on a benefit management plan that details the identification, definition, baseline and tracking of the following type of project benefits:</p> <ul style="list-style-type: none"> • Direct financial benefits (tangible).e.g., reduced operating costs. • Direct non-financial benefits (tangible).e.g., reduced peak travel times. • Indirect benefits (intangible), e.g., increased driver satisfaction
Management Comments	<p>Quantification of benefits realization are an ongoing challenge of the ATMS project both due to ever-changing, dynamic nature of transportation systems and, most recently, the impacts of COVID which show increased positive benefits due to decreased travel demands. However, opportunities will be sought to demonstrate the ATMS benefits through specific improvement initiatives including the Adaptive Corridor Pilot, corridor timing improvements, and transit priority through typical metrics such as travel time and reliability indexes and transit schedule adherence. The ATMS is a nexus point of many tools that will be realized under the overall TIMMS program.</p>
Responsible Party and timing	<p>Shane Maguire, Divisional Manager, Traffic Engineering</p> <p>June 30, 2022</p>

Low Priority	TM 1.05 - Change Management activities are being undertaken by third party (Parsons) but no overall Change Management Plan is in place.
Observation	<p>Change management is the approach taken in an organization to move from the current to a future desirable state using a coordinated and structured approach in collaboration with stakeholders. The change management process links strategy with execution, and deployment with operation and the ultimate realization of the expected benefits.</p> <p>As part of the scope of the overall project, updates are being made to the central management software (ATMS) as well as over 400 intersection controller computers . There is no completed change management plan to assess the change impact, with respect to people, process and tools. Although Parsons have training built into their deployment plans and system training has already been completed, it isn't clear whether all aspects of the change have been anticipated.</p>
Implication	<ul style="list-style-type: none"> • Employees are not fully prepared for the change the project brings, leading to low employee engagement and errors. • New processes are not transferred to the organization to embed as new working practices.
Recommendation	<p>Identify all relevant stakeholders that are affected by the changes and document how they will be impacted by and kept informed of the changes.</p> <p>Develop, implement and execute a change management plan for the ATMS project that details the nature of the changes, and the training and communications approach required across stakeholders.</p>
Management Comments	Traffic Engineering staff and the traffic signal maintenance contractor are trained on the systems. Traffic Engineering and Information Technology Services are currently working on a Transition-to-Operations plan.
Responsible Party and timing	<p>Shane Maguire, Divisional Manager, Traffic Engineering with support from Information Technology Services</p> <p>June 30, 2022</p>

Appendix 1 - Internal Audit Detailed Scope

Specifically, the Internal Audit addressed the following areas:



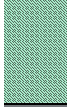

Review of the governance and controls over ATMS project (December 2021):

- Review governing policies and procedures related to software procurement and software development Lifecycle as it relates to the acquisition of technology products and services.
 - Review project charter and supporting documentation to ensure time, scope, project milestones, including the roles and responsibilities are clearly defined and approved by appropriate management
 - Review the Risk management process to understand how software/technology risks are identified and mitigated.
 - Understand the Change management process relevant to TMS implementation process, including but not limited to UAT, roll back plans, post-implementation support and decommissioning of existing systems are in place.
 - Assess existing employee training and awareness initiatives related to use of TMS.
-

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 either improve 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 City of London management and staff were interviewed to gain an understanding of the City’s processes and practices.

Stakeholder	Position	Division
Jon Kostyniuk	Project Manager	Traffic Engineering
Shane Maguire	Division Manager	Traffic Engineering
Al Davila	ITS Manager	Information Technology Services (ITS)

Appendix 4 - Audit Procedures Performed

As part of The City of London’s ATMS project assessment, the following procedures were performed:

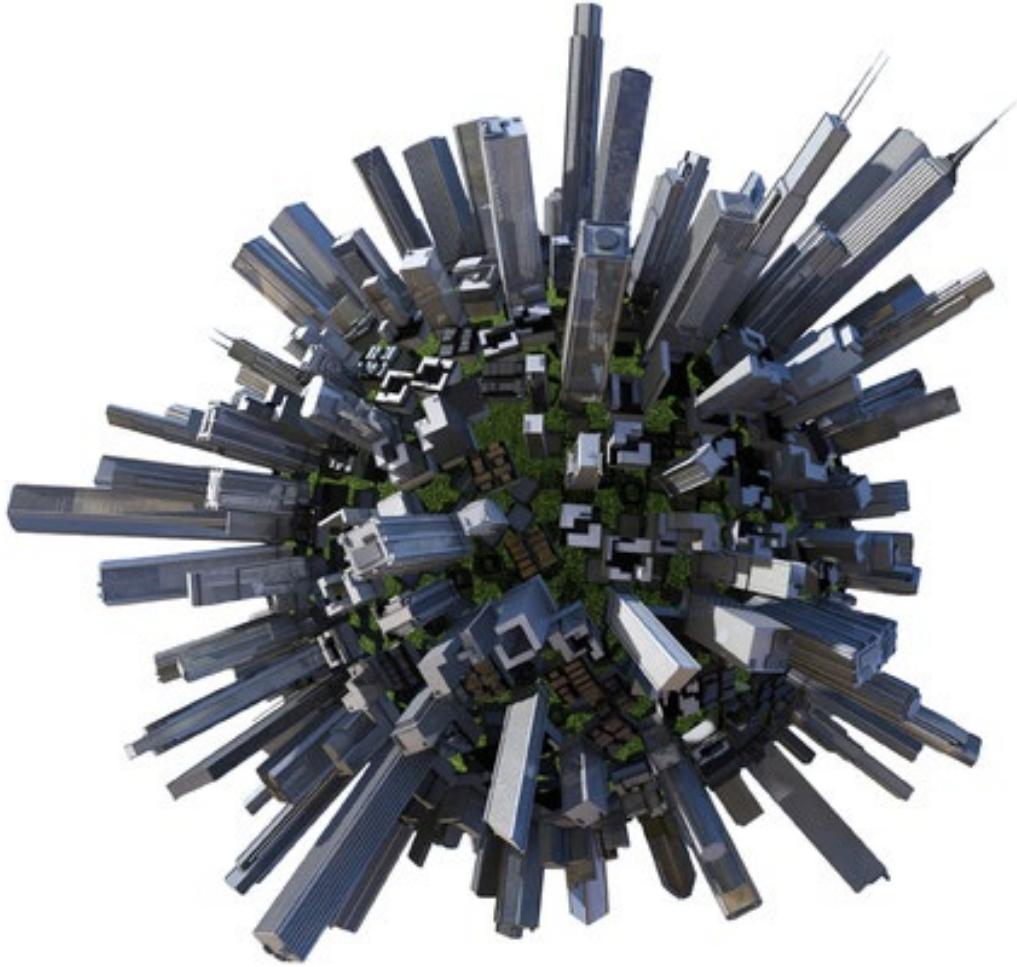
-
- Requested for documentation on the TIMMS program and ATMS project.
 - Conducted meetings with City management and staff to obtain an understanding of the control framework and assessment criteria.
 - Obtained project documentation regarding relevant procedures and controls to perform an inspection of:
 - Governance,
 - project scope,
 - Risk management,
 - Budget Management, and
 - Project delivery.
 - Performed interviews with key personnel on the current state of ATMS project.
 - Using the reviewed documentation and interview narratives, assessed the effectiveness of ATMS project with regards to governance and controls.
 - 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

Fire process assessment

Audit Performed: November 2021 – January 2022
Report Issued: January 28, 2022

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Executive summary

Background

The City of London (the “City”) aspires to identify opportunities to help ensure emergency readiness and improve the service delivery efficiency of the London Fire Department. To this end, the City expects that there may be opportunities to enhance internal controls, key performance indicators (KPIs), policies and procedures over Fleet operations and so requested that Internal Audit focus on identifying leading practices as applied to the Fire fleet for consideration.

Objectives and scope

As part of the November 2021 to January 2022 Internal Audit plan, Internal Audit conducted a review on the Fleet operations. The purpose of this review was to assess the adequacy of the policies and procedures and provide guidance on industry leading practices relating to controls, potential improvements and optimizing fleet lifecycles that assist Fire Master Plan development. The review also assessed the current KPIs already implemented and recommended additional KPIs to implement.

The detailed Internal Audit scope is at *Appendix 1*.

Areas for continued enhancement

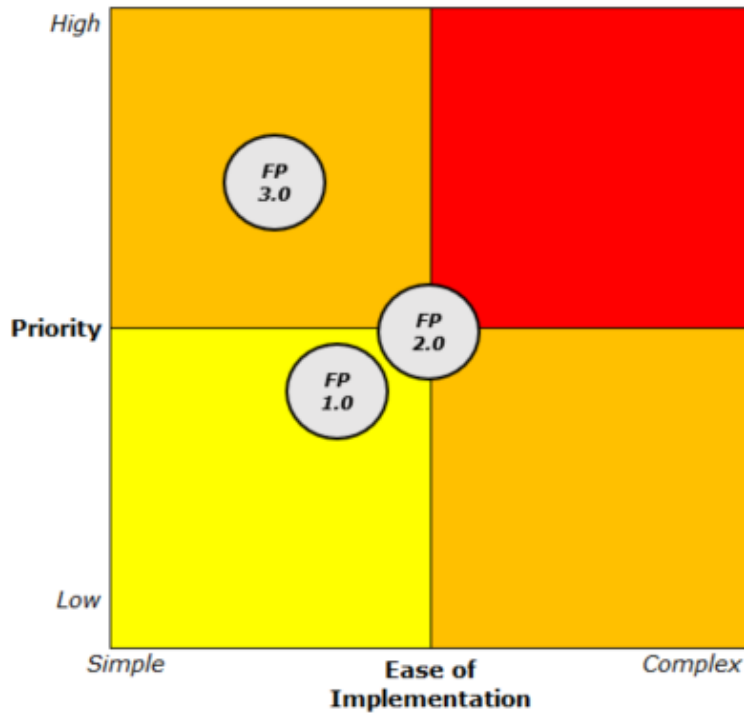
Based on our review of the City’s fleet operations and KPIs, we identified three medium priority observations and an additional leading practice that The City of London should consider actioning. Please refer to *Appendix 2: Internal Audit rating scale* for definitions of the four-point scale.

	High priority		Medium priority		Low priority		Leading practice
	0		3		0		1

Priority	Observation Id	Observation Summary
Medium priority	FP 1.0	KPIs: No existing KPIs in place to monitor Fire fleet performance.
Medium priority	FP 2.0	Condition based vehicle assessments: Lack of an objective and repeatable assessment for Fire apparatus that identifies candidates for replacement based on actual condition.
Medium priority	FP 3.0	Preventative maintenance and inventory requirements: Lack of preventative maintenance due to amount of reactive maintenance being completed and lack of control over maintenance productivity. No processes/control of inventory on hand.
Leading practice	FP 4.0	Telematics: Telematics is currently not applied to Fire fleet vehicles.

Priority heat map

The diagram below maps each of the three medium-rated opportunities for enhancement based on their priority and estimated ease of implementation. Item ID #4 has been excluded since it is a Leading practice.



Conclusion

The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate associated risks.

Areas for continued enhancement

In completing the procedures noted in *Appendix 4: Audit procedures performed*, Internal Audit identified the following items for continued enhancement.

Medium Priority	FD 1.0 Key Performance Indicators (KPIs)
Observation	<p>Per the interviews performed and documents reviewed, there is an intent for the Fire fleet to develop and monitor KPIs to help drive leading practice; however, there are currently no KPIs in place to help measure and drive performance. KPIs proposed for implementation by Fire are below.</p> <ul style="list-style-type: none"> • Breakdown maintenance hours, Maintenance schedule completion (%), Check completion (%); • Fleet availability (%); • Downtime (days); • Cost/hours of planned vs. unplanned maintenance (%); • Comeback rate (%); • Average age of Fleet (years); • Mechanic on-task (%), Mechanic efficiency (%); • Fleet in fair or better condition (%); • Fuel consumption per year per vehicle (L/Km); and • Km and/or hours of use per year. <p>Also, KPIs are not used for budgeting and forecasting to help drive good fiscal management.</p> <p>Management is aware of the deficiencies in place and is acting to remedy the situation, in part through the implementation of ICO.</p>
Implication	<p>Without KPIs in place, there are risks related to apparatus readiness, asset usage, fuel efficiency, and operational efficiencies. The main risk is apparatus readiness as this can impact delivery of service. The Fire fleet should ensure minimum breakdown maintenance, high fleet availability percentage, low apparatus downtime (days), and have an strict preventative maintenance program in place.</p>
Recommendation	<p>We recommend implementing a process to establish benchmarks and monitor the KPIs above in conjunction with the implementation of the ICO Solutions fire department management system (ICO system) to drive leading practices and better controls through fleet operation efficiency and fleet readiness. We also recommend that the KPIs be used to assist in preparing budgets and forecasting performance.</p>

Management Comments	<p>The ICO implementation team has the KPIs that should be utilized. These data capturing requirements will be built into the ICO processes. This will provide the ability to run reports as needed. This enhancement is contingent on the completion of the ICO system and the ability of personnel to log data appropriately.</p> <p>Please note, if this recommendation requires updates or enhancements to the current ICO system, from either an ITS perspective and/or service area perspective, Civic Administration will take this project through the next multi-year ITS and budget approval processes.</p>
Responsible Party and Timing	<p>Richard Hayes, Deputy Fire Chief-Operations, December 2022 (if additional resources required, the timeline would be adjusted to align with the next multi year budget approval process: 2024-2027)</p>

Medium Priority	FD 2.0– Condition based vehicle assessments
Observation	We noted that asset replacements are based on useful lives and observed performance. We also reviewed the Fire Fleet asset register, which also outlined asset age and expected retirement date as the key considerations for replacements. There are no policies or procedures in place that require an objective and repeatable assessment of Fire apparatus that identifies candidates for replacement based on actual condition in conjunction with maintenance data.
Implication	Without a repeatable condition assessment, there is a risk that apparatuses may be replaced earlier/later than truly required and that asset maintenance costs may be inflated.
Recommendation	We recommend implementing policies and procedures to require and drive the completion of condition assessments in conjunction with maintenance data, that will support the Corporate Asset Management Plan and Fire Department Financial Capital Planning.
Management Comments	<p>This initiative is two fold. Firstly, there is the need to align policies and procedures to the actions that will be undertaken within the current ICO Records Management system. Secondly, the ICO implementation team has the KPIs that should be utilized. These data capturing requirements will be built into the current ICO processes. This will provide the ability to run reports as needed. This enhancement is contingent on the completion of the current ICO system and the ability of personnel to log data appropriately.</p> <p>Please note, if this recommendation requires updates or enhancements to the current ICO system, from either an ITS perspective and/or service area perspective, Civic Administration will take this project through the next multi-year ITS and budget approval processes.</p>
Responsible Party and Timing	Richard Hayes, Deputy Fire Chief-Operations, December 2022 (if additional resources required, the timeline would be adjusted to align with the next multi year budget approval process: 2024-2027)

Medium Priority	FD 3.0– Preventative maintenance, productivity and inventory requirements
Observation	<p>Maintenance Fire's maintenance effort has had challenges completing preventive maintenance in accordance with their plans due to an increase in vehicles and equipment, creating increased maintenance needs while staffing levels remain stagnant. Management is aware of the deficiencies and is working to rectify the issue. Work orders are not electronic; however, the aspiration is to move to an electronic system (ICO) that would provide for improved maintenance tracking and management and the provision of data for KPI development. Mechanics' hours are tracked using time sheets and manual workorders; however, the actual working hours are not compared with standard times to help drive productivity. Further, we observed that mechanics are performing non value add activities such as parts sourcing. Per management this accounts for ~25% of their time.</p> <p>Parts Inventory Mechanics attempt to maintain an adequate parts inventory manually and occasionally fail to record quantities used, resulting in inaccurate inventory records. Management is aware of the deficiencies for parts inventory tracking and is working to rectify the issue, in part through the implementation of the ICO Solutions management system.</p>
Implication	<p>Maintenance Lack of a strong maintenance program can lead to reduced effectiveness and efficiency and eventually impact apparatus availability. The currently ongoing ICO system implementation could be helpful in driving maintenance productivity and hence in helping to break the heavy reliance on reactive maintenance.</p> <p>Parts Inventory Without mechanisms in place for the tracking inventory there is a risk of stock outs and/or inflated inventory carrying costs. Stock outs may also reduce mechanic labor productivity.</p>
Recommendation	<p>Maintenance The ICO system modules for mechanic productivity improvement, telematics data (once available) and KPIs should be used to drive maintenance effectiveness and productivity and help address the balance of reactive and preventive maintenance.</p> <p>Parts Inventory We recommend implementing a policy and supporting process to track parts inventory and required parts on hand (minimum stock holdings for example).</p>
Management Comments	<p>This initiative is two fold. Firstly, there is the need to align policies and procedures to the actions that will be undertaken within the ICO Records Management system. Secondly, the ICO implementation team has the KPIs that should be utilized. These data capturing requirements will be built into the ICO processes. This will provide the ability to run reports as needed. This enhancement is contingent on the completion of the ICO system and the ability of personnel to log data appropriately.</p> <p>The implementation of this recommendation is also contingent on the additional resources requested through the 2022 annual budget approval process.</p>
Responsible Party and Timing	<p>Richard Hayes, Deputy Fire Chief-Operations, December 31, 2022 (if additional resources required, the timeline would be adjusted to align with the next multi-year budget approval process: 2024-2027)</p>

Leading practice	FD 4.0 – Telematics
Observation	Per the interviews performed, telematics is not used on the Fire fleet vehicles. Use of telematics provides the opportunity to realize efficiencies through fuel reduction and maintenance costs.
Implication	Operational savings and improvements available through the use of telematics driven by reduced fuel (idling and driving style) and reduced maintenance (based on wear and tear/condition) are not being maximized.
Recommendation	We recommend management consider implementing full telematics capabilities on assets that are more likely to have an acceptable payback. Further, we recommend implementing policies and procedures on how to effectively manage and analyze telematics data to aid decision making.
Management Comments	<p>The reality of implementing a fully telematics enabled fleet is yet to be determined. It is anticipated that this will be at least a five year program, if not more. The challenge is to capture the correct data, send the data automatically to a centralized location, and have the appropriate tool report on all the data that is collected from various sources.</p> <p>This recommendation requires further analysis with ITS and Finance and would be required to go through the necessary ITS and multi-year budget approval processes identifying any additional resources if required.</p>
Responsible Party and Timing	Richard Hayes, Deputy Fire Chief-Operations, the timeline will be identified as part of the next multi-year budget process: 2024-2027 as it is dependent on securing additional resources)

Appendix 1 - Internal Audit detailed scope

Specifically, the Internal Audit addressed the following areas:


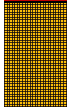


Review of the London Fire department's fleet management processes:

- Confirm current, and develop, assess, and review the key performance indicators (KPIs) to be implemented for Fire; and
 - Based on the above and through an analysis of the baseline data provided, identify potential improvements in managing the London Fire Department fleet and optimizing life cycles that aid and/or align with Fire Master Plan development.
-

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 either improve 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 City of London management and staff were interviewed to gain an understanding of the Fire Services processes and practices.

Stakeholder	Position	Division
Lori Hamer	Fire Chief	City of London – Fire Services
Richard Hayes	Deputy Fire Chief	City of London – Fire Services
Katerina Barton	Manager, Finance and Planning	City of London – Fire Services
Douglas Drummond	Financial Business Administrator	City of London – Financial Services
Cheryl Smith	Deputy City Manager	City of London – Neighborhood and Community-Wide Services

Appendix 4 - Audit procedures performed

As part of the review of the London Fire department's fleet management processes, the following procedures were performed:

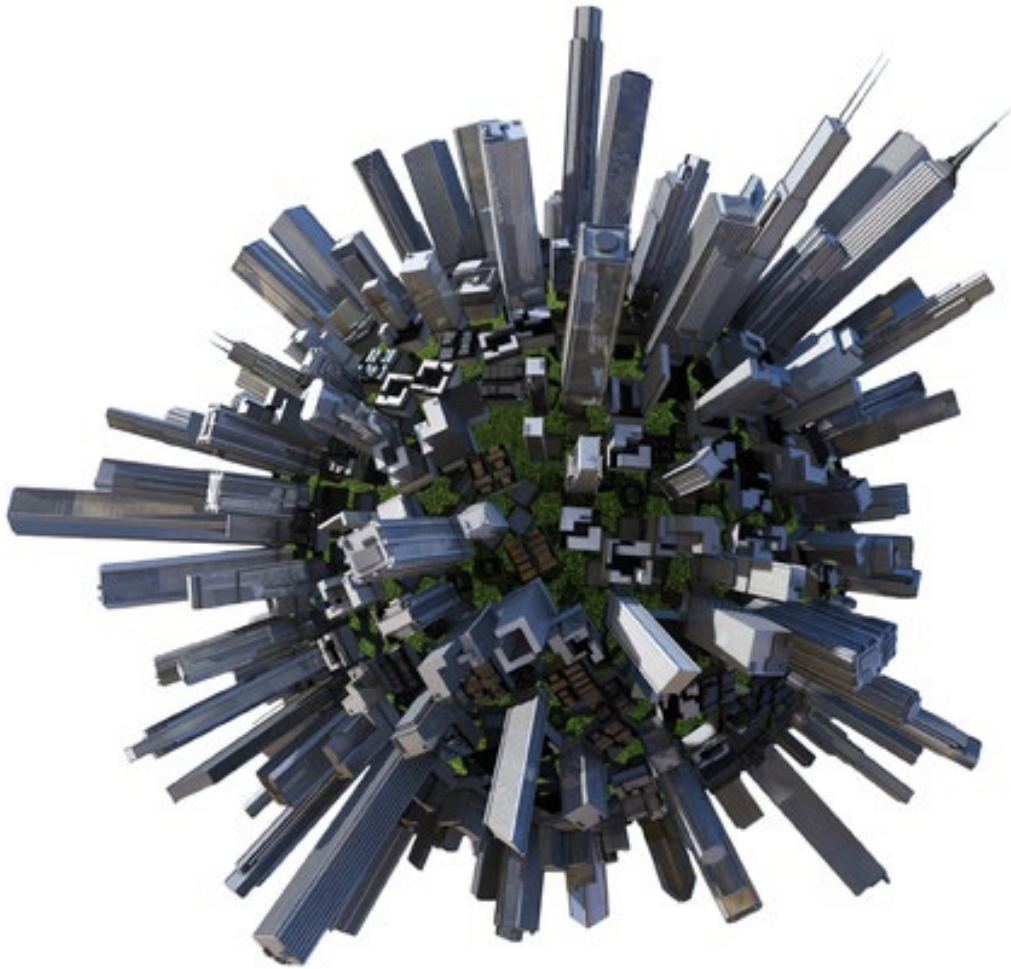
-
- Conducted planning meeting with the fire chief and deputy fire chief;
 - Updated and issued finalized Project Charter and request for information;
 - Conducted meetings and interviews with Fire management to obtain an understanding of operational processes and KPI status;
 - Development Leading practices applicable to fire fleet operations and developed Leading practice KPIs applicable to fire fleet;
 - Inspected support documentation, in conjunction with management interviews to assessment whether the fire fleets operations were aligned with Leading practice;
 - Responding to emails, phone calls and in-person requests, ensuring adequate process documentation (service requests), tracking and monitoring performance, and compliance with applicable policy requirements;
 - Consulted with subject matter expert(s) on the City of London's current processes and compared to Leading practices used by industry leaders;
 - Using the reviewed documentation and interview narratives, assessed the effectiveness of the fire fleet management process and KPIs;
 - 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

Fleet Allocation & Utilization Management Assessment

Audit Performed: November 2021 – January 2022
Report Issued: January 28, 2022

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Executive summary

Background

The City of London (the "City") aspires to assess its Fleet asset assignment and utilization processes, service area practices and the controls in place over operational and financial governance of the City's fleet while also identifying opportunities for improvement and so requested that Internal Audit review the above.

Objectives and scope

As part of the November 2021 to December 2021 Internal Audit plan, Internal Audit conducted a review of policies and procedures over Fleet operations. The purpose of this review was to assess the adequacy of relevant policies and procedures, and provide guidance in consideration of industry leading practices relating to controls surrounding the budgeting and forecasting process, use of telematics, the process for current vehicle assignments, electrification strategy and benchmarking to drive efficiencies.

The detailed Internal Audit scope is at *Appendix 1*.

Areas for continued enhancement

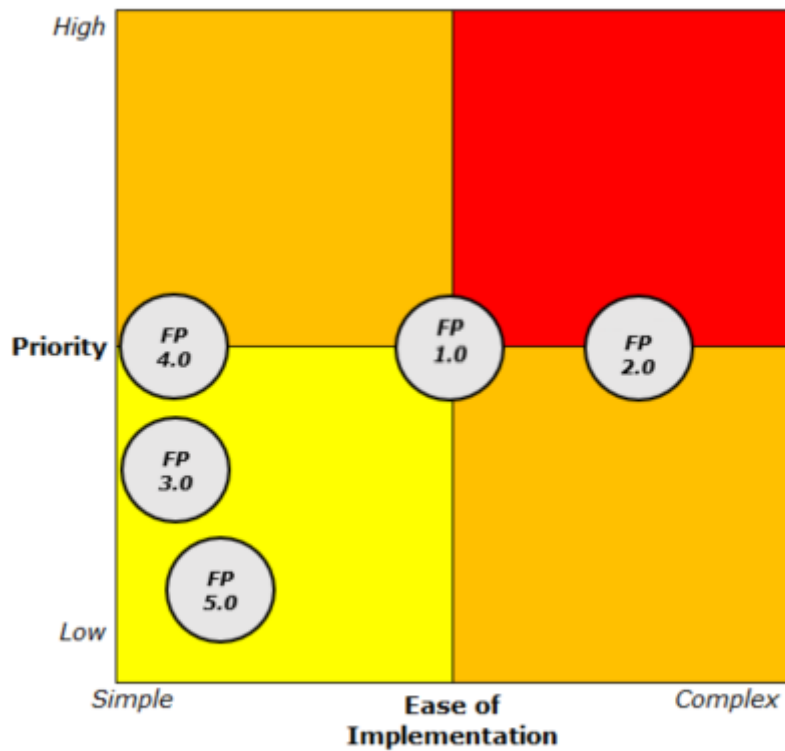
Based on our review of the City's fleet operations and key performance indicators (KPIs), we identified two medium priority observations, three low priority observations and an additional leading practice that The City of London should consider actioning. Please refer to *Appendix 2: Internal Audit rating scale* for definitions of the three-point scale.

	High priority		Medium priority		Low priority		Leading practice
	0		2		3		1

Priority	Observation Id	Observation Summary
Medium priority	FP 1.0	Confirm delegated authority: There is no clear delegated authority in place for fleet vehicle replacement. It should be developed and implemented.
Medium priority	FP 2.0	Improve productivity/reduce costs: Opportunities to improve include: implementing a fully automated work order system, managing maintenance productivity, and assessing the feasibility of an asset pooling program.
Low Priority	FP 3.0	Document polices, processes and plans: While work is performed, there are no documented policies or procedures in place to govern assessments of the total cost of ownership, stock/inventory management and leased vs. owned asset acquisition.
Low priority	FP 4.0	Mandate use of appropriate KPIs: KPIs are not in place over certain aspects of fleet performance and should be introduced and considered during the budgeting process.
Low priority	FP 5.0	Benchmarking: There is no concerted dialogue with comparable municipalities on leading practices for utilization, asset pooling initiatives, and general improvement measures. Dialogue should begin.
Leading practice	FP 6.0	Considerations on Leading practices: Applicable aspects include: improved budgeting/forecasting, use of telematics, electric vehicle (EV) implementation, KPIs on EV adoption, establishing greenhouse gas (GHG) and green targets, and enhanced infrastructure planning.

Priority heat map

The diagram below maps the two medium priority and three low priority opportunities for enhancement based on their priority and estimated ease of implementation. Item FP 6.0 has been excluded from the heat map since it is leading practice.



Conclusion

The identified considerations and observations noted in this report should be addressed in a timely manner to enhance current controls and mitigate associated risks.

Areas for continued enhancement

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

Medium priority	FP 1.0 – Confirm delegated authority
Observation	<p>While the City of London's Capital Replacement Procedures contain a new equipment acquisition checklist that outlines various considerations for new asset purchases and asset replacement there are no formal policies and procedures in place that confirm a clear Fleet delegated authority. Individual Divisions ultimately have the authority to make asset replacement decisions and determine their total fleet complement.</p> <p>When disputes relating to asset replacement or quantity arise, they are escalated to the Division Managers and Directors for final review, which is not clearly documented in policies and procedures.</p>
Implication	<p>Without policies and procedures in place that clearly delegate authority and define an escalation protocol for fleet procurement decisions and provide a balance between the needs of the Divisions and the need to manage asset requirements and costs closely, there is a risk that the assets held may be underused and replaced when there is no real need to replace them.</p> <p>Furthermore, without a clear definition of the decision parameters (e.g. reduced fleet assets, maximum service availability, lowered GHG targets, etc.) the City carries a risk of front line decisions not being aligned with its strategic objectives.</p>
Recommendation	<p>We recommend implementing clear delegated authorities and escalation protocols for fleet replacement decisions and governance. This would help to ensure accountability for the number of assets held and better balance the considerations to be taken when decisions are to be made.</p>
Management Comments	<p>Actions to be taken Develop an administrative policy for delegated authority and escalation protocols that defines a procedure and approval process for Service Area vehicles and replacement decisions, rental/owned balance, and additional vehicles and equipment added to the fleet.</p> <p>Considerations Procedure must adequately preserve the service area’s subject matter expertise as it relates to their vehicle and equipment requirements.</p>

**Responsible Party
and Timing**

Director of Fleet and Facilities and Senior Manager of Fleet in conjunction with Fleet Planning Manager and respective Service Area Managers.

Consultations with Service areas to be completed September 30, 2022. Administrative Policy draft prepared December 2022. Approval targeted for March 31, 2023.

Medium priority	FP 2.0 – Improve productivity/reduce costs
Observation	<p>Automation of Work Orders/General Productivity Preventative maintenance programs are not driven by telematics data since it is only applied to ~ 33% of fleet assets (and the data produced is not analyzed). Work orders are only partially automated, and so there is a manual connection between the initiation of the work order and final completion, therefore resulting in a possible lack of control over the time taken to perform the maintenance. Through our review of manual workorders, we noted that work time is tracked; however, there are no policies or procedures in place that require the tracking and management of labour utilization and productivity.</p> <p>Operator Damage The City’s People Services - Learning and Development Division performs driver training, compliance and accident investigation. While the aggregate operator damage dollar amount is tracked by year, there are no policies or procedures leveraging telematics data to proactively evaluate driver performance/behaviors that lead to collisions and damage.</p> <p>Asset Pool Program The City of London understands the efficiency benefits associated with a corporate vehicle pooling service program; however, it has yet to test and adopt this way of working.</p>
Implication	<p>Automation of Work Orders/General Productivity Without the use of telematics data, maintenance schedules may not be optimized to perform the most effective maintenance/preventative maintenance. Further, the manual component of the work order system does not allow for timed work and performance analysis, therefore mechanic and workshop staff utilization/productivity is hard to establish and improve, which may result in increased costs.</p> <p>Operator Damage While not leveraging telematics capabilities to monitor driver behavior, the city may not identify common causes and trends, which may otherwise have resulted in developing actions to reduce cost and improve driver safety.</p> <p>Asset Pool Program Without an implementation plan, implementation timeline, policies or procedures the City of London is at risk of not being able to benefit from the utilization efficiencies associated with the adoption of a corporate vehicle pool program.</p>
Recommendation	<p>Automation of Work Orders/General Productivity We recommend implementing telematics capabilities on fleet assets prioritized as having a likely payback and reviewing the data to better inform preventative maintenance scheduling (provided that the City is willing to adopt this leading practice). Further, we recommend updating the work order system to be fully automated provided that the budget and implementation resources can be made available. This will allow for mechanic and employee time to be reliably tracked and analyzed efficiently, which can be used to drive productivity.</p>

	<p>Tighter control over the labour should also be considered by evaluating worker performance vs. agreed on time standards.</p> <p>Operator Damage</p> <p>We recommend the City implement telematics and policies and procedures to proactively evaluate driver behaviors and address potential risks. This would allow for a trend/root cause analysis to be performed, which would help management to improve safety and reduce costs.</p> <p>Asset Pool Program</p> <p>We recommend investigating a pilot program for a City vehicle pool program, based out of a central location. Additionally, we recommend documenting clear policies and procedures on intended usage. Calgary's Flex Fleet program is the current leading practice in Canada.</p>
<p>Management Comments</p>	<p>Actions to be taken</p> <ul style="list-style-type: none"> • Develop a submission to the Technology Investment Strategy Committee through the designated process. A Work order automation business case request will be submitted for consideration as part of the next intake of the Technology Investment Strategy as ITS support will be required. Should this project be prioritized to proceed with technology support, it will be submitted as a business case for consideration as part of the next Multi-Year Budget process • Continue to work closely with Driver Safety and Compliance. Establish a task team of key service area reps to meet regularly to discuss driver safety, trends, training, programming and compliance issues. • Develop a full telematic strategy that includes the required human resource support required to analyse data. Make recommendation on telematics strategy to Director of Fleet and Facilities and subsequently bring forward to CWC committee. • Explore a PM maintenance program that utilizes telematics data to support the planned maintenance and service schedules. • Develop and implement a gradual vehicle pool program in certain vehicle classes utilizing learned experiences from other municipalities. <p>Considerations</p> <p>Work Order automation will require ITS project support (QR codes, Barcoding, Part inventory system, Kronos, Cognos and JDE integration) and must be considered as part of the Corporate Technology Investment Strategy.</p>
<p>Responsible Party and Timing</p>	<p>Senior Manager of Fleet in conjunction with Fleet Maintenance Manager, System Technologist, ITS and Driver Safety and Compliance</p> <p>Driver Safety Task Team to be developed and in place by April 2022, Work Order Automation and telematics – Feasibility and Recommendations to Director of Fleet and Facilities December 2022, Action Plan to follow December 2022.</p> <p><i>* It should be noted that with new senior level managers in Fleet and the complexity, support and collaboration required to implement work order automation, this action could require several years for a fully automated (WO, timecards, Parts inventory etc.) process to be developed and implemented assuming the availability of technology resources to support which are contingent upon a corporate prioritization process.</i></p> <p>Telematic Strategy – Meet with stakeholders and Driver Safety and Compliance to be completed by Q4 of 2022. Continued expansion of the telematics program in the interim. Full telematics strategy and policy developed for December 2023.</p>

	Low priority FP 3.0 – Document polices, processes and plans
Observation	<p>The City of London completes total cost of ownership assessments (analysis is used to determine vehicle procurement and replacements), procures replacement parts, and performs a review of the fleet composition (owned vs. lease vs. rental). There are no written policies and procedures in place to govern the work and prescribe how it should be completed.</p> <p>Additionally, overhead costs are excluded from the rental unit vs. owned/leased analysis and procurement costs are excluded from the total effective rental rates, which may lead to rental units appearing less expensive than they actually are. Further, the city does not consider seasonality in the analysis which may restrict the optimal owned vs. short term/seasonal rental options.</p>
Implication	<p>Without documented and consistently implemented policies and procedures in place there is a risk that unnecessary asset costs are being carried as the assets may not be replaced at the right time, inadequate inventory may be held on hand, rental assets appear may less expensive than they actually are and some assets may be owned when short-term rentals may have been a more cost effective approach.</p>
Recommendation	<p>We recommend implementing polices and procedures to govern the total cost of ownership analysis, vehicle replacement parts inventory management and the analysis of fleet composition (owned, leased, rented).</p> <p>We also recommend that the City implement a process for assessing owned, leased and rental units that includes all appropriate costs to determine if different procurement approaches could reduce the total inventory of fleet vehicles and provide them at reduced cost.</p> <p>Good practice is to have an optimized mix of owned light vehicles and short term rental fleet vehicles that can be used during busy times of year. We recommend the city performs analysis to identify its preferred balance/allocation.</p>
Management Comments	<p>Actions to be taken</p> <ul style="list-style-type: none"> • Enhance Parts inventory Management procedures, process mapping and documentation. • Develop and monitor total cost of ownership to be used in replacement decision making processes. • Continued monitoring and delegated authority to Fleet to work with Service Areas to ensure the right balance between internal units and rental/leased units. Full cost accounting for rented/leased units. <p>Considerations</p> <p>Capital replacement programs will continue to be developed and structured using standardized “knowledge/experience based” life cycles however utilize enhanced condition and total cost of ownership data to strengthen replacement decisions.</p>

**Responsible Party
and Timing**

Senior Manager of Fleet in conjunction with Manager of Fleet Maintenance, Fleet Planning and Supply Services.

Process mapping and documentation is anticipated to be initiated by June 30, 2022. Rental versus internal assessment to be completed in 2022 with recommendations for change that can be implemented for the 2023 peak rental season (June 30, 2023)

Low priority	FP 4.0 – Mandate use of appropriate KPIs
Observation	<p>Having reviewed the City's Fleet KPIs and KPI tracking workbook, we observed that the City tracks KPIs relating to cost efficiencies, environmental objectives, quality of delivery and reliability, which are compared with the previous three (3) years for trending purposes.</p> <p>While the City tracks budget related metrics such as, % of unaccounted/indirect/unallocated capital contribution and Annual Average Reserve Fund Contribution Ratio, we confirmed that KPI metrics are not fully considered during the budgeting/forecasting cycle.</p> <p>While the current KPIs in place appear robust, we note that the following most critical KPIs are not in place:</p> <ol style="list-style-type: none"> 1. Breakdown maintenance (hours) 2. Fleet availability (%) 3. Downtime (days) 4. Comeback rate (%) 5. Mechanic on-task (%), Mechanic efficiency (%)
Implication	<p>An incomplete set of KPIs exposes the City to potential unnecessary costs and may lead to a sub-optimal Fleet in terms of size and availability/performance.</p> <p>By not considering KPI performance when completing the budgeting and forecasting process, the city may not be taking the most informed decisions, therefore resulting in an inaccurate budget/forecast.</p>
Recommendation	<p>Fleet should consider implementing the additional KPIs listed above.</p> <p>We recommend implementing policies and procedures for reviewing KPI data as part of the budgeting and forecasting process.</p>
Management Comments	<p>Actions to be taken</p> <ul style="list-style-type: none"> • Review suite of KPI's and ensure measures are aligned with recommended list of key measures. • Adjust work flow processes and systems, as may be required, to more easily roll up and report on key performance indicator data. <p>Considerations</p> <p>Work Order changes to be able to capture data may require some ITS systems support and thus this any system changes will need to be considered in context of prioritization with other corporate projects.</p>
Responsible Party and Timing	<p>Senior Manager of Fleet in conjunction with Fleet Maintenance Manager, Fleet Maintenance Supervisors, System Technologist, Fleet Analyst.</p> <p>KPI recommendations to be studied and incorporated September 2022, implement recommended changes to begin in 2023.</p>

Low priority	FP 5.0 – Benchmarking
Observation	<p>Utilization Benchmarking While the City of London employs various methods to help ensure strong utilization, such as the policy that identifies vehicles used less than 5000 Km per year (low utilization), there are no benchmarking activities performed for comparing utilization and other aspects of the operation with comparable organizations. Further, the City does not use telematic data to drive utilization through benchmarking with comparable municipalities.</p> <p>Car Sharing/Pooling Program Benchmarking The City does not perform benchmarking activities or have policies or procedures on leading practices for car sharing scheduling/pooling programs.</p> <p>Governance and Oversight Benchmarking The City participates in the Municipal Benchmarking Network Canada (MBNC) program in Canada, which gives a reasonable view on how its fleet performs compared with others. What is missing is the next level of analysis that seeks to identify the root causes of superior performance in other municipalities.</p>
Implication	<p>Utilization Benchmarking Without benchmarking utilization with comparable organizations, there is a risk that the practices used by the City of London may not be the most current.</p> <p>Car Sharing/Pooling Program Benchmarking There is a risk that the City may miss an opportunity to drive down the number of assets and so may incur costs unnecessarily.</p> <p>Governance and Oversight Benchmarking There is a risk that City may not learn from and capitalize on good practices being developed in other municipalities.</p>
Recommendation	<p>Utilization Benchmarking We recommend implementing a procedure for benchmarking utilization with comparable organizations. This should include: the treatment of low utilized assets, electric vehicle as a percentage of fleet, policies for corporate ride sharing, "green" driver training programs, and benchmarking telematics results (amongst others as applicable). Further, we recommend trending asset utilization by class, by month and reviewing at least annually to identify potential opportunities to improve utilization. Comparable organizations include:</p> <ul style="list-style-type: none"> - Calgary; - Kitchener/Waterloo; - Saskatoon; and - Regina. <p>Car Sharing/Pooling Program Benchmarking</p>

	<p>We recommend the City of London discuss this approach with the municipalities identified (Calgary and Richmond (BC) have similar programs in place) and consider a pilot scheme to test its applicability for the City.</p> <p>Governance and Oversight Benchmarking</p> <p>The City should continue in the MBNC program and open a dialogue with the Fleet managers of other municipalities on the key findings identified in our report. The dialogue should be used to identify potential changes to be made to the City's approaches, policies and procedures in support of delivering its objectives, plans and strategies.</p>
<p>Management Comments</p>	<p>Person(s) responsible for actions Senior Manager of Fleet through to the Director of Fleet and Facilities</p> <p>Expected timing of actions Review and examination of Car pooling programs by noted municipal anticipated by August 2022. Develop policies and procedures for consideration by Q4 2022. Target implementation strategy to begin in 2023.</p> <p>Actions to be taken</p> <ul style="list-style-type: none"> • Continue to investigate utilization and car pooling alternatives and Leading practices through networking and collaborating. • Expand use of Telematics to assist with understanding usage patterns and opportunities. • Prepare utilization policy and procedures to pilot a car sharing program and scheduling system to accommodate shared vehicle assignments and access to “just in time” and scheduled/planned short term vehicle requirements • Track performance and expand program over the multi-year budget term with reduction targets set each year <p>Considerations Fleet will require both human resources and software to support this objective. Service areas need to be key partners and have conservation and emission reduction targets and perhaps incentives for meeting performance objectives.</p>
<p>Responsible Party and Timing</p>	<p>Senior Manager of Fleet through to the Director of Fleet and Facilities</p> <p>Review and examination of Car pooling programs by noted municipalities anticipated by August 2022. Develop policies and procedures for consideration by Q4 2022. Target implementation strategy to begin in 2023.</p>

Leading practice	FP 6.0 – Leading practices for consideration
Observation	<p>We identified various opportunities to apply Leading practices, including:</p> <p>Budgeting process</p> <ul style="list-style-type: none"> Inject tension into the budgeting process by managing asset utilization targets and driving reductions in asset numbers; <p>Telematics</p> <ul style="list-style-type: none"> Implement full capabilities on telematics to asset classes with acceptable payback; Implement policies and procedures requiring the analysis of telematics data; Implement policies and procedures on the confidentiality, use and storage of telematics data; <p>EVs and GHGs</p> <ul style="list-style-type: none"> Develop a road map for EV additions; Apply a road map for GHG reduction strategy, electrification strategy and implement policies and procedures; Implement KPIs to monitor EV adoption process; Implement policies in plan for EV infrastructure that supports EV adoption targets; <p>Others</p> <ul style="list-style-type: none"> Implement actionable thresholds for asset utilization with clear delegated authority; and Implement policies and procedures considering actual asset use/need in the procurement process.
Implication	<p>Without the above actions, policies and procedures in place, the City of London may not achieve leading practices for Fleet operations, which may result in lower than achievable efficiency, increased long-term costs, and potentially not achieving city wide strategic objectives.</p>
Recommendation	<p>We recommend implementing all items outlined in the listing above.</p>
Management Comments	<p>Actions to be taken</p> <ul style="list-style-type: none"> Review options to apply tension to the service area fleet multi year budget process. (Targeted vehicle reductions over the MYB) Continued development of EV and low emission vehicle strategy in line with Climate Emergency Action Plan commitments Expansion of telematics system to support change and alternatives to vehicle assignments based on actual utilization and usage pattern data. Work closely with the Climate Change and Facilities Divisions to establish long term plans and requirements for infrastructure and operational plan amendments to accommodate change. <p>Considerations</p> <p>Service level changes and demand for services continue to increase the number of vehicles and equipment required.</p>

Senior Manager of Fleet, Director of Fleet and Facilities, Finance Supports Team

**Responsible Party
and Timing**

In line with the next Multi-Year Budget (MYB) process, consider the implementation of changes as part of the budgetary preparation for service areas. Begin work September 2022.

Appendix 1 – Internal Audit detailed scope

Specifically, the Internal Audit addressed the following areas:


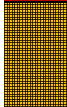


Review of City of London’s fleet management processes:

- Review and evaluate, in outline, the effectiveness of the process controls of the budgeting and forecasting process, including for fleet asset acquisitions and asset maintenance;
 - Review and assess the effectiveness of the controls related to City’s software (Telematics) to assess how effectively Fleet and customers’ data are managed and used to drive asset utilization, operating effectiveness and efficiency and the need to replace assets;
 - Assess the effectiveness of current vehicle assignments, processes and procedures. Identify opportunities for alternative models for assignments to reduce fleet asset inventory; and
 - Understand the fleet electrification strategy and identify potential efficiency improvements and cost savings.
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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 either improve 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 City of London management and staff were interviewed to gain an understanding of the Fleet processes and practices.

Stakeholder	Position	Division
Mike Bushby	Division Manager	City of London – Fleet and Operational Services
Khalid Satti	Asset Management Systems Coordinator	City of London – Fleet and Operational Services
Tim Wellhauser	Director	City of London – Fleet and Facilities
Barrie Galloway	Manager of Fleet Services (Maintenance)	City of London – Fleet and Operational Services
Dave Fawcett	Manager of Fleet Planning	City of London – Fleet and Operational Services

Appendix 4 - Audit procedures performed

As part of the review of City of London's fleet management processes, the following procedures were performed:

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- Conducted planning meeting with the City of London Fleet and Operations team;
 - Updated and issued finalized Project Charter and request for information;
 - Conducted meetings and interviews with Fleet management to obtain an understanding of operational processes, policies and procedures;
 - Development Leading practices applicable to Fleet operations for the agreed upon in scope criteria;
 - Inspected support documentation, in conjunction with management interviews to assessment whether the Fleets operations were aligned with Leading practice;
 - Responding to emails, phone calls and in-person requests, ensuring adequate process documentation (service requests), tracking and monitoring performance, and compliance with applicable policy requirements;
 - Consulted with subject matter expert(s) on the City of London's current processes and compared to Leading practices used by industry leaders;
 - Using the reviewed documentation and interview narratives, assessed the effectiveness of the Fleet management process;
 - 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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