The Corporation of the City of London

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Prepared June 2, 2023 for presentation on June 14, 2023.

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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

Bailey Church
PSAS and ARO Resource Partner
613-212-3698
bchurch@kpmg.ca

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

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2022. This report builds on the Audit Plan we presented to the Audit Committee. This report is intended solely for the information and use of Management, the Audit Committee, and the City 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 has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit highlights

Status of the audit

We have completed the majority of the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on slide 6 of this report.

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report

Audit risks and results – significant risks

Significant findings related to significant risks are discussed on slide 7.

Audit risks and results – other findings

Other findings are discussed on slides 8 – 15.

Audit risks and results – going concern assessment

No matters to report.

Uncorrected audit misstatements

Professional standards require that we request of management and the Audit Committee that all identified audit misstatements be corrected. We have already made this request of management.

See slides 16 – 17 and Appendix B for the management representation letter.

Corrected audit misstatements

The management representation letter includes all misstatements identified as a result of the audit, communicated to management, and subsequently corrected in the audited financial statements.

See Appendix B for the management representation letter.

Significant unusual transactions

No matters to report.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. See slide 18 for certain required communications regarding control deficiencies.

Accounting policies and practices

No matters to report.

Other financial reporting matters

No matters to report.

Independence and quality control

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

See Appendix C for the independence letter.

Technology highlights

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

KPMG Clara Workflow

The KPMG Clara Workflow was utilized as a hub in which all aspects of our audit work was completed.

KPMG Clara for Clients

KPMG Clara for Clients was utilized as a collaboration and share-site tool between KPMG and the City.

Status of the audit

As of June 2, 2023, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Receipt of supporting documentation and/or performance of audit procedures over the following:
  - Accounts payable and accrued liabilities
  - Expenses, including payroll
  - Deferred revenue
  - Landfill liability
  - Legal accruals
  - Journal entry testing
- Response and review of legal letters from external law firms;
- Obtaining internal and external legal letter updates to the date of financial statement approval;
- Completion of audit procedures over Management's consolidation workbook;
- Review and tie-out of the consolidated financial statements, including note disclosures;
- Review of the financial report;
- Final manager and partner review;
- Completion of final quality control review;
- Completing our discussions with the Audit Committee;
- Completing subsequent events procedures, up to the date of approval of the financial statements;
- Receipt of the signed management representation letter (dated upon City Council approval of the financial statements); and
- Obtaining evidence of City Council's approval of the consolidated financial statements.

We will update the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditor's report, a draft of which is provided in Appendix: Draft Auditor's Report, will be dated upon the completion of <u>any</u> remaining procedures.

KPMG Clara for Clients (KCfc)

Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with your team and provide visual insights into the status of the audit!

Significant risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Risk of material misstatement due to fraud resulting from management override of controls

Significant risk	Estimate?
The risk of material misstatement due to fraud resulting from management override of controls is a presumed risk for all entities under Canadian Auditing Standards ("CAS"). We have not identified any specific areas which highlight this risk over the course of our audit.	No

Our response

- The risk resides with management's ability 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.
- As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. KPMG performed procedures as noted in our audit planning report, including testing of journal entries and other adjustments, performed a retrospective review of estimates and evaluated the business rationale of significant unusual transactions.

Significant findings

Testing over journal entries is outstanding. No issues have been identified as a result of procedures performed to date. We will update Management on significant matters, if any, arising from the completion of the journal entry testing.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Payroll and Employee Future Benefits

Area of audit focus and rationale	Estimate?
The Corporation provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2022, the Corporation had a liability for employee future benefits of $206.5 million (2021 - $196.0 million).	Yes, there is estimation uncertainty due to assumptions and estimates used by the actuary in calculating the liability for the City's post-retirement non-pension benefits and WSIB.

Our response

- The balance of employee future benefits is comprised of the following:
  - Post-employment and post-retirement benefits of $110.7 million (2021 - $ 107.4 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
  - WSIB accrual of $70.0 million (2021 - $ 68.4 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
  - Vacation liability of $24.9 million (2021 - $ 19.0 million) – relates to vacation credits earned but not taken by employees as at December 31; and
  - Unused sick leave liability of $0.9 million (2021 - $ 1.2 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination or retirement.
- The calculation of employee benefits payable requires Management to make certain estimates, including estimates of discount rate, salary escalation, retirement age, expected health care and dental costs, and estimated claim costs. The liability for the post-employment and post-retirement benefits is determined through an actuarial valuation which was prepared by Mercer as of December 31, 2021. We performed attribute testing over the underlying data used by Mercer to prepare the valuation in the prior year.
- The liability for workplace safety and insurance costs is determined through an actuarial valuation which was prepared by Mercer as of December 31, 2020 and extrapolated for the current year. Vacation and unused sick leave liabilities are accrued in the consolidated financial statements when they are earned by employees.
- KPMG performed the procedures as indicated in our audit planning report.

Our findings

No significant findings were noted during our testing performed up to the date of this report.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Landfill Closure and Post-closure Liability

Area of audit focus and rationale	Estimate?
This represents a significant account balance for the Corporation and certain accrued liabilities require judgment and estimation by management.	Yes, there is estimation uncertainty due to assumptions and estimates used by Management in calculating the liability.

Our response

- The Corporation is required to accrue anticipated closure and post-closure costs for existing and closed landfill sites in accordance with the Ontario Environmental Protections Act and PS 3270. Starting in fiscal 2023, this standard will be replaced by PS3280 Asset Retirement Obligations.
- The liability is the estimated cost, based on a volumetric basis, of the expenditures relating to those activities required when the site stops accepting waste.
- Determination of this liability is dependent upon significant Management estimates including expected and remaining capacity of the landfill, expected closing costs and estimated time needed for post-closure care.
- The estimated liability for the landfill sites is calculated as the present value of anticipated future cash flows associated with closure and post-closure costs, multiplied by the percentage of the used capacity of the sites.
- At December 31, 2022, the landfill accrual amounted to $54.2 million (2021 - $ 51.7 million), $44.6 million of which related to the future closure of the active landfill and $9.6 million relating to monitoring of closed landfills.
- We obtained an understanding of the calculation through discussions with the Corporation’s Division Manager, Waste Management. We reviewed the analysis prepared by Management and obtained corroborative evidence to support Management’s assumptions. The assumptions used by Management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with the assumptions and estimates made in other sections of the consolidated financial statements

Our findings

Testing over the landfill liability is outstanding. No issues have been identified as a result of procedures performed to date. We will update Management on significant matters, if any, arising from the completion of the procedures. We believe Management’s process for identifying significant accounting estimates is considered adequate.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Accounts Payable and Accrued Liabilities

Area of audit focus and rationale	Estimate?
This represents a significant account balance for the Corporation and includes contingent liabilities. PSAS 3300 *Contingent Liabilities* requires that the City recognize a liability when "it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated." At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, etc.	Estimation uncertainty exists related to the likelihood and/or measurement of the liabilities. However, this estimation uncertainty does not result in a risk of material misstatement.

Our response

- Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the consolidated financial statements.
- With respect to accrued legal liabilities, we have:
  - Discussed with Management the nature and rationale for the accrual;
  - Reviewed Management's assessment of the likelihood of incurring the liability for each claim, range of possible outcomes, and the amount in the range that has been accrued in the consolidated financial statements;
  - Compared the current period accruals to the amounts accrued at the prior year end for significant fluctuations;
  - Reviewed the Corporation's in-house legal letter for any potentially unrecorded accruals at year end;
  - Reviewed legal letters obtained from external legal counsel to ensure all claims have been accrued at year end and that likelihood of outcome for each claim as reported by external counsel is consistent with Management's assessment; and
  - Where possible, reviewed subsequent payments to determine whether the liability at year end is reasonably stated.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Accounts Payable and Accrued Liabilities (continued)

Our response continued

- Management has represented that these balances are fairly presented for financial reporting purposes.

Our findings

No significant findings were noted during our testing performed up to the date of this report. As at the date of this report, certain procedures over legal accruals are ongoing.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Tangible Capital Assets

Area of audit focus and rationale	Estimate?
The Corporation has a large balance of tangible capital assets and is continually spending on capital projects. There is judgement involved in determining the useful lives of capital assets and when the amortization period should begin.	Estimation uncertainty exists related to the useful lives of the assets.

Our response

- KPMG performed the procedures as indicated in our audit planning report.

Our findings

There have been no changes to the amortization rates used in the prior year. This is reasonable given the nature of assets and their useful lives. No significant findings were noted through our testing performed.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Taxation, user charges and transfer payments revenue

Area of audit focus and rationale	Estimate?
For the year ended December 31, 2022, these revenue streams amounted to more than $1.4 billion for the Corporation (2021 - $1.3 billion). Net municipal taxation accounted for $728.8 million (2021 - $696.6 million), user charges represented $318.7 million (2021 - $283.3 million) and transfer payments were a total of $351.2 million (2021 - $322.6 million).	No

Our response

KPMG performed the procedures as indicated in our audit planning report.

Our findings

No significant findings were noted during our testing performed.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Gross long-term liabilities and debt recoverable from local municipalities

Area of audit focus and rationale	Estimate?
Individual debt issuances at the Corporation have historically been for significant amounts. The total debt balance for the year ended December 31 was $218.4 million (2021 - $245.0 million), in which $21.0 million was obtained during the fiscal year at a rate of 3.563%.	No

Our response

KPMG performed the procedures as indicated in our audit planning report. We did not select a sample of long-term liability additions for testing as we did not consider there to be a risk over the account. Testing was focused on long-term debt and its repayments.

Our findings

No significant findings were noted during our testing.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Key Control Processes

Area of audit focus and rationale	Estimate?
As communicated in our audit plan, Canadian Auditing Standard 315, *Identifying and Assessing the Risks of Material Misstatement,* became effective for this audit period. This standard has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. As a result, our risk assessment and documentation of understanding of the Corporation's processes has become more detailed than in previous years, particularly in terms of required documentation. The impact of this standard is largely related to us as your auditors and has not resulted in a substantial change to our audit plan compared to prior periods as our previous risk assessment process was already robust and comprehensive.	No

Our response

In order to satisfy the requirements of this new standard, we have revised our process documentation and walkthroughs of all core business processes, supported by inquiry of relevant Corporation team members related to each process and observation where applicable. This was particularly relevant for information technology, and various financial reporting related processes.

Examples of the additional risk assessment we have documented in our audit file include inquiries with management specific to their own internal fraud risk assessment processes and documentation of the communication between management and those charged with governance.

We have also documented our risk of material misstatement on an assertion level basis, also taking into account various fraud risk factors.

Uncorrected audit misstatements

Uncorrected audit misstatements include financial presentation and disclosure omissions.

Impact of uncorrected audit misstatements – Not material to the financial statements

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Below is a summary of the impact of the uncorrected misstatement:

Annual surplus	(in $'000s)
As currently presented	$367,900
Uncorrected misstatements	$4,744
As a % of the balance	1.3%

Total assets	(in $'000s)
As currently presented	$6,701,157
Uncorrected misstatements	$1,017
As a % of the balance	0%

Individually significant uncorrected audit misstatements

Uncorrected audit misstatements greater than $1,000,000 individually:

Presented in thousands (000's)	Income effect	Financial position		
Description of individually significant misstatements	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
Overstatement of expenses as a result of vacation liability adjustment for protection services made in 2022 relating to prior periods	4,744	-	-	-
Overstatement of childcare revenue in relation to the Canada-Wide Early Learning Childcare program	822 (822)	1,017	1,017	-
Total misstatements **(see Management Representation Letter)**	**4,744**	**1,017**	**1,017**	**-**

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Corporation’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

There were no new significant accounting policies and practices selected and applied during the period.

Description of new or revised significant accounting policies and practices

No matters to report.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content

No matters to report.

Concerns regarding application of new accounting pronouncements

Asset Retirement obligations (ARO)

- The new standard *PS 3280 Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022. This 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. The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
- The Corporation has an internal audit set to occur in the spring of 2023 to ensure that all necessary steps required for successful implementation have occurred to date. The review process at this stage of the project will ensure that there is enough time to make any necessary adjustments to the work completed as well as the plan for the work yet to be finished.

Financial Instruments and Foreign Currency Translation

- The new standards *PS 3450 Financial instruments, PS 2601 Foreign currency translation, PS 1201 Financial statement presentation and PS 3041 Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022. Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments can be carried at cost or fair value depending on the entity's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable.
- The Corporation has a working group which meets each month and reports to the Steering Committee monthly. Due to the varying operational deadlines within the working group, some areas of focus are farther ahead and other areas will be the focus after year-end. For example, as the budget team will be busy this summer with the multi-year budget development, they have done their assessment of investments and starting in late January 2023, where certain investments were deemed to be recorded at FMV, those entries are being completed monthly.

Significant qualitative aspects of financial statement presentation and disclosure

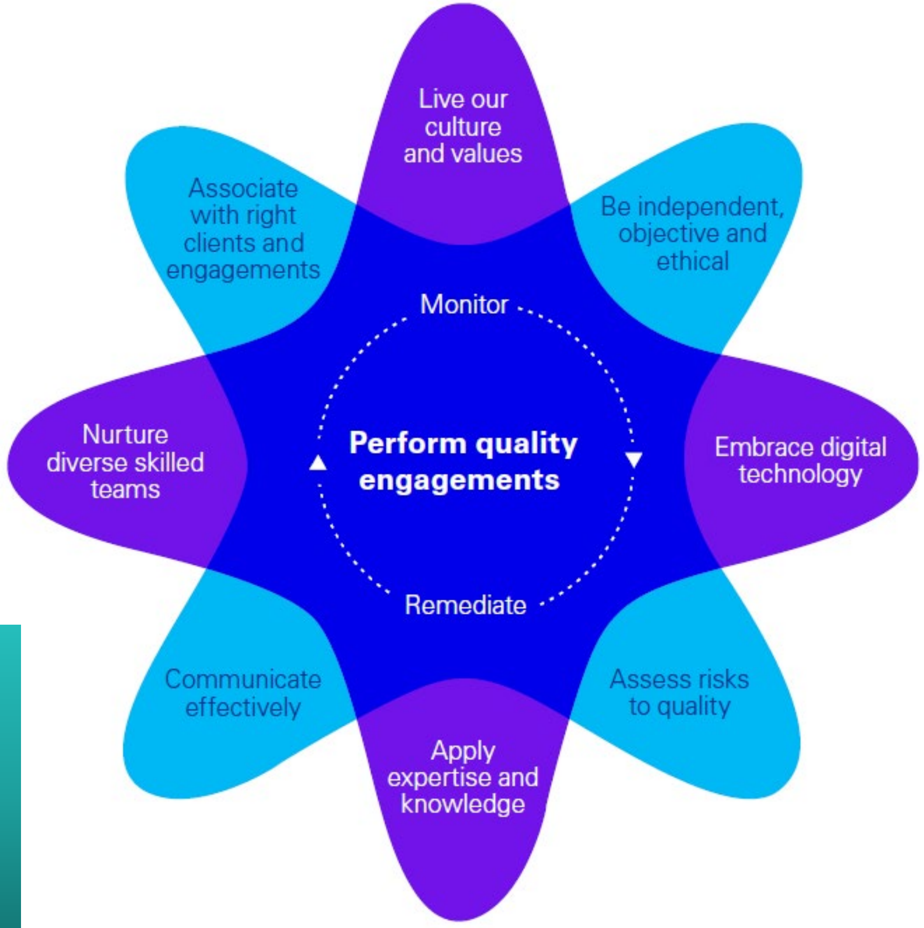
No matters to report.

Audit quality: How do we deliver audit quality?

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

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

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



[KPMG 2022 Audit Quality and Transparency Report]

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

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

Audit quality: Indicators (AQIs)

The objective of these measures is to provide the Audit Committee and management with more in-depth information about factors that influence audit quality within an audit process. Below you will find the current status of the AQIs that we have agreed with management are relevant for the audit.

Team composition

Experience of the team

- Katie DenBok, Lead Audit Engagement Partner – over 17 years of public auditing, accounting and reporting experience and has been involved with the audit of public sector entities, not-for-profit organizations, and a number of local private companies. Katie has been on the City of London engagement for over 12 years.
- Melissa Redden, Audit Senior Manager – over 12 years of experience in public accounting servicing a broad range of clientele, including public sector entities, not-for-profit organizations, and private enterprises. Melissa has been on the City of London engagement for over 10 years.

Timing of prepared by client (PBC) items

Timeliness of PBC items

- 174 items were requested on our client assistance listing in total – additional sample items were requested as necessary throughout the course of the audit:
- Majority of items were received in a timely manner. Certain items were received later in the audit; however, this was expected based on communications with management throughout the course of the audit.

Engagement hours

Hours spent by level and phase of the audit

- Partner: 7%
- Senior Manager: 15%
- Staff and Seniors: 79%
- *Based on time incurred up to end of day May 24, 2023. Expected that the proportion of partner and senior manager time would increase up to the completion of the audit as final review and reporting occurs.

Nothing to report   Some matters to report   Specific matters to report

Appendices

A Draft auditor's report

B Management representation letter

C Independence letter

D Journal Entry Insights

E Newly effective and upcoming changes to accounting standards

F Insights to enhance your business

G Technology

H Environmental, social and governance (ESG)

Appendix A: Draft auditor's report

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

June 27, 2023

Appendix B: Management representation letter

(Letterhead of Client)

KPMG LLP
1400-140 Fullarton Street
London, Ontario
N6A 5P2

June 27, 2023

To whom it may concern:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of The Corporation of the City of London (“the Entity”) as at and for the period ended December 31, 2022.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 1, 2023, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements or illegal acts, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

11) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

12) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Non-SEC registrants or non-reporting issuers:

13) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

14) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Commitments & Contingencies:

15) There are no:

    i) Other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

    ii) Other environmental matters that may have an impact on the financial statements

Accounting Policies:

16) The accounting policies selected and applied are appropriate in the circumstances.

17) There have been no changes in, or newly adopted, accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

Environmental Matters:

18) The Entity has appropriately recognized, measured and disclosed environmental matters in the financial statements.

Estimates / Measurement Uncertainty:

19) We are responsible for making any fair value measurements and disclosures included in the financial statements.

20) For recorded or disclosed amounts that incorporate fair value measurements:

    a) the measurement methods are appropriate and consistently applied.

    b) the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable, are adequately supported and have been consistently applied.

    c) the resulting valuations are reasonable.

    d) presentation and disclosure is complete and appropriate and in accordance with the relevant financial reporting framework.

Assets & Liabilities – General:

21) We have no knowledge of material unrecorded assets or liabilities or contingent assets or liabilities (such as claims related to patent infringements, unfulfilled contracts, etc., whose values depend on fulfillment of conditions regarded as uncertain or receivables sold or discounted, endorsements or guarantees, additional taxes for prior years, repurchase agreements, sales subject to renegotiation or price re-determination, etc.) that have not been disclosed to you.

22) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).

23) We have no knowledge of arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements and not disclosed to you.

24) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.

25) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

Comparative Figures/Financial statements:

26) We have no knowledge of any significant matters that may have arisen that would require a restatement of the comparative figures/financial statements.

Receivables:

27) Receivables reported in the financial statements represent valid claims against customers and other debtors for sales or other charges arising on or before the balance sheet date, and do not include amounts relating to goods shipped on consignment or approval. Receivables have been appropriately reduced to their net realizable value.

Long-Lived Assets:

28) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.

29) We have reviewed long-lived assets, including amortizable intangible assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

Provisions:

30) Provision, when material, has been made for:

   a) losses to be sustained in the fulfillment of, or inability to fulfill, any sales commitments.

   b) losses to be sustained as a result of purchase commitments for inventory or other assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.

   c) losses to be sustained as a result of the reduction of excess, damaged, unusable or obsolete inventories to their estimated net realizable value.

   d) losses to be sustained as a result of other-than-temporary declines in the fair value of investments.

   e) losses to be sustained from impairment of property, plant and equipment, including amortizable intangible assets.

   f) losses to be sustained from impairment of goodwill and/or non-amortizable assets.

Revenues:

31) All sales transactions entered into by the Entity are final and there are no side agreements (contractual or otherwise) with customers, or other terms in effect, which allow for the return of merchandise, except for defectiveness or other conditions covered by the usual and customary warranties.

Financial Instruments, Off-Balance-Sheet Activities, Hedging and Guarantees:

32) Guarantees, whether written or oral, under which the Entity is contingently liable, including guarantee contracts and indemnification agreements, have been recorded in accordance with the relevant financial reporting framework**.**

33) Off-balance sheet activities, including accounting policies related to non-consolidation of certain entities and revenue recognition, have been recorded and disclosed in the financial statements. Specifically, for those off-balance sheet activities in which the Entity is a transferor of financial assets, the off-balance sheet vehicle is either a qualifying special purpose entity as defined in the relevant financial reporting framework, or the Entity is not the primary beneficiary pursuant to the relevant financial reporting framework. For those off-balance sheet activities in which the Entity is a sponsor, administrator or lessee, the off-balance sheet vehicle is not controlled by the Entity for accounting purposes because the Entity is not the primary beneficiary pursuant to the relevant financial reporting framework.

34) The following information about financial instruments has been properly disclosed in the financial statements:

   a) extent, nature, and terms of financial instruments, both recognized and unrecognized;

   b) the amount of credit risk of financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments; and

   c) significant concentrations of credit risk arising from all financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments.

Employee Future Benefits:

35) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

36) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.

37) All arrangements (contractual or otherwise) by which programs have been established to provide employee benefits have been disclosed to you and included in the determination of pension costs and obligations.

38) The set of actuarial assumptions for each plan is individually consistent.

39) The discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date on high-quality

debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.

40) The assumptions included in the actuarial valuation are those that management instructed Mercer to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with the relevant financial reporting framework.

41) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.

42) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

43) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

44) The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

45) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

Management's Use of Specialists:

46) We agree with the findings of Michael Losee Division Manager, Solid Waste Management as management's expert in preparing the estimate for the landfill closure and post-closure liability. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

47) We agree with the findings of C.D. Watters Engineering Ltd. as management's expert in preparing the estimate for standard unit rates for assumed assets. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

48) We agree with the findings of Barry Card, City Solicitor; Geoff Belch, Corporation Counsel; and Jason Wills, Risk Manager, as management's expert in preparing the estimate for the legal liability. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Approval of financial statements:

49) Ian Collins has the recognized authority to take, and has taken, responsibility for the financial statements.

Yours very truly,

____

Mr. Ian Collins, Director, Financial Services

____

Ms. Anna Lisa Barbon, Deputy City Manager, Finance Supports

I have recognized authority to take and assert that I have taken responsibility for the financial statements.

cc: Audit Committee

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

c) dissimilar items, transactions or other events are inappropriately aggregated;

d) similar items, transactions or other events are inappropriately disaggregated; and

e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.]

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Attachment II – Summary of Audit Misstatements Schedule(s)

Uncorrected misstatements F2022:

	Annual surplus effect	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Overstatement of expenses as a result of vacation liability adjustment for protection services made in 2022 relating to prior periods.	4,743,567	-	-	-
Overstatement of childcare revenue in relation to the Canada-Wide Early Learning Childcare program.	821,841 (821,841)	1,016,644	1,016,644	
Total uncorrected misstatements	**4,743,567**	**1,016,644**	**1,016,644**	**-**

Corrected misstatements F2022:

	Annual surplus effect	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Reclassification of payables from deferred revenue to accounts payable and accrued liabilities.	-	-	1,590,402 (1,590,402)	-
Total corrected misstatements	**-**	**-**	**-**	**-**

Uncorrected misstatements F2021 (Revised):

	Annual surplus effect	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Overstatement of revenue as a result of childcare adjustment made in 2021 relating to 2020 funding.	(2,183,165)	-	-	-
Understatement of protection service expenses as a result of prepaid benefits adjustment made in 2021 relating to prior periods.	(2,834,395)	-	-	-
Understatement of vacation liabilities at year-end relating to the Fire and Police agencies, including prior period impacts.	(521,349)	-	4,743,567	(521,349) (4,222,238)
Total uncorrected misstatements	**(9,410,124)**	**-**	**4,743,567**	**(4,743,567)**

Appendix C: Independence letter

KPMG LLP
140 Fullarton Street, Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4880
Fax 519 672-5684

Audit Committee
The Corporation of the City of London
300 Dufferin Avenue
London, Ontario N6A 4L9

June 2, 2023

Professional standards specify that we communicate to you in writing all relationships between the Entity and our firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- provision of services in addition to the audit engagement
- other relationships such as:
  1. holding a financial interest, either directly or indirectly, in a client
  2. holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  3. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  4. economic dependence on a client

PROVISION OF SERVICES

The following summarizes professional services performed for the Entity (and its related entities) relating to 2022:

Description of Professional Services
Audit and audit related • Audit of the consolidated financial statements of the Entity for the year ended December 31, 2022 • Audit of all individual Boards and Commissions and Trust Funds financial statements for the year ended December 31, 2022, including: Argyle Business Improvement Association Board of Management; Covent Garden Market Corporation; Eldon House Corporation; Elgin Area Primary Water Supply System; Hamilton Road Business Improvement Area Board of Management; Housing Development Corporation, London; Hyde Park Business Improvement Association Board of Management; Lake Huron Area Primary Water Supply System; London & Middlesex Community Housing Inc.; The London Convention Centre Corporation; London Downtown Business Association; London Hydro Inc.; The London Public Library Board; London Transit Commission; Middlesex-London Health Unit; Museum London; and Old East Village Business Improvement Area Board of Management • Audit of the statement of capital costs of Housing Development Corporation, London • Audit of the London Public Library Trust Funds • Audit of the London Transit Commission Employees' Pension Plan • Audit of the London Transit Commission – MTO Driver Certification Program • Audit of the schedule of revenues and expenditures of the Middlesex-London Health Unit • Audit of the annual reconciliation report for the Middlesex-London Health Unit • Audit of the Middlesex-London Health Unit March 31st Programs • Audit of the Dearness Program Report and Dearness Long-Term Care Report • Review of Childcare Program Envelopes • Review of the statement of operations of Ontario Works program administered by the Entity • Audit of the schedule of monthly expenses and subsidy claims of the Homelessness Partnering Strategy • Audit of the statement of revenue and expenditures of the Integrated Employment Services program

Description of Professional Services
• Agreed upon procedures over the City of London Closed Circuit Television System for the year ended December 31, 2022
Tax • Preparation of corporate tax return for London & Middlesex Community Housing Inc. • Preparation of corporate tax return for Eldon House • Preparation of corporate tax return for Housing Development Corporation, London • Preparation of corporate tax return for Argyle Business Improvement Association Board of Management • Preparation of corporate tax return for Hyde Park Business Improvement Association Board of Management • Preparation of corporate tax return for Hamilton Road Business Improvement Area Board of Management • Preparation of corporate tax return for London Hydro • Provision of tax advisory services to Museum London

We have not provided any prohibited services. However, professional standards require that we communicate actions that have been taken to address identified threats. This includes the actions taken to eliminate the circumstances that created such threats or applying safeguards to reduce such threats to an acceptable level. We have taken the following actions to eliminate threats, or applied the following safeguards to reduce threats, created by the services listed above:

– We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.

– We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.

– We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Appendix D: Journal Entry Insights

We have included a summary of journal entries at various thresholds for the Unconsolidated City level.

Thresholds for Individual Journal Entries	Total Number of Journal Entries	Percentage of Total Number of Journal Entries	Total Value of Journal Entries (in 000's)	Percentage of Total Value of Journal Entries
Less than $100	5,895	14.4%	236	0.0%
$100 - $500	8,308	20.3%	2,123	0.0%
$500 - $10,000	13,695	33.5%	39,569	0.2%
$10,000 - $100,000	7,944	19.5%	288,569	1.4%
Subtotal - Journal entries less than $100,000	***35,842***	***87.8%***	***330,496***	***1.6%***
$100,000 - $1,000,000	3,130	7.7%	1,027,148	5.0%
$1,000,000 - $10,000,000	1,498	3.7%	5,238,184	25.5%
$10,000,000 +	368	0.9%	13,968,328	67.9%
Subtotal - Journal entries greater than $100,000	***4,996***	***12.2%***	***20,233,660***	***98.4%***
Total	***40,838***	***100.0%***	***20,564,156***	***100.0%***

Appendix E: Newly effective and upcoming changes to accounting standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* 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. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
	• The asset retirement obligations ("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 if the asset is in productive use.
	• As a result of the new standard, the public sector entity will:
	  • 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 ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.
	• We have varying levels of support to assist the City, led by Bailey Church who leads our ARO standard implementation services.

Appendix E: Newly effective and upcoming changes to accounting standards

Standard	Summary and implications
Financial instruments and foreign currency translation	• The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022. • Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, 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. • PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Appendix E: Newly effective and upcoming changes to accounting standards

Standard	Summary and implications
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.

Appendix E: Newly effective and upcoming changes to accounting standards

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix E: Newly effective and upcoming changes to accounting standards

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix F: Audit and assurance insights

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

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition

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

Accelerate 2023

The key issues driving the audit committee agenda in 2023.

Momentum

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

KPMG Climate Change Financial Reporting Resource Centre

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

Government and Public Sector

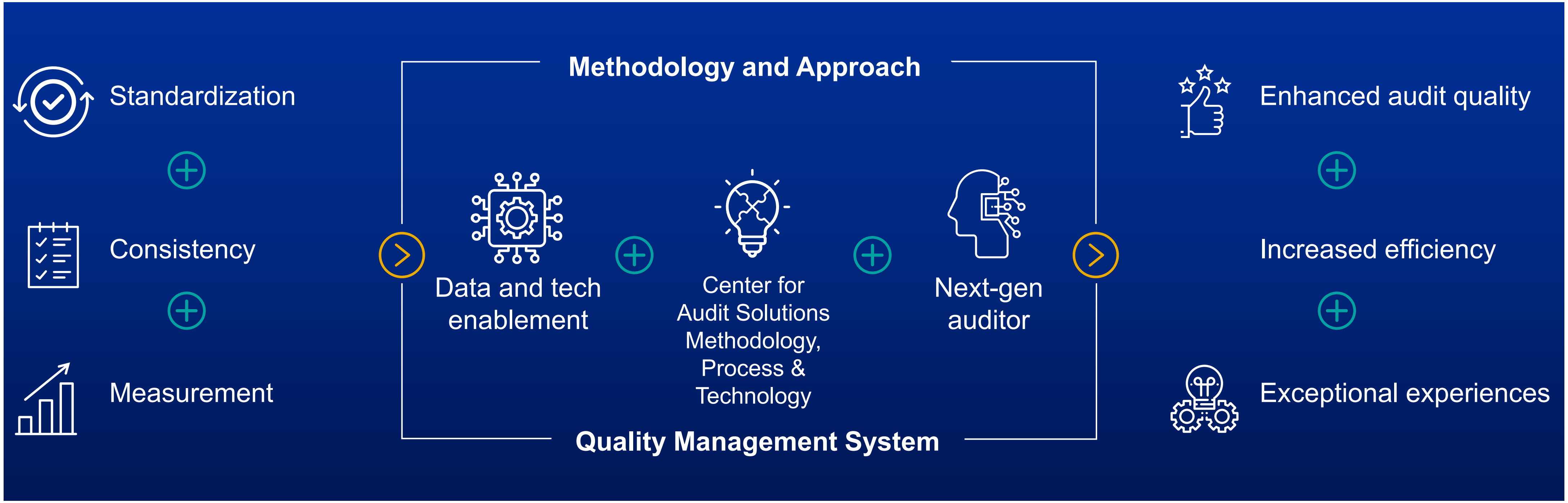
Resources related to the government and public sector industries.

Appendix G: Technology - Continuous improvement powered by transformation

Our investment: $5B
We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model
Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience
Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.



Appendix G: Technology - KPMG Clara - Bringing the audit to one place

Streamlined client experience

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

Secure

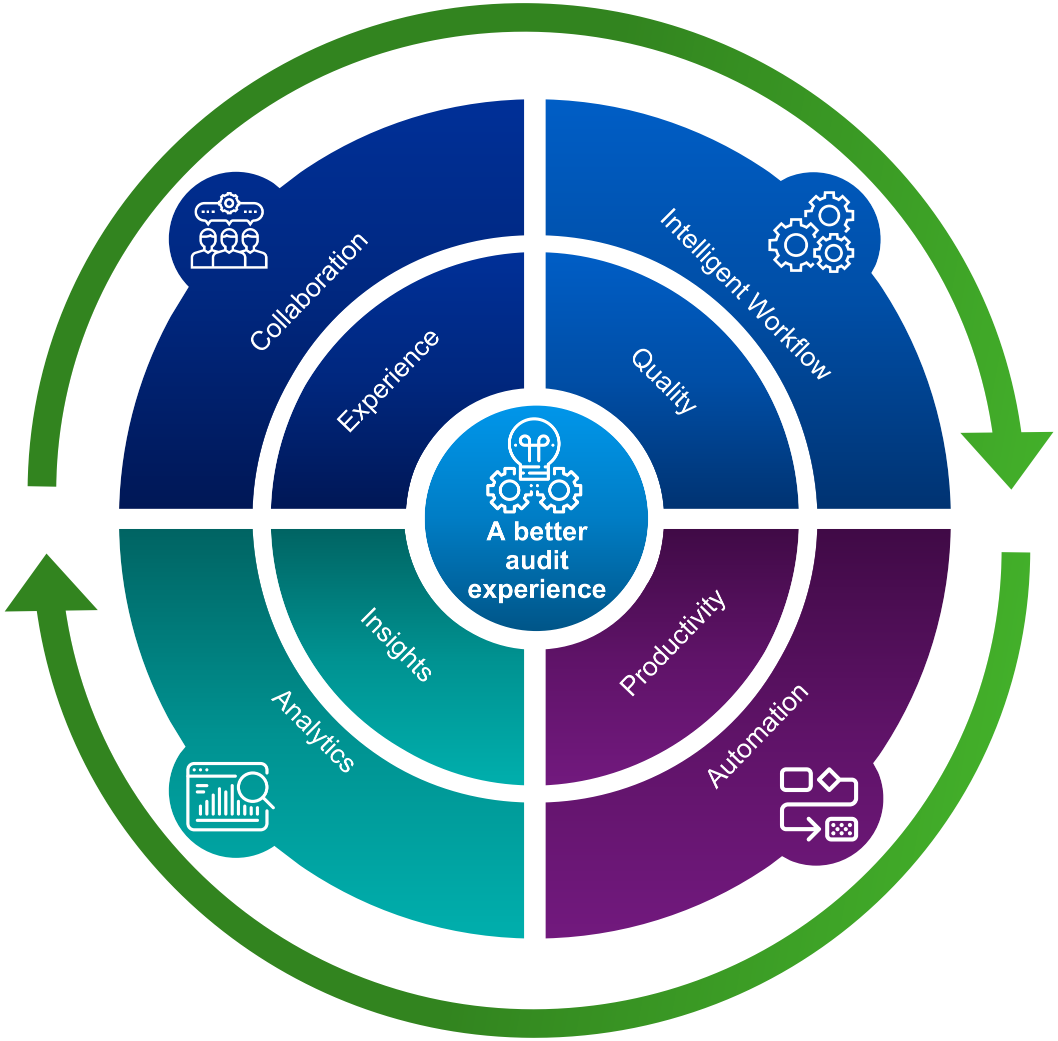
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

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



Appendix H: Environmental, Social and Governance (ESG)

The Importance of Sustainability Reporting

Sustainability Reporting – Who is impacted?

- **Lenders and underwriters** increased focus on ESG considerations when making access to capital decisions
- **Investors** ESG integration has become an investment norm
- **Employees** ESG has become a key factor in attracting and retaining top talent
- **Consumers** stakeholders increasingly scrutinize companies' ESG performance and transparency affecting brand acceptance and consumer demand

Importance to the Audit Committee

- **Regulatory developments** ESG-related compliance costs and disclosure requirements continue to evolve as rules are finalized
- **Material ESG issues** Audit Committees should understand stakeholder priorities and the company's material ESG risks and opportunities
- **Value creation** developing a clear ESG strategy, along with a standardized reporting process can set a company apart from its competitors

Governance on ESG Data and Sustainability Reporting

- **Data collecting and reporting** understand the ESG frameworks and reporting standards most commonly adopted in the industry and jurisdiction (benchmark to others in the industry)
- **ESG assurance** Audit Committees are best positioned to understand which ESG metrics merit assurance. An assurance readiness assessment on Carbon is a common and often recommended first place to start

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