

The Corporation of the City of London

Audit Findings Report
for the year ending December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared June 7, 2024 for presentation on June 19, 2024.

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement



Katie denBok

Lead Audit Engagement Partner

519-660-2115

kdenbok@kpmg.ca



Melissa Redden

Audit Senior Manager

519-660-2124

mredde@kpmg.com



Bailey Church

PSAS and ARO Resource Partner

613-212-3698

bchurch@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, 2023. 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



No matters to report



Matters to report

Status

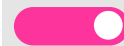
We have completed the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on the ‘Status’ slide of this report.

Significant changes



Significant changes since our audit plan

Risks and results



Significant risks

- Risk of management override of controls
- Implementation of PS 3280 – Asset Retirement Obligations



Other risks of material misstatement

- Implementation of PS 3450 – Financial Instruments
- Payroll and Employee future benefits
- Accounts payable and accrued liabilities
- Tangible capital assets
- Taxation, user charges and transfer payments revenue
- Gross long-term liabilities and debt recoverable from local municipalities



Going concern matters

Policies and practices & Specific topics



Significant unusual transactions



Accounting policies and practices



Other financial reporting matters



Specific topics

Uncorrected misstatements



Uncorrected misstatements

- See page 18 and Appendix C for the management representation letter.

Corrected misstatements



Corrected misstatements

- See page 20 and Appendix C for the management representation letter.

Control deficiencies

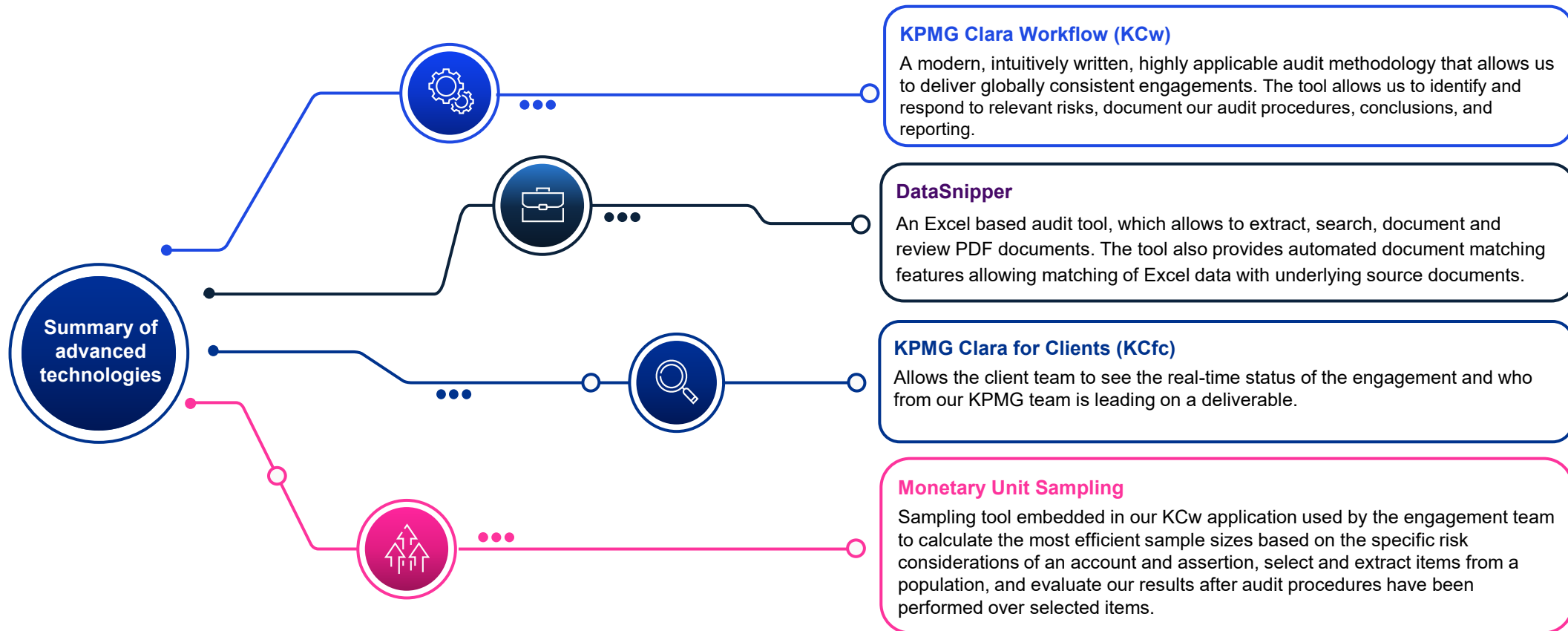


Significant deficiencies



Technology highlights

As previously communicated in our audit planning report, we have utilized technology to enhance the quality and effectiveness of the audit.





Status

As of June 7, 2024, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

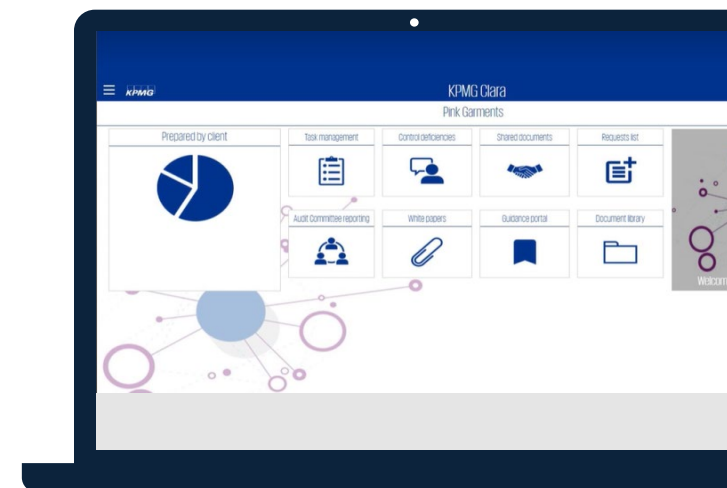
- Receipt of supporting documentation and/or performance of audit procedures over the following:
 - Investments
 - Operating and grant revenue
 - Deferred revenue
 - WSIB estimate data
 - Legal accruals
- Response and review of legal letters from external law firms;
- Obtaining internal and external legal letter updates to the date of financial statement approval;
- Completion of audit procedures over Management's consolidation workbook;
- 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; 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 any remaining procedures.

Our auditor's report has been modified from the standard report because of the change in standards – refer to Emphasis of Matter and Other Matter paragraphs within the draft auditor's report.

KPMG Clara for Clients (KCfc)



Real-time collaboration and transparency

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



Significant risks and results

We highlight our significant findings in respect of **significant risk**.



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

RISK OF



FRAUD

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”).

No

We have not identified any specific areas which highlight this risk over the course of our audit.

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

No significant findings were noted during our testing.



Significant risks and results

We highlight our significant findings in respect of **significant risk**.



Implementation of PS 3280 – Asset Retirement Obligations

RISK OF



ERROR

Significant risk

Estimate?

Asset retirement obligation is \$107.4 for 2023, which consists of \$52.9 million relating to landfill liabilities – there is a risk that an ARO is not identified and/or accurately recorded or that the related liability is not accurately recorded on initial recognition or the wrong measurement basis is applied.

Yes

Our response

Our primary procedures included:

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



Significant risks and results

We highlight our significant findings in respect of **significant risk**.



Implementation of PS 3280 – Asset Retirement Obligations (continued)

RISK OF



ERROR

Significant findings

- The City has chosen not to discount or use the present value technique for measurement of the ARO liability for asbestos and underground tank removals. This was decided as the timeline for the retirement activities is not well defined and discounting would add an additional layer of substantial uncertainty. KPMG notes that while PS 3280 does not require the present value technique for measurement, it does suggest that it is often the best available technique. We understand the City's position for not discounting the obligation as there is uncertainty as to the timing of remediation. This position is consistent with our understanding of what many other municipalities are doing as well.
- With respect to the landfill and leasehold improvement ARO liabilities, the City has chosen to discount and use the present value technique for measurement. The discount rate used was 3.50%, which is consistent with the City's other estimates requiring discounting.
- For the landfill liability, prior to the implementation of PS 3280, this was calculated based on the usage percentage for actual waste received. With the standard implementation, the City is required to record the liability at 100% usage. This has resulted in an increase to the 2022 landfill liability amount of \$4.2 million.
- For asbestos-containing buildings, the City assessed buildings based on whether they were considered complex or non-complex. Complex buildings were those considered to have multiple components with varying life expectancies. The ARO cost for these buildings was calculated based on the average cost per square foot of the City's most recent buildings that have been either demolished or fully abated of asbestos since 2011. Through our testing of these buildings, KPMG determined that the abatement costs for two of the five buildings making up the average cost per square foot were incorrect. As a result, the City's ARO was overstated by \$1.8 million. Management has made the decision to correct this through fiscal 2022. Please refer to the management representation letter which shows the corrected misstatement within Appendix.
- Finally, the City has appropriately reduced the ARO balances in the year by remediation that has occurred during fiscal 2023.
- No other issues were noted during the performance of the procedures noted above. Financial statements have been reviewed for appropriate disclosures relating to the adoption of the new accounting policy.
- In subsequent periods, continued effective communication between facilities management and finance will be important to ensure that all remediated obligations are removed, costs updated, or new obligations identified.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Implementation of PS 3450 – Financial Instruments

Other risk of material misstatement

Estimate?

The risk of material misstatement linked to financial instruments is, in our view, primarily linked to:

No

Application of new financial instrument standard (and related standards as disclosed in the notes) and its presentation in the financial statements. This standard was applied on a prospective basis.

Our response

Our primary procedures consisted of the following:

- Obtaining an understanding of the process undertaken by the City to identify all financial assets and liabilities and assessed in accordance with PS 3450.
- Obtaining an understanding of the key changes to the policies and records of the City as a result of the new standard.
- With respect to investments, we have:
 - Obtained management's records and reconciliations of amounts included in the financial statements.
 - Obtained confirmations from the City's custodians for assets held confirming both number of units held and values associated with each investment.
 - Used our proprietary iRadar technology to develop an independent expectation of fair values.
 - Obtained the System of Control Report (SOC) of management's custodian and evaluating the custodian's control environment, where necessary.
 - Performed testing over significant investment additions during the year.
- Reviewed financial statement presentation and note disclosure in accordance with PSAS.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Implementation of PS 3450 – Financial Instruments (continued)

Significant findings

- The City completed their assessment of their financial instruments and elected to record investments, excluding GICs, at fair value instead of cost. No other significant changes were required for any of the remaining financial instruments identified.
- A new statement, the Statement of Remeasurement Gains and Losses, has been included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments are presented in this statement. Realized gains and losses continue to be presented in the statement of operations.
- The measurement provisions of the standard have been applied on a prospective basis. The decrease to the 2022 investment values of \$38.4 upon transition has been recorded through the statement of remeasurement gains and losses within the accumulated remeasurement gains and losses component at the beginning of fiscal 2023.
- No other issues were noted during the performance of the procedures noted above up to the date of this report. Certain procedures relating to valuation of investments are still ongoing. Financial statements have been reviewed for appropriate disclosures relating to the adoption of the new accounting policy, as well as the new statement of remeasurement gains and losses.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Payroll and Employee Future Benefits

Other risk of material misstatement

The Corporation provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2023, the Corporation had a liability for employee future benefits of \$219.7 million (2022 - \$206.5 million).

Estimate?

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 \$113.3 million (2022 - \$110.7 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
 - WSIB accrual of \$80.9 million (2022 - \$70.0 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
 - Vacation liability of \$25.2 million (2022 - \$24.9 million) – relates to vacation credits earned but not taken by employees as at December 31; and
 - Unused sick leave liability of \$0.3 million (2022 - \$0.9 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 a 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, 2023. We performed attribute testing over the underlying data used by Mercer to prepare the valuation. 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.

Significant findings

No significant findings were noted during our testing.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Accounts Payable and Accrued Liabilities

Other risk of material misstatement

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.

Estimate?

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 risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Accounts Payable and Accrued Liabilities (continued)

Our response (continued)

- We have performed procedures over the general liabilities as outlined within our audit planning report that was presented to you.

Significant 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 in progress.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Tangible Capital Assets

Other risk of material misstatement

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.

Estimate?

Estimation uncertainty exists related to the useful lives of the assets.

Our response

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

Significant 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.
- Through our testing we noted the following misstatements:
 - During our testing over WIP, we identified \$1.7 million being recorded to non-TCA that was actually capital in nature and should have been capitalized. Management has corrected this misstatement within the financial statements.
 - Through our recalculation of amortization, an asset that had not previously been recorded but which was acquired prior to 2023 was noted. Through discussion with management, this asset was identified during the ARO process and was recorded at that time. We noted that accumulated amortization was not being reflected appropriately. Therefore, a misstatement was proposed and corrected by management.
 - For both misstatements above, refer to the management representation letter at Appendix C where these corrected misstatements have been summarized.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Taxation, user charges and transfer payments revenue

Other risk of material misstatement

For the year ended December 31, 2023, these revenue streams amounted to more than \$1.5 billion for the Corporation (2022 - \$1.4 billion). Net municipal taxation accounted for \$762.6 million (2022 - \$728.8 million), user charges represented \$341.9 million (2022 - \$318.7 million) and transfer payments were a total of \$402.4 million (2022 - \$351.2 million).

Estimate?

No

Our response

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

Significant 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 revenue are in progress.



Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.



Gross long-term liabilities and debt recoverable from local municipalities

Other risk of material misstatement

Individual debt issuances at the Corporation have historically been for significant amounts. The total debt balance for the year ended December 31 was \$199.0 million (2021 - \$218.4 million). \$21.5 million was obtained through a public debenture issuance during the fiscal year at an average cost of 3.881% over a 10 year term. An additional \$2.1 million in debentures was issued to the Canada Mortgage and Housing Corporation at 3.01% over a 10 year term.

Estimate?

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 or repayments 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.

Significant findings

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



Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

- The management representation letter includes the Summary of Uncorrected Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial
 - This includes the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole
- 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	\$279,462
Uncorrected misstatements	(\$2,282)
As a % of the balance	(0.8%)



Individually significant uncorrected misstatements

Uncorrected misstatements greater than \$1,100,000 individually:

Presented in thousands	Income effect	Financial position		
		Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Description of individually significant misstatements	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
Overstatement to income from recording the net book value of the South London Community Pool through fiscal 2023 as opposed to on implementation of the tangible capital asset standard.	(2,282)	-	-	-
Total misstatements (see Management Representation Letter)	(2,282)	-	-	-



Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.



Impact of corrected misstatements

- Discuss the effect on the financial reporting process
 - Discussion about the cause of the corrected misstatements (e.g. control deficiencies)
 - Discussion about that the matters underlying the corrected misstatements (e.g. control deficiencies) could potentially cause future-period financial statements to be materially misstated.
- Refer to management's representation letter under Appendix C where the corrected misstatements are summarized.



Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity'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 deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.



Accounting policies and practices



Initial selection

The following new significant accounting policies and practices were selected and applied during the period.

- PS 3280, *Asset Retirement Obligations (ARO)*, became effective for the Corporation's fiscal 2023 year end. The new standard is a complex accounting standard which requires the application of professional judgement and have resulted in significant changes to the Corporation's financial statements. The asset retirement obligations ("ARO") standard has resulted in the Corporation recording 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 has been added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.
- PS 3450, *Financial instruments*, PS 2601, *Foreign currency translation*, PS 1201, *Financial statement presentation* and PS 3041 *Portfolio investments* became effective for this year end. Equity instruments quoted in an active market and free-standing derivatives are now carried at fair value. All other financial instruments can be carried at cost or fair value depending on the entity's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. A new statement, the Statement of Remeasurement Gains and Losses, has been included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments are presented in this statement.



Revised

Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 1 to the financial statements. Note 2 to the financial statements includes additional information relating to the transitional adjustments. Notes 5, Portfolio Investments, and 26, Financial instruments and risk management, have also been updated for impacts due to PS 3450.



Significant qualitative aspects

The adoption of the Asset Retirement Obligations Standard required management to calculate the value of the obligation as of the date of transition.

The adoption of the Financial Instruments Standard required management to determine the value of each financial instrument, based on the required or deemed recognition approach (i.e. fair value or amortized cost) as of the date of transition.

For application of both Standards, the Corporation used internal knowledge and expertise.



Other financial reporting matters

We also highlight the following:



Financial statement presentation - form, arrangement, and content



The presentation and disclosure in the financial statements is in accordance with the required standards as disclosed in the notes to the financial statements.



Concerns regarding application of new accounting pronouncements



No matters to report.



Significant qualitative aspects of financial statement presentation and disclosure



No matters to report.



Independence

As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet or exceed those of the IESBA Code¹ and CPA Code. The following are the actions or safeguards applied to reduce or eliminate threats to an acceptable level:



Dedicated ethics & independence partners



Process for reporting breaches of professional standards and policy, and documented disciplinary policy



Ethics, independence and integrity training for all staff



International proprietary system used to evaluate and document threats to independence and those arising from conflicts of interest



Operating policies, procedures and guidance contained in our quality & risk management manual



Mandated procedures for evaluating independence of prospective audit clients



Restricted investments and relationships



Annual ethics and independence confirmation for staff

Statement of compliance

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

¹ International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)

Appendices

A

Draft auditor's report

B

Other required communications

C

Management representation letter

D

Audit quality

E

New accounting standards

F

New auditing standards

G

Insights

H

Environmental, social and governance (ESG)

I

Technology





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, 2023
- the consolidated statement of operations for the year then ended
- the consolidated statement of remeasurement gains and losses 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, 2023, and its consolidated results of operations, its remeasurement gains and losses, 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.

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 2 to the financial statements which indicates that the Entity has changed its accounting policy for financial instruments and has applied that change prospectively.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter – Comparative Information

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended December 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied.

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

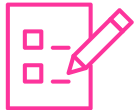
London, Canada

[Date]

DRAFT



Appendix B: Other required communications



Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to the Audit Committee.



CPAB communication protocol

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

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



Appendix C: Management representation letter

(Letterhead of Client)

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

[Date]

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, 2023.

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
 - otherswhere 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.

Comparative information:

- 11) In respect of the **restatement** related to the Asset Retirement Obligation in the comparative information, we reaffirm that the written representations we previously provided to you, in respect of the prior period financial statements presented as comparative information, remain appropriate.

Misstatements:

- 12) 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.
- 13) We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).

Other information:

- 14) We confirm that the final version of Annual Financial Report 2023 will be provided to you when available, and prior to issuance by the City, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 15) 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).
- 16) 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:

- 17) 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:

- 18) The accounting policies selected and applied are appropriate in the circumstances.
- 19) 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:

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

Estimates / Measurement Uncertainty:

- 21) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 22) 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:

- 23) 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.
- 24) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 25) 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.
- 26) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 27) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

Receivables:

- 28) 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:

- 29) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 30) 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:

- 31) 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:

- 32) 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:

- 33) 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.
- 34) 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.
- 35) 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:

- 36) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 37) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
- 38) 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.

- 39) The set of actuarial assumptions for each plan is individually consistent.
- 40) 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.
- 41) 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.
- 42) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 43) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 44) 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.
- 45) 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.
- 46) 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:

- 47) We agree with the findings of the various Facilities Personnel as management's expert in preparing the estimate for the asset retirement obligation liability, including 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.
- 48) We agree with the findings of the various Investment Custodians as management's expert in preparing the year-end values for investments. 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.
- 49) 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.

- 50) We agree with the findings of Barry Card, City Solicitor; Tara Pollitt, Deputy City Manager, Legal Services and City Solicitor; Jason Wills, Risk Manager; and Patty Malone, Senior Director, London Police Services Legal Service, 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:

- 51) 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 F2023:

	Annual surplus effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Overstatement to income from recording the net book value of the South London Community Pool through fiscal 2023 as opposed to on implementation of the tangible capital asset standard.	(2,281,974)	-	-	-
Total uncorrected misstatements	(2,281,974)	-	-	-

Corrected misstatements F2023:

	Annual surplus effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
To move capital costs recorded as non-TCA to TCA.	1,700,000	1,700,000	-	1,700,000
To adjust the overstatement of net book value for the South London Community Pool.	(3,062,489)	(3,062,489)	-	(3,062,489)
To reclassify high-interest savings interest from accrued receivables to cash.	-	3,039,601 (3,039,601)	-	-
Total corrected misstatements	(1,362,489)	(1,362,489)	-	(1,362,489)

Uncorrected misstatements F2022 (Revised):

	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 Fire and Police agencies 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	-
Reclassification of tax appeals pending from the tax allowance account to the tax appeals payable account.	-	7,868,000	7,868,000	-
To record the net book value and depreciation for the South London Community Pool.	(133,520)	2,281,974	-	2,415,494 (133,520)
Total uncorrected misstatements	4,610,047	11,166,618	8,884,644	2,281,974

Corrected misstatements F2022 (Revised):

	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)	
<i>Adjustment relating to restated balances from new standard implemented in F2023:</i> To record the impact of corrected cost calculations on asbestos ARO, TCA and accumulated surplus.	-	(213,851)	(1,849,983)	1,636,133
Total corrected misstatements	-	(213,851)	(1,849,983)	1,636,133



Appendix D: Audit quality - How do we deliver audit quality?

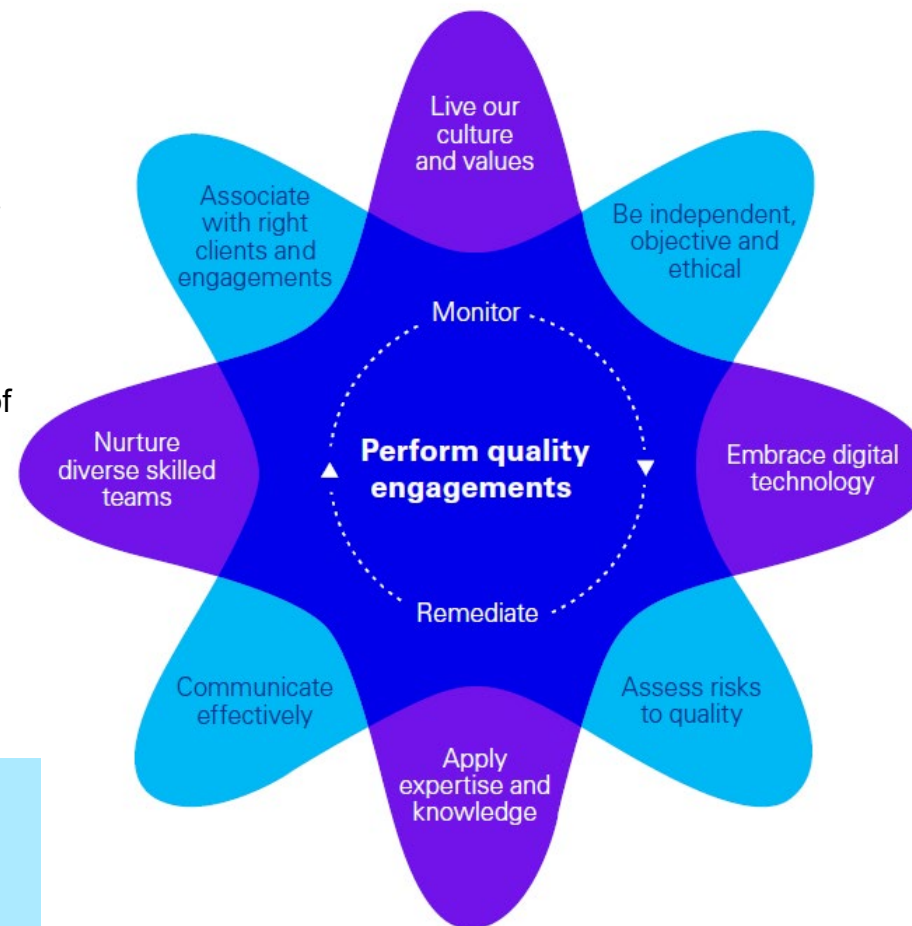
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

 [KPMG 2023 Audit Quality and Transparency Report](#)

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

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



Doing the right thing. Always.



Appendix D: 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 18 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 13 years.
- Melissa Redden, Audit Senior Manager – over 13 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 11 years.

Timing of prepared by client (PBC) items ●

Timeliness of PBC items

- 195 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.

Technology in the audit ●

Implementation of Technology in the Audit

- We have expanded the number of technologies implemented in the audit – see page 5.

Engagement hours ●

Hours spent by level and phase of the audit

- Partner: 7%
- Senior Manager: 17%
- Staff and Seniors: 76%
- *Based on time incurred up to end of day May 26, 2024. 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



Appendix E: Changes in accounting standards

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



Appendix E: Changes in accounting standards (continued)

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



Appendix E: Changes in accounting standards (continued)

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



Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	<ul style="list-style-type: none">• The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>.• The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard.• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.• The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.



Appendix F: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

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

ISQM1/CSQM1

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

ISQM2/CSQM2

.....
Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

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



Appendix G: Insights to enhance your business

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

Lean in Audit

Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

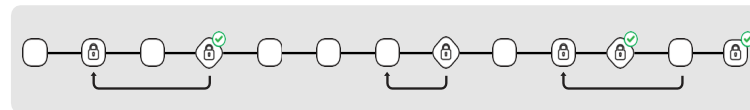
Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to working with you to incorporate this approach in your audit.

How it works

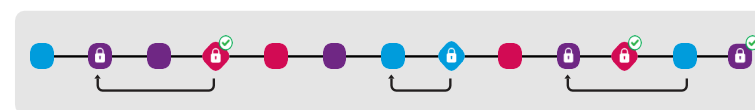
Standard Audit

Typical process and how it's audited



Lean in Audit™


Applying a Lean lens to perform walkthroughs and improve Audit quality while identifying opportunities to minimize risks and redundant steps





How Lean in Audit helps improve businesses processes


Make the process more streamlined and efficient for all




 **Value:** what customers want (**maximize**)

 **Necessary:** required activities (**minimize**)

 **Redundant:** non-essential activities (**remove**)

 Process controls

 Key controls tested



Appendix G: 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](#)

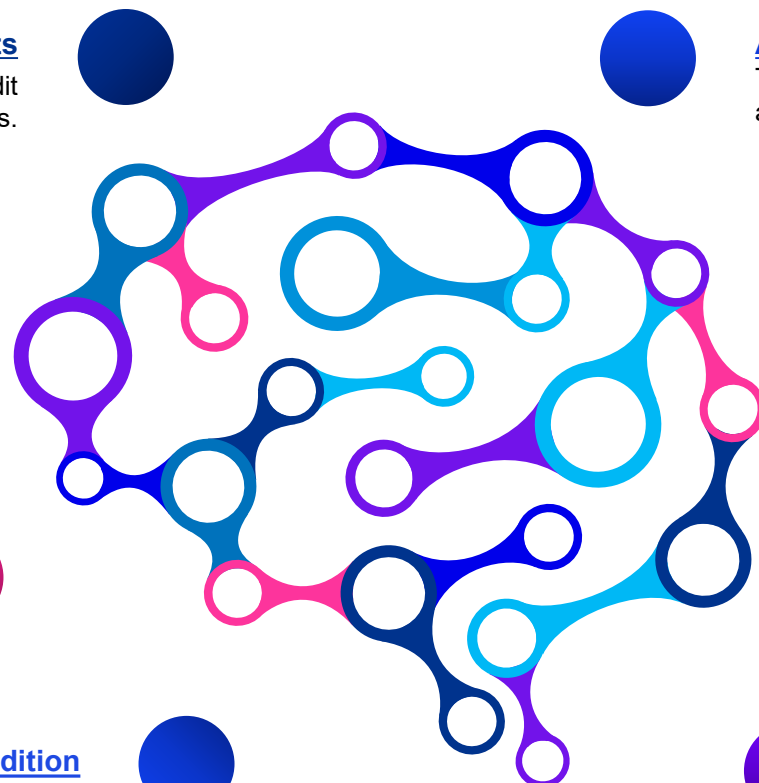
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

[KPMG Climate Change Financial Reporting Resource Centre](#)

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

[Government and Public Sector Insights](#)

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





Appendix H: Climate risk in the financial statements

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

How might climate-related risks impact the financial statements?

01

Assets

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

02

Liabilities

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

03

Borrowers

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

04

Lenders

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

05

Disclosures

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



Appendix I: Continuous evolution

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.



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<https://kpmg.com/ca/en/home.html>

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CITY HALL

