



AUDIT

The Corporation of the City of London

Audit Findings Report

For the year ended December 31, 2013

KPMG LLP, Chartered Accountants, Licensed Public
Accountants

kpmg.ca

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Executive summary

Overview

The purpose¹ of this Audit Findings 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 of the Corporation of the City of London (the "Corporation") as at and for the period ended December 31, 2013.

Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- obtaining a signed management representation letter
- obtaining responses to our legal letters from internal and external legal counsel
- completing our discussions with the Audit Committee
- obtaining evidence of the Council's approval of the financial statements
- completing our discussions with management regarding subsequent events

Please refer to the draft financial statements for our draft auditors' report. We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings 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.

Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming audit committee meeting. We look forward to discussing these matters and our findings with you.

Changes from the Audit Plan

There have been no changes from the Audit Planning Report previously presented to you.

Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

Valuation of provisions for tax registrations and appeals

- The valuation related to tax registered properties and tax appeals requires significant estimates to be made by management.

Provision for Tax Registrations

- Total tax registrations and the provision for tax registrations at December 31, 2013 (with comparatives amounts presented) are as follows:

Tax Registrations	Total ('000s)	Provision	Provision - %
12/31/13	14,544	11,777	81%
12/31/12	13,227	10,077	76%
12/31/11	12,383	9,334	75%
12/31/10	12,290	8,947	73%

- Management does not typically record an allowance against unpaid property tax accounts because, by law, the Corporation has first right to recover the value of any unpaid taxes when the property is sold. Some collection risk, however, does exist with respect to commercial properties, as environmental problems are more likely to arise with these types of properties. Therefore, management establishes a provision against unpaid taxes and penalties for commercial properties.
- The total tax registrations are comprised of unpaid taxes, interest and penalties for residential and commercial properties. However, the provision above only relates to commercial properties.
- The final allowance for doubtful accounts estimate is reviewed and approved by the senior finance team.

KPMG comments regarding effect on the audit

- With respect to the valuation of taxes receivable and accounts payable and accrued liabilities, we have:
 - Updated our understanding of the activities over the systems that record and age taxes receivable;
 - Reviewed the Corporation's taxes receivable aging reports; and
 - Reviewed management's analysis of the provision.
- Based on procedures performed, nothing has come to our attention that would cause us to believe that the provisions are materially misstated as at December 31, 2013.

Employee benefits payable

- The balance of employee future benefits is comprised of the following:
 - Post-employment and post-retirement benefits of \$74.0 million (2012 - \$68.7 million) – includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
 - WSIB accrual of \$37.1 million (2012 - \$38.1 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
 - Vacation liability of \$14.6 million (2012 - \$14.5 million) – relates to vacation credits earned but not taken by employees as at December 31; and
 - Unused sick leave liability of \$4.8 million (2012 - \$6.0 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination.
- 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 prepared by Mercer. The most recent valuation report was prepared by Mercer as of December 31, 2012 with projected amounts for 2013. The calculations were prepared based on employee data submitted by the City and a discount rate of 3.75% (2012 – 3.75%).
- The liability for workplace safety and insurance costs is determined by WSIB.
- The vacation and unused sick leave liabilities are accrued in the financial statements when they are earned by employees.

KPMG comments regarding effect on the audit

- We obtained copies of the employee data submitted to Mercer and performed testing over a sample of items. We also obtained corroborative evidence to support the discount rate used within the valuation.
- We agreed the amount accrued for WSIB to the statement received from WSIB.
- We identified no other significant matters related to the balance of employee benefits payable and concur with management that these amounts are fairly stated at December 31, 2013.

Landfill closure and post-closure liability

- 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.
- The liability is the estimated cost to date, 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.
- At December 31, 2013, the landfill accrual amounts to \$28.1 million (2012 - \$27.9 million), \$19.2 million of which related to the future closure of the active landfill and \$8.9 million relating to monitoring of closed landfills.

KPMG comments regarding effect on the audit

- We obtained an understanding of the calculation through discussions with the City's engineer.
- 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 financial statements.

Accrued liabilities

- Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the financial statements.
- Included within this balance are significant estimates related to provisions for personnel and legal matters in the amount of \$7.1 million (2012 - \$18.1 million). The accrual for personnel matters amounted to \$4.6 million (2012 - \$14.4 million) and includes amount for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$2.5 million (2012 - \$3.7 million) and is comprised of lawsuits brought against the Corporation by external parties.
- Management has accrued these amounts based on previous experience with matters that were similar in nature, based on information provided by the HR department and based on assessment included in both internal and external legal letters.
- Management has represented that these balances are fairly presented for financial reporting purposes.

KPMG comments regarding effect on the audit

- With respect to accrued 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 ensuring that the lowest amount in the range has been accrued in the 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 is consistent with management's assessment; and
 - Where possible, reviewed subsequent payments to determine whether the liability at year end is reasonably stated.
- We identified no significant matters related to this balance and concur with management that it is fairly stated at December 31, 2013.

Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Issuance of debentures

- During the year, the Corporation issued new debentures as follows:
 - \$50 million through CDS Clearing and Depository Services Inc., with interest ranging from 1.35% to 3.8%, annual principal repayment, and a maturity date of September 2023.
- Management has recorded the liabilities associated with the new debentures and has included disclosure in the financial statements with respect to the debentures.

KPMG comments regarding effect on the audit

- We have agreed the approval of the debentures to Council meeting minutes.
- We have agreed the amount of issuance, the interest rates, and the maturity dates to the respective debt agreements.
- We reviewed management's disclosure of the long-term debt and agree that it is appropriate and in accordance with the required financial reporting framework.

Changes in accounting standards – Government Transfers

- On January 1, 2013, the Corporation adopted revised Public Sector Accounting Standards PS 3410, *Government Transfers*.
- This standard was adopted on a prospective basis from the date of adoption.
- Under this revised standard, Government transfers are recognized as revenue in the financial statements when the transfer is authorized, any eligibility criteria are met and a reasonable estimate of the amount can be made.
- When stipulations by the transferor give rise to an obligation that meet the definition of a liability, a liability is recognized and revenue is recorded as the liability is extinguished.

KPMG comments regarding effect on the audit

- Discussed the adoption of this new standard through inquiry with management
- Reviewed procedures developed and implemented by the Corporation for this adoption
- Performed procedures, on a test basis, to ensure that revenue was recognized appropriately;
- Determined that the financial information reported for government transfers is reasonable and in accordance with the new standard.

Changes in accounting standards – Tax Revenue

- On January 1, 2013, the Corporation adopted revised Public Sector Accounting Standards PS 3510, *Tax Revenue*.
- This standard was adopted on a prospective basis from the date of adoption.
- Under this standard, taxes receivable and tax revenue are recognized when they meet the definition of an asset, the tax is authorized and the taxable event has occurred.

KPMG comments regarding effect on the audit

- Discussed the adoption of this new standard through inquiry with management
- Reviewed recognition and measurement requirements of the standard.
- No changes in revenue recognition resulted from this standard.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

<p>Significant accounting policies</p>	<p>Significant accounting policies or practices are disclosed in Note 1 to the consolidated financial statements.</p> <p>As of January 1, 2013, the Corporation adopted PSAB 3410 – Government Transfers and PSAB 3510 – Tax Revenue, as required by Public Sector Accounting Standards. Both policies were adopted prospectively and the changes are disclosed in note 1 (I) to the financial statements.</p> <p>KPMG reviewed accounting policies adopted by management, including management’s assessment of all accounting policies adopted by the Corporation, and all are considered to be appropriate.</p>
<p>Critical accounting estimates</p>	<p>There are no critical accounting estimates.</p>
<p>Critical disclosures and financial statement presentation</p>	<p>The financial statements include disclosures and presentation requirements under the relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.</p>

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements over \$621,000, including disclosures
- uncorrected misstatements over \$621,000, including disclosures.

Corrected misstatements

None noted.

Uncorrected misstatements

We highlight the following uncorrected misstatement:

(\$'000)		Annual surplus effect	Financial position		
Description	F/J/P	Decrease (Increase)	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Overstatement of expenses due to prior period TCA correction in the current period. (Note 1).	F	(1,437)	-	-	-
Total misstatements		(1,437)	-	-	-

Management has represented to us that the uncorrected misstatement is, in their judgment, not material to the financial statements.

We concur with management's representation that the uncorrected misstatement is not material to the financial statements. Accordingly, the uncorrected misstatement has no effect on our auditors' report.

Note 1

This adjustment is the result of prior period misstatements being corrected in the current year. The net adjustment only impacts the annual surplus in the current year, as all balance sheet accounts are correctly stated as at December 31, 2013.

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation 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 internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. 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.

Identification

- This control deficiency has been identified only in relation to Agency 3 – Casual Payroll.
- In some cases, managers currently enter worked hours into the system for their own staff. In some cases, there is no secondary check (by the employee or by the payroll department) to ensure the accuracy of the inputs or amounts paid.

Implication

- Employee pay could possibly be inaccurate, fictitious employees could be added to the system and paid without being detected, or terminated employees could continue to receive payment subsequent to their termination.

Recommendation

- KPMG recommends that either the employees provide signed timesheets to the Managers to be entered into the system or Agency staff review time entry, including unusual hours worked, names of employees etc. Managers should validate and review the figures from their input to the “all pay codes” report from Kronos to ensure that all hours worked have been inputted and employees are being paid correctly. While this represents a control deficiency, it should be noted that it has not been identified as a significant control deficiency due to the fact that the total payroll expense for Agency 3 is not considered significant. Our understanding is that the Corporation’s intention is to have more groups in the future enter their own staff time and this should be brought into consideration as those decisions are being made.

Appendices

Independence letter

Draft management representation letter

Other current developments

Independence letter



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June 25, 2014

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that 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:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - 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
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Entity (and its related entities) from January 1, 2013 up to the date of this letter:



Description of Professional Services
<p>Audit and audit related</p> <ul style="list-style-type: none">- Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2013- Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2013, as outlined in our engagement letter- Audit of the financial statements of the City of London Immigration Portal- Review of the City of London Transfer Payment Agency financial statements- Audit of the Dearnness Program Report and Dearnness Long-Term Care Report- Compliance audit with agreement on Transfer of Federal Gas Tax Revenue and Annual Expenditure Report- Audit of Water Financial Statements and specified auditing procedures over Water projects, as required by Ministry agreements- Review of Childcare Program Envelopes- Review of Homelessness Program Envelopes- Federal audit of Homelessness Partnering Strategy- Specified auditing procedures over the City of London Closed Circuit Television System for the years ended 2011, 2012, and 2013
<p>Tax</p> <ul style="list-style-type: none">- Preparation of corporate tax return for London Middlesex Housing Corporation
<p>Advisory</p> <ul style="list-style-type: none">- Review of Economic Development models

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence 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 (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2013 up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2013 up to the date of this letter.

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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly wavy line that extends across the width of the signature.

Chartered Professional Accountants, Licensed Public Accountants

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KPMG Confidential

Draft management representation letter

Ladies and Gentlemen:

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”), which comprise the statement of financial position as at December 31, 2013, the statements of operations, change in net debt and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements were prepared in accordance with Canadian public sector accounting standards.

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 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:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 1, 2010, 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 relevant information, such as all financial records and related data and 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, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

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 management is 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 and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's 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, 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

COMMITMENTS & CONTINGENCIES:

- 4) There are no:
- a) 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
 - b) other environmental matters that may have an impact on the financial statements

SUBSEQUENT EVENTS:

- 5) 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:

- 6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions/balances of which we are aware and all related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

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

MISSTATEMENTS:

- 9) 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.

ACCOUNTING POLICIES:

- 10) The accounting policies selected and applied are appropriate in the circumstances.
- 11) 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:

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

ESTIMATES / MEASUREMENT UNCERTAINTY:

- 13) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 14) 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:

- 15) 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.
- 16) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 17) We have no knowledge of capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements that have not been disclosed to you.
- 18) 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.
- 19) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 20) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

COMPARATIVE FIGURES/FINANCIAL STATEMENTS:

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

RECEIVABLES:

- 22) 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:

- 23) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 24) 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:

- 25) 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.

ASSET RETIREMENT OBLIGATIONS:

- 26) All legal obligations associated with the retirement of tangible long-lived assets have been recognized, including those under the doctrine of promissory estoppel. The obligations were recognized when incurred using management's best estimate of fair value.

REVENUES:

- 27) 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:

- 28) 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.
- 29) 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.
- 30) 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:

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

- 32) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
- 33) 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.
- 34) The set of actuarial assumptions for each plan is individually consistent.
- 35) 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.
- 36) 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.
- 37) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 38) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 39) 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.
- 40) 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.
- 41) 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:

- 42) We agree with the findings of Wes Abbott, City of London Engineer, 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.

Yours very truly,

Mr. Martin Hayward, Managing Director, Corporate Services, City Treasurer, Chief Financial Officer

Mr. Mike Turner, Deputy City Treasurer

I have the 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both.

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.

RELATED PARTIES

In accordance with Canadian generally accepted accounting principles a *related party* is defined as:

- A situation when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Canadian generally accepted accounting principles a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II – Summary of Audit Misstatements Schedule(s)

**The Corporation of the City of London
December 31, 2013
Summary of Uncorrected Audit Misstatements**

(\$'000)		Annual surplus effect	Financial position		
Description	F/J/P	Decrease (Increase)	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Overstatement of expenses due to prior period TCA correction in the current period.	F	(1,437)	-	-	-
Total misstatements		(1,437)	-	-	-

The Corporation of the City of London
December 31, 2013
Summary of Corrected Audit Misstatements

(\$'000)		Annual surplus effect	Financial position		
Description	F/J/P	Decrease (Increase)	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
None noted.		-	-	-	-
Total misstatements		-	-	-	-

Other current developments

Other current developments

Public Sector Enterprises

New guidance issued

PS 3260 – Contaminated Sites:

The *Liability for Contaminated Sites* ([PS 3260](#)) section impacts every organization reporting under the Public Sector Accounting (PSA) standards, and the new standards take effect for all organizations with fiscal years beginning on or after April 1, 2014. Time is running out.

Clarifications to guidance:

PS3260 is a new accounting standard that requires public sector organizations with fiscal years starting on April 1, 2014, or later, to report on liabilities at contaminated sites you own, or have assumed responsibility to remediate.

PS3260 impacts federal, provincial, municipal and First Nations governments, as well as Crown corporations, universities, schools and hospitals. If you use Public Sector Accounting Standards (PSAS), PS3260 most likely applies to you.

This is a time-sensitive, regulation driven issue that all organizations reporting under PSAS must address. It's a complex process that will need to be carefully managed. Even if there is no site contamination, this fact must be proven in line with the new accounting standard.

Next Steps:

Public sector entities need to plan now for the introduction of PS 3260 and start to understand how the new standards will impact their reporting responsibilities. Failure to appropriately apply the standards could have negative financial, and potentially political and social ramifications.

Still not sure? Answer the key diagnostic questions below to determine your next steps.

Liability for Contaminated Sites - Key Diagnostic Questions:

- Are you a public sector entity reporting under the PSA standards?
- Have you developed an inventory of all sites, both contaminated and not contaminated?
- Has a formal gap analysis been performed of the entity's existing accounting policies to the requirements of PS 3260?
- Have you identified all legally binding and enforceable regulations and environmental standards?
- Are you aware of your reporting requirements, whether or not you have contaminated sites?
- Are you able to demonstrate the completeness and accuracy of liabilities recorded for contaminated sites to your financial statement auditor?

If you would like a more detailed assessment, we've also created an online self-assessment tool to help you test your readiness to comply with PS 3260 at kpmg.ca/contaminatedsites.

Proposed amendments to PSAB

Exposure Draft: *Financial Instruments: Income on Externally Restricted Assets*

The PSAB recently issued an exposure draft on *Financial Instruments: Income on Externally Restricted Assets* that proposes to amend Section PS 3450, *Financial Instruments*, to ensure the reporting of income on externally restricted assets that are financial instruments aligns with the requirements in Section PS 3100, *Restricted Assets and Revenues*. The proposed amendments clarify the accounting for gains, losses, interest and dividends when income attributable to a financial asset is externally restricted and addresses the accounting for adjustments associated with the transition to Section PS3450 when income attributable to a financial asset is restricted.

PSAB projects underway

The following section discusses the major projects currently with the Public Sector Accounting Board:

Concepts underlying financial performance

The objective of this project is to review and amend, if necessary, the conceptual framework in Sections PS 1000, *Financial Statement Concepts*, and PS 1100, *Financial Statement Objectives*. PSAB's Conceptual Framework Task Force has recently issued a consultation paper that proposes an objective and primary audience for financial reporting, the accountabilities to be reported on in financial statements, and alternative reporting models to demonstrate them.

Other projects underway

The PSAB is currently working on a number of other projects that are in various stages of advancement. Some of the projects currently underway include asset retirement obligations; assets; fiscal sustainability; impairment of non-financial assets; restructurings; revenues and service concession arrangements. Details on these projects can be found on the [PSAB website](#).

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