



cutting through complexity

AUDIT

# The Corporation of the City of London

Audit Findings Report  
For the year ended December 31, 2015

*KPMG LLP*

Prepared as of June 10, 2016

kpmg.ca



The contacts at KPMG in connection with this report are:

**Ian Jeffreys**

Lead Audit Engagement

Partner

Tel: 519 660 2137

[ijeffreys@kpmg.ca](mailto:ijeffreys@kpmg.ca)

**Katie denBok**

Audit Senior Manager

Tel: 519 600 2115

[kdenbok@kpmg.ca](mailto:kdenbok@kpmg.ca)

# Table of Contents

<b>Executive summary</b>	<b>3</b>
<b>Audit risks and results</b>	<b>5</b>
<b>Other matters</b>	<b>9</b>
<b>Accounting estimates</b>	<b>10</b>
<b>Data &amp; Analytics in the audit</b>	<b>12</b>
<b>Financial statement presentation and disclosure</b>	<b>13</b>
<b>Adjustments and differences</b>	<b>14</b>
<b>Control observations</b>	<b>16</b>
<b>Appendices</b>	<b>19</b>
<b>Appendix 1: Required communications</b>	<b>20</b>
<b>Appendix 2: Value for fees</b>	<b>21</b>
<b>Appendix 3: Audit Quality and Risk Management</b>	<b>22</b>
<b>Appendix 4: Data &amp; Analytics in Audit</b>	<b>23</b>
<b>Appendix 5: Current developments</b>	<b>24</b>

At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

# Executive summary

---

## Purpose of this report\*

The purpose 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 year ended December 31, 2015.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 23, 2016.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

---

## Audit risks and results

We discussed with you at the start of the audit a number of **significant financial reporting risks**.

These included the presumed risk of Management override of controls as well as the risk over the completeness of accruals, which was noted as a significant estimate.

These risks have been addressed in our audit.

We also discussed with you some **other areas of audit focus**. We have identified matters to report to the audit committee in respect of them.

*See pages 5 - 8.*

---

## Adjustments and differences

See page 14 for details of uncorrected audit misstatement.

We did not identify any adjustments that were communicated to Management and subsequently corrected in the financial statements.

\* 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.

# Executive summary

## Finalizing the audit

As of June 10, 2016 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt, review and tie-out of consolidated financial statements, including tie out of financial statement note disclosures
- obtaining supporting documentation for certain legal accruals and responses to our internal and external legal enquiry letters
- completion of grant revenue substantive testing
- receipt of support for payroll cost of living adjustments for Police agreement
- obtaining the signed management representation letter
- completing our discussions with the audit committee;
- obtaining evidence of Council's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

We have identified other observations with respect to processing payroll for casual employees and with respect to recording accounts payable.

*See pages 16 – 18.*

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: valuation of provisions for tax registrations and appeals, employee future benefits, landfill closure and post closure liability, and other accruals. *See pages 10 – 11.*

## Independence

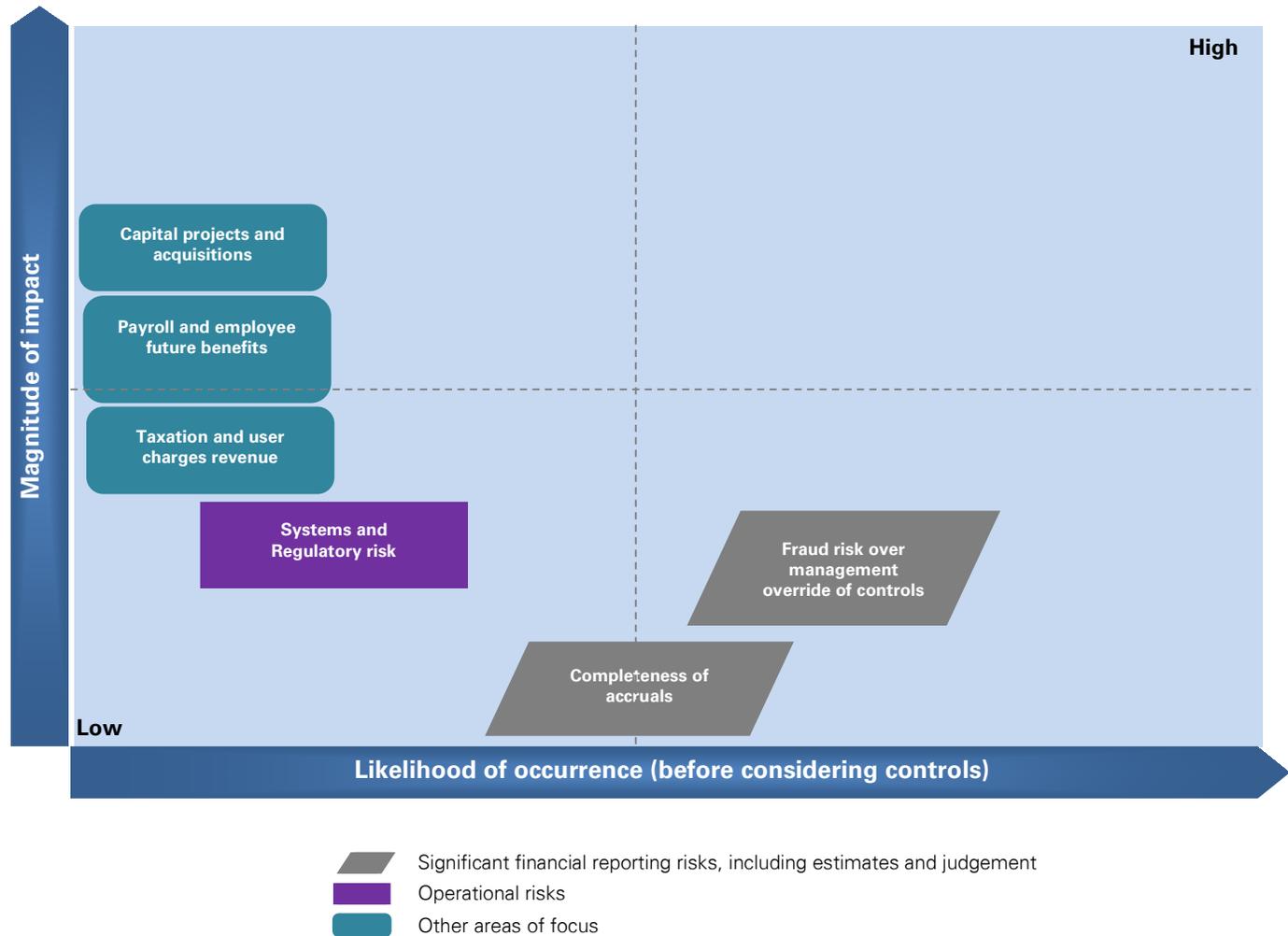
We have included a copy of our independence letter, which notes that we are independent with respect to the Corporation (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention, except for the new standard, ***Liability for Contaminated Sites***, which we discuss more fully on page 9.

# Audit risks and results

We have discussed this diagram, which is our top-down view of the financial reporting risks and their potential misstatement impact mapped against the likelihood of a misstatement occurring (before controls), with you in our Audit Plan.



# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

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

## Area of significant financial reporting risk

### Completeness of accruals

### Our significant findings from the audit

- KPMG performed substantive testing over accruals and obtained corroborative evidence to support Management's assumptions. We also reviewed subsequent payments where possible.
- We sent legal enquiry letters to internal and external legal counsel, reviewed Council minutes etc. and performed a search for unrecorded liabilities to identify any potential unrecorded liabilities.
- No significant issues were noted.

### Other areas of audit focus

### Capital projects and acquisitions

### Our significant findings from the audit

- KPMG performed substantive testing over capital additions, including the determination of when capital expenditures are transferred from assets under construction and amortization begins. There were no issues identified with regard to this testing.
- KPMG reviewed Management's determination of the useful lives of capital assets and the related amortization rates. There have been no changes to the rates used in the prior year which are reasonable given the nature of the assets and their useful lives
- KPMG used data and analytics to perform specific tests regarding WIP transfers, holdbacks, and disposals of tangible capital assets. No issues were identified with regard to this testing. See page 12 and appendix 4 for further details.

# Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

## Other areas of audit focus

### Payroll and employee future benefits

## Our significant findings from the audit

- The balance of employee future benefits is comprised of the following:
- Post-employment and post-retirement benefits of \$83 million (2014 - \$79.0 million) – includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
- WSIB accrual of \$50.4 million (2014 - \$46.9 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
- Vacation liability of \$15.6 million (2014 - \$15.1 million) – relates to vacation credits earned but not taken by employees as at December 31; and
- Unused sick leave liability of \$3.9 million (2014 - \$5.3 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 which was prepared by Mercer as of December 31, 2015. KPMG performed additional testing during the year on the employee attributes provided to Mercer to perform the valuation.
- 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 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 WSIB accrual to the statement received from the WSIB. We

# Audit risks and results

---

identified no other significant matters related to the balance of employee benefits payable and concur with Management that these amount are fairly stated as at December 31, 2015.

## **Taxation and user charges revenue**

- KPMG performed substantive testing on supplementary taxes revenue and user charges revenue by inspecting the supporting billings and tracing to cash receipt in the bank.
  - We ensured revenue was recorded in the correct fiscal period by reviewing a sample of revenue transactions subsequent to year-end and ensuring appropriate cut-off was achieved.
  - We assessed the reasonability of property tax revenues reported based on the assessed values of properties provided by the Municipal Property Assessment Corporation and Council-approved tax rates.
-

# Other matters

## Other matters to discuss

## Details

### **New accounting standard – PS3260 Liability for Contaminated Sites**

- The Corporation was required to adopt this standard beginning in F2015 and has applied the standard prospectively.
- Management has determined that there is no quantitative impact to record in the financial statements as a result of the adoption of this standard. No sites were identified for which a liability should be recorded under the standard.
- KPMG reviewed Management’s process for estimating any liability, including reviewing the completeness of the Corporation’s land inventory listing, assessment of productive vs. non-productive sites, assessment of contamination and evaluation of the cost of remediating any contaminated sites. No issues were noted as a result of our testing in this area.
- KPMG reviewed Management’s disclosures in the financial statements relating to this new standard and considers them to be appropriate.

### **Work stoppage**

- During F2015 there was a work stoppage for the Corporation’s inside workers that had an impact on the Corporation’s financial reporting.
- During this time the roles of the Managers in the finance department changed to cover off areas where there were no employees available.
- KPMG considered controls over financial reporting during this period and reviewed the Corporation’s processes and controls that were put in place during this period to ensure that appropriate segregation of duties were being maintained and noted no issues. We also tested controls at the conclusion of the strike to ensure that controls given to managers on a temporary basis had been removed when the work stoppage ended.

### **London Hydro conversion to International Financial Reporting Standards (IFRS)**

- London Hydro was required to transition to IFRS January 1, 2015.
- The quantitative impact of this transition on the consolidated financial statements of the City of London was a reduction of the value of the investment of \$1.7 million. Irrespective of the quantitative difference, there is no change to the manner in which the Corporation accounts for this investment in London Hydro.

# Accounting estimates

Under generally accepted accounting principles, Management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.” We consider the landfill closure liabilities and accrued legal liabilities to be critical accounting estimates.

## Critical accounting estimates

Asset / liability	KPMG comment
Landfill closure and post-closure liability	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>At December 31, 2015, the landfill accrual amounts to \$33.6 million (2014 - \$29.1 million), \$24.2 million of which related to the future closure of the active landfill and \$9.4 million relating to monitoring of closed landfills.</li> <li>We obtained an understanding of the calculation through discussions with the Corporation’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.</li> </ul>
Accrued liabilities	<ul style="list-style-type: none"> <li>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.</li> <li>Included within this balance are significant estimates related to provisions for personnel and legal matters in the amount of \$19.8 million (2014 - \$14.4 million). The accrual for personnel matters amounted to \$17.1 million (2014 - \$13.4 million) and includes amount for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters</li> </ul>

---

amounted to \$2.7 million (2014 - \$1 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.
- 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 the amount in the range that 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 believe Management's process for identifying critical accounting estimates is considered adequate.

# Data & Analytics in the audit

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit.

We have summarized areas of the audit where D&A tools and routines were used.

Area(s) of focus	D&A tools and routines	Our results
Journal entry testing	<ul style="list-style-type: none"> <li>Utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing as a response to the fraud risk from Management override of controls.</li> </ul>	No indications of fraud or Management override of controls in the journal entries selected for testing.
Tangible Capital Assets - WIP	<ul style="list-style-type: none"> <li>Utilized computer-assisted audit techniques (CAATs) to compare the WIP detail in F2015 to the WIP detail in 2014, testing any projects that did not incur costs in F2015 and still remain in WIP. To obtain audit evidence over the completeness of TCA and amortization expense.</li> </ul>	No issues were noted during the test. WIP assets selected for testing were appropriately classified in WIP.
Tangible Capital Assets - disposals	<ul style="list-style-type: none"> <li>Utilized computer-assisted audit techniques (CAATs) to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. To obtain audit evidence over existence of TCA.</li> </ul>	No issues were noted during testing.
Holdback Accrual	<ul style="list-style-type: none"> <li>Utilized computer-assisted audit techniques (CAATs) to compare the TCA WIP listing to the holdbacks accrual listing, testing any significant WIP project that did not have a corresponding holdback accrual. To obtain audit evidence over the completeness of holdback accruals.</li> </ul>	No issues were noted during testing.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's 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.

We also highlight the following:

**Form, arrangement, and content of the financial statements**

Appropriate.

**Application of accounting pronouncements issued but not yet effective**

- PS3450 Financial Instruments – applicable for the year ending December 31, 2020.
  - PS2601 Foreign Currency Translation – applicable for the year ending December 31, 2020.
- No concerns at this time regarding future implementation.

# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected “adjustments” or Uncorrected “differences.” These include disclosure adjustments and differences.

Professional standards require that we request of Management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of Management.

## Corrected adjustments

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

## Uncorrected differences

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

# Adjustments and differences

Based on both qualitative and quantitative considerations, Management have decided not to correct certain differences and represented to us that the differences—individually and in the aggregate—are, in their judgment, not material to the financial statements.

As at and year ended December 31, 2015

Description of differences greater than \$670,500 individually	Annual surplus effect	Financial position		
		Assets	Liabilities	Equity
	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
To record the fair market value of land donated in prior years – out of period adjustment required to bring statement of financial position to correct values at December 31, 2015.	(1,903,356)	-	-	-

We concur with Management’s representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors’ report.

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

## Significant deficiencies

Description	Potential effect
-------------	------------------

No significant control deficiencies were noted. Please see other control observations on the following page.	
--	--

---

# Control observations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

## Other control observations

Below is a summary of these other control observations that we identified during the audit:

Description	Potential effect
Payroll – Agency 3	<p>During our control testing over payroll, we noted two instances where there was a significant time lag between when the employees were terminated and when the payroll department received the termination form. These instances both related to Agency 3 – Casual workers and as such we do not consider this to be a pervasive deficiency. As a result of this time lag, the employees were paid nominal amounts for statutory holidays that they were not entitled to.</p> <p>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. We recommend that Management implement a process whereby all terminations are forwarded to the payroll department in a timely manner and Managers review any pay subsequent to termination to ensure that it is warranted.</p>
Donated land	<p>As Management was going through the process of reconciling their master land database to the GL as part of the work done over identifying any liabilities for contaminated sites, they identified several parcels of land that had been donated between 2008 and 2014 that were not in the GL. Under PSAS, in kind donations are required to be recorded at their fair market values at the time of donation.</p> <p>In the current year, Management has recorded an entry to set up the fair market values of this land, with the corresponding credit to other revenue – see the uncorrected audit misstatement discussed on page 15. We understand that on a go forward basis, Management plans to continuously reconcile their master land database to the GL and to the Municipal Property Assessment Corporation’s tax roll to ensure that all land inventory is captured in the GL.</p>
Trade accounts payable and accrued liabilities	<p>While performing sampling over trade accounts payable, we noted one item that had been set up in the incorrect fiscal year and another that had been accrued to budget. PSAS requires that liabilities be recorded when there is an obligation to pay and when the amount of the obligation can be reasonably estimated, ideally based on actual usage or historical experience. While neither of these resulted in</p>

proposed audit adjustments as they were insignificant, one of the errors did result in us having to extend our sample over accounts payable in order to obtain the necessary audit evidence. We found no additional errors in our extended testing and we were therefore able to conclude that the population did not contain a material misstatement.

We recommend that Management provide additional training to staff surrounding the recording of accounts payable and accrued liabilities and Management has agreed to do so.

# Appendices

---

**Appendix 1: Required communications**

---

**Appendix 2: Value for fees**

---

**Appendix 3: Audit Quality and Risk Management**

---

**Appendix 4: Data & Analytics in the Audit**

---

**Appendix 5: Current developments**

---

# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – we will obtain from Management at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee. The management representation letter is attached.
- **Independence letter** - while professional standards no longer require that we communicate our independence on an annual basis to private entities, we chose to continue to do so for the comfort of the Audit Committee in knowing that we are independent of the Corporation and its related entities. The independence letter is attached.

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of London, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of London as at December 31, 2015, and its consolidated results of operations, its consolidated changes in net debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

June 23, 2016

London, Canada

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, 2015 the statements of operations, change in net debt and cash flows for the year ended December 31, 2015, 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

---

Ms. Anna Lisa Barbon, Director of Financial Services

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, 2015  
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
To record value of donated land from 2008 to 2014.	F	1,730	-	-	-
<b>Total misstatements</b>		<b>1,730</b>	-	-	-

**Attachment II – Summary of Audit Misstatements Schedule(s)**

**The Corporation of the City of London  
December 31, 2014  
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
To record value of donated land from 2008 to 2014.	F	(24)	1,730	-	1,706
<b>Total misstatements</b>		-	-	-	-



*KPMG LLP  
140 Fullarton Street Suite 1400  
London ON N6A 5P2  
Canada  
Tel 519 672-4800  
Fax 519 672-568*

**Audit Committee**

The Corporation of the City of London  
300 Dufferin Avenue  
London, ON N6A 4L9

June 21, 2016

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Corporation of the City of London (the “Corporation”) (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 Corporation (and its related entities) from January 1, 2015 up to the date of this letter:



<b>Description of Professional Services</b>
<p><b>Audit and audit related</b></p> <ul style="list-style-type: none"><li>- Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2015</li><li>- Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2015, as outlined in our engagement letter</li><li>- Audit of the financial statements of the City of London Immigration Portal</li><li>- Audit of the Dearness Program Report and Dearness Long-Term Care Report</li><li>- Audit of Water Financial Statements and specified auditing procedures over Water projects, as required by Ministry agreements</li><li>- Review of Childcare Program Envelopes</li><li>- Federal audit of Homelessness Partnering Strategy</li><li>- Specified auditing procedures over the City of London Closed Circuit Television System for the year ended 2015</li></ul>
<p><b>Tax</b></p> <ul style="list-style-type: none"><li>- Preparation of corporate tax return for London Middlesex Housing Corporation</li><li>- Preparation of corporate tax return for Eldon House</li></ul>
<p><b>Advisory</b></p> <ul style="list-style-type: none"><li>- Tax planning for London Housing Development Corp.</li></ul>

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 Corporation (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2015 up to the date of this letter.

**CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to the Corporation (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, 2015 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,

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.

Chartered Professional Accountants, Licensed Public Accountants

# Appendix 2: Value for fees

## The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of the audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the Corporation and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. **We know that you expect this of us.**

We understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit.

We welcome your feedback.

- Extensive industry experience on our audit team – as you have experienced, the senior members of our team have extensive experience in audits of public sector organizations. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you;
- Regular current development updates – We organize tailored information on current developments on financial reporting and other matters that are likely to be significant to the Corporation and your team. This information will assist the Corporation in proactively responding / addressing to financial reporting and regulatory changes;
- Involvement of specialists – Our audit team is supported by KPMG specialists in indirect taxes and information systems. We expect each of the specialists to provide insights and observations resulting from their audit support processes;

# Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 4: Data & Analytics in Audit

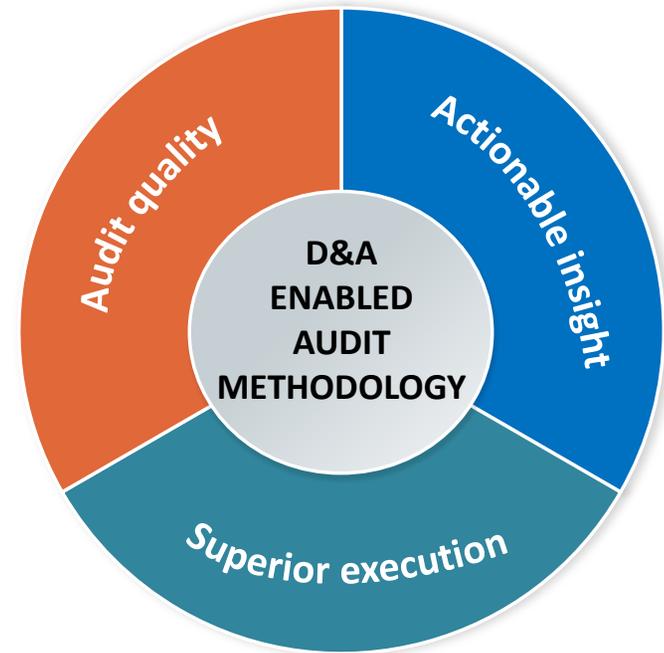
## Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies. Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

## KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.



### FOR THE AUDIT

#### AUDIT QUALITY

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

### FOR YOUR BUSINESS

#### ACTIONABLE INSIGHT

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?

# Appendix 5: Current developments

The following is a summary of the current developments that are relevant to the Company:

Topic	Summary and implications
Cyber security	<p>The threats from cyber adversaries are continuing to grow in scale and sophistication. NPOs worldwide now openly acknowledge that cyber attacks are one of the most prevalent and high impact risks they face.</p> <p><a href="#">Cyber security for Canada's Not-for-Profit Organizations – Attack is certain – Your loss is not</a></p>
Employer compliance audits	<p>Recently, Canada Revenue Agency (“CRA”) has demonstrated a renewed focus on “Employer Compliance Audits”, which include a review of various employer-provided benefits, as well as the nature of the relationship that exists between an employer and its employees and other third party consultants.</p> <p><a href="#">Employer compliance audits – Are your benefits taxable?</a></p>
Assets safeguarding	<p>Fraud can derail the good work an NPO performs. Both the financial loss and the reputational damage that result from an incident of fraud can have lasting consequences and tarnish the goodwill created by the NPO’s past efforts.</p> <p><a href="#">Safeguarding Not-for-Profit Organizations from fraud</a></p>
Income tax issues associated with operating a business	<p>The funding landscape for organizations in the public sector has changed dramatically over the last number of years. Government or public funding agencies no longer have the ability to fully support public purpose organizations that were established legally as either Charities or NPO’s for tax purposes.</p> <p><a href="#">The income tax issues associated with operating a business within a Charity or Not-for-Profit organization</a></p>

### **[kpmg.ca](http://kpmg.ca)**

KPMG LLP, an Audit, Tax and Advisory firm ([kpmg.ca](http://kpmg.ca)) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”). KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

© 2016 KPMG LLP, 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. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.