



# The Corporation of the City of London

**Audit Findings Report**  
**For the year ended December 31, 2016**



Licensed Public Accountants

Prepared as of June 2, 2017 for presentation on June 19, 2017

[kpmg.ca/audit](http://kpmg.ca/audit)



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# 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 as at and for the year ended December 31, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 15, 2017.

## 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 – 7.

## Adjustments and differences

See page 14 for details of uncorrected audit misstatements.

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 2, 2017 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completion of our legal testing procedures, including obtaining responses to our external legal letters;
- completion of a journal entry transaction reconciliation required to complete our procedures over journal entries;
- tie-out of the consolidation workbook and financial statements, including notes;
- obtaining a response to our actuarial enquiry letter;
- 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 the following:

- processing of payroll for casual employees
- calculation of payroll vacation accruals
- authorization of payroll timesheets
- recording accounts payable
- calculation of liability for contaminated sites

See pages 15 - 17.

## Critical accounting estimates

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

The critical areas of estimates relate to: employee future benefits, liabilities for contaminated sites, landfill closure and post-closure liability and other accruals.

See pages 9 - 10.

## 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 and any other standards or applicable legislation or regulation.

## 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.

# 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.

Significant financial reporting risks	Our response and significant findings
Completeness of accruals	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>We obtained an understanding of management's process and calculations.</li> <li>We obtained corroborative evidence to support management's assumptions and reviewed subsequent payments where possible.</li> <li>We sent legal letters to internal and external legal counsel, reviewed Council minutes, severance agreements, reports prepared by external consultants etc. to identify any potential unrecorded liabilities.</li> </ul> <p><i>Findings</i></p> <ul style="list-style-type: none"> <li>No significant issues were noted.</li> </ul>

# Other areas of focus

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 focus	Our response and significant findings
Capital projects and acquisitions	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>KPMG performed substantive testing over capital additions and disposals, including the determination of when capital expenditures are transferred from assets under construction and amortization begins.</li> <li>KPMG reviewed management's determination of the useful lives of capital assets and the related amortization rates. KPMG also recalculated amortization expense.</li> <li>KPMG used data and analytics to perform specific tests regarding WIP transfers, holdbacks and disposals of tangible capital assets.</li> </ul> <p><i>Findings</i></p> <ul style="list-style-type: none"> <li>No issues were noted in the testing performed.</li> <li>There have been no changes to the amortization rates used in the prior year which are reasonable given the nature of assets and their useful lives.</li> <li>See page 11 for further details on the data and analytics performed.</li> </ul>
Payroll and employee future benefits	<ul style="list-style-type: none"> <li>The balance of employee future benefits is comprised of the following:                             <ul style="list-style-type: none"> <li>Post-employment and post-retirement benefits of \$86 million (2015 - \$83 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;</li> <li>WSIB accrual of \$43.3 million (2015 - \$50.4 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;</li> <li>Vacation liability of \$16.3 million (2015 - \$15.6 million) – relates to vacation credits earned but not taken by employees as at December 31; and</li> <li>Unused sick leave liability of \$3.2 million (2015 - \$3.9 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination.</li> </ul> </li> <li>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.</li> <li>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 and extrapolated for fiscal 2016.</li> </ul>

	<ul style="list-style-type: none"> <li>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.</li> </ul> <p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>KPMG obtained corroborative evidence to support test the reasonableness of assumptions provided by management to the actuaries that are used in developing the valuation and calculating the liability.</li> <li>In a prior year, KPMG performed testing over the employee attributes provided to Mercer to perform the valuation.</li> <li>KPMG agreed the WSIB accrual to the statement received from the WSIB.</li> <li>KPMG took a combined approach to testing payroll expense, which included both substantive and control testing.</li> </ul> <p><i>Findings</i></p> <ul style="list-style-type: none"> <li>Based on work performed over assumptions used in the actuarial valuation, KPMG concurs with Management that these amounts are fairly stated as at December 31, 2016.</li> <li>Control observations have been identified as a result of our procedures. The control observations have been summarized on pages 16-17.</li> </ul>
Taxation, user charges, and transfer payments revenue	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> <li>KPMG performed substantive procedures over these revenue streams by inspecting the supporting billings and tracing to cash receipt in the bank.</li> <li>KPMG ensured revenue was recorded in the correct fiscal period by reviewing a sample of revenue transactions prior and subsequent to year-end and ensuring appropriate cut-off was achieved.</li> <li>KPMG assessed the reasonability of property tax revenues based on the assessed values of properties provided by the Municipal Property Assessment Corporation and Council-approved tax rates.</li> </ul> <p><i>Findings</i></p> <p>No issues were noted in the testing performed.</p>

## Other matters

Other matters to discuss	Our audit approach
<b>Southwest Community Centre Joint Venture</b>	<p>During fiscal 2016, the Corporation entered into a joint venture with the YMCA of Western Ontario and London Public Library Board to design, construct, and operate a multi-use community facility for approximately \$54 million.</p> <p>KPMG has discussed this agreement with management and obtained their documentation of the accounting treatment of the transaction and reviewed it to ensure appropriate. No issues were noted as a result of these procedures.</p>
<b>Ontario Works</b>	<p>In November 2014, the Province of Ontario moved to a new IT system for Ontario Works ("OW"). Since then, the Corporation has had difficulty obtaining reliable financial reporting information from the Province in order to determine the classification of OW expenditures.</p> <p>As of April 1, 2016 and going forward, the Corporation has been able to obtain the necessary information from the Province; however, reconciliations for the period from November 2014 to March 2016 are still outstanding. As such, the Corporation has set up an accrual for this period. It is expected that the Province will continue to move backwards to reconcile this remaining period.</p> <p>Management developed a method to estimate classification and KPMG audited this process and reviewed significant estimates in the prior year. In the current year, KPMG audited the additional three months that were accrued for in fiscal 2016. No issues were noted as a result of this testing.</p>
<b>Debt Issuances</b>	<p>Debentures totalling \$30.0 million were issued in F2016. KPMG reviewed the accounting for these transactions. Furthermore, KPMG obtained documentation to support authorization of the debentures. No issues were noted as a result of procedures performed.</p>
<b>Board &amp; Commissions</b>	<p>The Housing Development Corporation is a new entity that was incorporated in fiscal 2015 and was reported on for the first time in the current fiscal year. KPMG agreed the audited financial statement balances of Housing Development Corporation, London to Management's consolidation workbook.</p>

# Critical 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
<b>Landfill closure and post-closure liability</b>	<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, 2016, the landfill accrual amounted to \$34.4 million (2015 - \$33.6 million), \$24.9 million of which related to the future closure of the active landfill and \$9.5 million relating to monitoring of closed landfills.</li> <li>• We obtained an understanding of the calculation through discussions with the Corporation's Solid Waste Management Division Manager. 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>
<b>Accrued liabilities</b>	<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 \$20.8 million (2015 - \$19.8 million). The accrual for personnel matters amounted to \$17.1 million (2015 - \$17.1 million) and includes amount for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$3.7 million (2015 - \$2.7 million) and is comprised of lawsuits brought against the Corporation by external parties.</li> </ul>

- 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.
- Also included within this balance are significant estimates related to liabilities for contaminated sites. A liability of \$1.3 million (2015 - nil) for remediation of contaminated sites has been recognized, net of any expected recoveries.
- We obtained an understanding of the calculation through discussions with Management and obtained corroborative evidence to support assumptions.
- Management has accrued these amounts based on reports prepared by independent consultants to estimate the cost of remediation.
- 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;
  - Reviewed results of the environmental assessment prepared by independent third party consultants; 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	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.	No issues noted during the test.
Tangible capital assets - WIP	Utilized CAATs to compare the WIP detail in fiscal 2016 to the WIP detail in fiscal 2015, testing any projects that did not incur costs in fiscal 2016 and still remain in WIP. This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense.	No issues were noted during the test. WIP assets selected for testing were appropriately classified in WIP.
Tangible capital assets – Disposals	Utilized CAATs to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. This routine obtained audit evidence over existence of tangible capital assets.	No issues noted during the test.
Holdback accrual	Utilized CAATs to compare the tangible capital asset WIP listing to the holdbacks accrual listing, testing any significant WIP project that did not have a corresponding holdback accrual. This routine obtained audit evidence over the completeness of holdback accruals.	No issues noted during the test.

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Corporation'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** Adequate

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

- PS 3210 Assets – applicable for the year ending December 31, 2018
- PS 3320 Contingent Assets – applicable for the year ending December 31, 2018
- PS 3380 Contractual Rights – applicable for the year ending December 31, 2018
- PS 2200 Related Party Transactions – applicable for the year ending December 31, 2018
- PS 3420 Inter-Entity Transactions – applicable for the year ending December 31, 2018
- PS 2450 Financial Instruments – applicable for the year ending December 31, 2020
- PS 2601 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 differences be corrected. We have already made this request of management.

## Corrected adjustments

We did not identify any adjustments that were 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.

See page 14 and Appendix 3.

# Differences

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

As at and year ended December 31, 2016	Annual surplus effect	Financial position		
		Assets	Liabilities	Equity
Description of differences greater than \$755,000 individually	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
To record the overstatement of other revenue – out of period adjustment to record reserve funds held by a third party. The adjustment is required to bring the statement of financial position to correct values at December 31, 2016.	(2,928,286)	-	-	-
<b>Total differences</b>	<b>(2,928,286)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 pages 16-17.	

# Control observations

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

## Other control deficiencies

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

Description	Potential effect
Payroll – Agency 3	<p>During our control testing over payroll, we noted one instance where there was a significant time lag between when the employee was terminated and when the payroll department received the termination form. This instance 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 employee was 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 for Agency 3 is not considered significant to the financial statements. KPMG recommends 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>
Payroll – vacation accrual	<p>While performing sampling over vacation accruals, we noted one instance where an employee who transferred to Agency 9 accrued vacation in excess of their annual entitlement. KPMG obtained an understanding of the nature of the misstatement and noted that the risk is limited to employees transferring to Agency 9. As a result of the identified misstatement, Management reviewed vacation accrual calculations for all employees who transferred to agency 9 from January 1, 2015 to December 31, 2016. Management's review identified additional errors. KPMG notes that the quantified error is below our audit misstatement posting threshold. As such, an audit adjustment related to this error has not been proposed.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant deficiency due to the fact that the impact is limited in nature and did not result in a misstatement that exceeded our threshold. KPMG recommends that management implement review procedures to ensure that vacation accrual dates are appropriately updated in the system at the date of transfer.</p>
Payroll – approval and authorization	<p>During our control testing over payroll, we noted one instance where an employee possessed signing authority to approve their own electronic timesheet. KPMG obtained an understanding of the exception and noted the existence of compensating controls. We performed testing over the compensating controls and note that they are operating effectively.</p> <p>The deficiency did not result in a misstatement in the financial statements. We recommend that on a go forward basis, Management implement sufficient controls to ensure that timesheets are subject to the appropriate level of approval.</p>



Trade payables and accrued liabilities	<p>While performing procedures over accrued liabilities, we noted an instance where TCA purchased in F2017 was incorrectly included in current year accounts payable. While the misstatement did not result in a proposed audit adjustment, the error did result in us having to perform additional procedures to obtain the necessary audit evidence. The additional procedures identified further errors related to TCA purchases that related to F2017. KPMG quantified the impact of the misstatements and noted that the quantified error was below our audit misstatement reporting threshold for reclassifying misstatements. As such, an audit adjustment related to this error has not been proposed.</p> <p>We recommend that Management provide additional training to staff surrounding the recording of accounts payable and accrued liabilities at year end to ensure appropriate cut-off.</p>
Liability for contaminated sites	<p>While performing procedures over the manual database used to track land inventory and assess the likelihood of contamination, KPMG identified one instance where evidence of contamination was present and a liability had not been accrued. While the misstatement did not result in a proposed audit adjustment, the error did result in us having to extend our sample to obtain the necessary audit evidence. No errors were noted in the extended sample.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant deficiency due to the fact that the risk is limited to the liability for contaminated sites. KPMG recommends that Management implement a more collaborative approach to reviewing the land master database whereby the Tangible Capital Assets, Environmental Services and Realty Services departments are actively involved in review of the master database. KPMG also recommends automating the process for tracking land inventory to reduce the risk of manual input errors.</p>

# Appendices

- [Appendix 1: Required communications](#)
- [Appendix 2: Independence](#)
- [Appendix 3: Management representation letter](#)
- [Appendix 4: Audit Quality and Risk Management](#)
- [Appendix 5: Background and professional standards](#)
- [Appendix 6: 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 the signed management representation letter from Management at the completion of the annual audit. In accordance with professional standards, copies of the management representation letter will be provided to the Audit Committee.  
*See Appendix 3.*
- **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. We have attached our independence letter.  
*See Appendix 2.*

## Appendix 2: Independence

# Appendix 3: Management representation letter

# Appendix 4: 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 our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- 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 5: Background and professional standards

### Internal control over financial reporting

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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

### Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

## Appendix 6: Current developments

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**Audit Committee**

The Corporation of the City of London  
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London, Ontario N6A 4L9

June 19, 2017

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, 2016 up to the date of this letter:

Description of Professional Services
<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, 2016</li> <li>• Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2016, as outlined in our engagement letter</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 2016</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> <li>• Preparation of corporate tax return for Housing Development Corporation, London</li> <li>• Preparation of corporate tax return for Argyle Business Improvement Area Board of Management</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 Entity (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2016 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, 2016 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,

Chartered Professional Accountants, Licensed Public Accountants

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

June 19, 2017

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").

*General:*

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

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

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016, 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, including the names of all related parties and information regarding all relationships and transactions with related parties, 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
  - 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

*Subsequent events:*

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

*Related parties:*

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

*Estimates:*

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

*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.

*Non-SEC registrants or non-reporting issuers:*

- 10) 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.

*Commitments & contingencies:*

- 11) 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

*Accounting Policies:*

- 12) The accounting policies selected and applied are appropriate in the circumstances.
- 13) 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:*

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

*Estimates / Measurement Uncertainty:*

- 15) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 16) 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:*

- 17) 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.
- 18) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 19) 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.
- 20) 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.
- 21) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 22) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

*Comparative Figures/Financial statements:*

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

*Receivables:*

- 24) 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:*

- 25) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 26) 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:*

- 27) 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:*

- 28) 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:*

- 29) 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:*

- 30) 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.
- 31) 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.
- 32) 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:*

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

- 42) 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.
- 43) 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:*

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

Yours very truly,

---

Ms. Anna Lisa Barbon, Managing Director, Corporate Services, City Treasurer, Chief Financial Officer

---

Mr. Martin Hayward, City Manager

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

cc: Audit Committee

***Attachment I – Definitions***

***Materiality***

Certain representations in this letter are described as being limited to matters that are material. 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 public sector accounting standards *related party* is defined as:

- A situation when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with public sector accounting standards 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. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. 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, 2016  
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 overstatement of other revenue – out of period adjustment to record reserve funds held by a third party. The adjustment is required to bring the statement of financial position to correct values at December 31, 2016	F	(2,928)	-	-	-
<b>Total uncorrected misstatements</b>		<b>(2,928)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 correct understatement of other revenue and reserve funds held by a third party	F	2,928	2,928	-	2,928
<b>Total uncorrected misstatements</b>		<b>2,928</b>	<b>2,928</b>	<b>-</b>	<b>2,928</b>



# Asset Management Evolution

Change is coming in 2017 for Ontario's Municipalities

Coming asset management regulations will change infrastructure planning and reporting requirements for Ontario municipalities. KPMG's Infrastructure team is ready and well positioned to support Cities and municipal governments of all sizes in making the needed transition.

### What's changing?

In Ontario, the Infrastructure for Jobs and Prosperity Act, 2015 provides the Provincial Government with the mandate and power to regulate infrastructure asset management across the public sector. Currently under development, a new Asset Management Regulation will be introduced, initially focusing on Municipalities and building upon the current asset management planning and reporting framework, requiring organizations to think more strategically about their infrastructure. The Regulation will take steps to improve spending transparency and defensibility, and better plan-for and accommodate long-term needs and priorities. The Regulation will be introduced and come in to effect this summer. Milestones will be set to guide business improvements and support internal capacity building within impacted organizations. Compliance requirements will be phased in gradually from 2019 – 2022. Despite the extended implementation period, the nature and depth of required business transformation can be significant, and the time to start discussion is now.

#### New requirements include:

- Establishing strategic asset management policy to cement organizational accountability and commitment
- Building capacity and supports to support leadership and staff in transitioning plans into action
- Expanding the definition and use of Levels of Service as drivers for investment and a basis for decision making
- Strengthening lifecycle management analysis to support indeed information-driven plans and decisions
- Monitoring and reporting progress through formal updates to Council

### Why is this important?

Faced with aging infrastructure, growing demands for service and changing operating environments, Ontario's Municipalities are challenged to control costs and get more out of their asset base. A structured and robust approach to Infrastructure Asset Management helps organizations make informed and effective plans and decisions, align capital and operations spending with goals and priorities, and manage the trade-offs between service, risk and cost over the asset lifecycle.

To encourage adoption across the municipal sector, the Provincial and Federal Governments are making Asset Management a priority and a core consideration in grant funding rationalization. A proactive approach in addressing these requirements will position municipalities to capitalize on future funding opportunities.

### What is an Asset Management Plan?

A growing requirement across Canada, Asset Management Plans (AMPs) present clear, multi-year strategies for managing infrastructure assets to meet defined business and service objectives. When prepared properly, these plans establish line-of-sight between business requirements, service outcomes, and needed infrastructure and operational investments, and present options for meeting the associated financial requirements. This process is meant to integrate with and support the organization's budgeting and long term financial planning activities providing the timing of, and justification-for needed investment.

Goals and Objectives	Desired Level of Service	State of Infrastructure	Management Strategy	Financial Strategy
<ul style="list-style-type: none"> <li>• Why are we here?</li> <li>• What is our vision and what do we want to achieve?</li> </ul>	<ul style="list-style-type: none"> <li>• What services do we need to support these goals?</li> <li>• At what level do we need to provide them?</li> </ul>	<ul style="list-style-type: none"> <li>• How does our infrastructure support delivery?</li> <li>• Where are the gaps and opportunities?</li> </ul>	<ul style="list-style-type: none"> <li>• What do we need to do to achieve this?</li> <li>• What capital and operating investments are needed?</li> </ul>	<ul style="list-style-type: none"> <li>• What will this cost and how will we afford?</li> <li>• What trade-offs are needed to make this sustainable?</li> </ul>

## How can we help?

KPMG is recognized as a leader in public sector infrastructure asset management in Ontario and across Canada. Our team has a proven track record of helping government, and public agency and utility clients of all sizes in better understanding, planning-for and targeting infrastructure and operational investment to meet their business and service requirements. We offer several services which are capable of helping your community in preparing for the coming Regulation and in meeting your long-term needs:

**Aligning Infrastructure Views** – Public infrastructure assets are more than just concrete, glass and steel – they are tools for service delivery. Our team works closely with council, finance, engineering and operations to establish a unified view of a community's infrastructure, how it supports business and service objectives, and current and future challenges it will face. We then build upon this vision to establish policies strategies and tools needed to evaluate needs and priorities, and effectively target available resources.

**Developing and Enhancing Asset Management Plans** – Over the past three years, KPMG has worked with over 40 municipalities across Ontario in meeting current asset management planning requirements. Recognized as some of the best produced in Ontario, our plans go beyond minimum requirements to support clients in making fiscally responsible investments that manage risk, while supporting economic growth and satisfying changing needs and demands for service. They support municipal Councils and leadership in making the best possible decisions regarding the building, operating, maintaining, renewing, replacing, and disposing of infrastructure assets, and in making the case for sustained infrastructure investment within their communities.

**Strengthening Asset Management Functions and Supports** – Sound Policy and Governance, People, Process, Data and Technology are the enablers needed to successfully introduce and support asset management within any organization. We work closely with staff and leadership to evaluate current operations, identify gaps and opportunities, establish a clear roadmap to improvement, and enable the needed business change.

**Capitalizing on Funding Opportunities** – The Federation of Canadian Municipalities, with funding from Infrastructure Canada, has launched the \$50 Million Municipal Asset Management Program (MAMP) and the \$75 Million Municipalities for Climate Innovation Program (MCIP) to provide municipalities with access to funding, training and learning opportunities to increase their capacity to protect and sustain their core infrastructure systems. KPMG has been anticipating the launch of these initiatives in Spring 2017, and is well positioned to support municipalities in leveraging these programs to advance their capability.

## Where to from here?

The Ministry of Infrastructure has been socializing the Regulation at recent conferences and industry events, leaving many municipalities with questions and concerns. As trusted advisors, KPMG remains ready to support you in processing this information and in considering its implications to your own organization. We have up to date information available on the Regulation and the state of asset management across Ontario. Please consider involving us as you consider your next move.

## KPMG's Infrastructure Team

**We thrive on complex, end to end infrastructure challenges that demand situational agility and unparalleled tenacity.**

Our team is made up of today's foremost infrastructure practitioners with deep experience across industries, disciplines, borders, and at all stages of an asset's lifecycle. We custom create our teams depending on the unique requirements and challenges of each project. We work shoulder to shoulder with our clients from beginning to end, and are only satisfied when a successful outcome is achieved.

**With KPMG, our clients have access to:**

### Multi-disciplinary teams

We assemble customized teams drawn from the smartest, insightful and experienced infrastructure problem solvers in Canada – moreover, we are able to supplement these teams with a global network of over 3,000 infrastructure colleagues who are available to assist our clients.

### Knowledge and experience

In depth knowledge and experience at all stages of the infrastructure lifecycle.

We can help our clients anticipate and address major issues related to complex situations.

### Diverse industry background

We employ leading professionals across disciplines and sectors – including public infrastructure, mining, power and utilities, and oil and gas.

### Recognized market leaders

We are recognized as a market leader within the industry, and are active in advancing the state of the art in public infrastructure – from planning and strategy, to finance and procurement to construction and commissioning to operations and maintenance. We are uniquely qualified to support infrastructure owners, builders, operators and investors in meeting their business needs.

## Contact us

**Ross Homeniuk**  
National Leader,  
Asset & Operational Performance  
Deal Advisory, Infrastructure  
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