KPMG
cutting through complexity™

AUDIT

The Corporation of the City of London

Audit Findings Report

For the year ending December 31, 2011

KPMG LLP, Chartered Accountants, Licensed Public Accountants

kpmg.ca

Dear Audit Committee members,

We have prepared this audit findings report to assist you with your review of the financial statements and the carrying out of your audit committee responsibilities. We are here to help. We encourage you to ask us for more information on any of the matters covered in this report—and beyond.

Audit quality

The quality of an audit and the resulting financial statements are receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.

Reaching out to audit committees

KPMG's Audit Committee Institute holds Audit Committee Roundtables across the country twice yearly. You are cordially invited to attend. For information and registration, please visit www.kpmg.ca/auditcommittee/roundtables.html.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions at the upcoming audit committee meeting.

Yours sincerely,

Ian J. Jeffreys

Contents

Executive summary

Overview

The purpose[1] of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the consolidated financial statements of the Corporation of the City of London for the year ended December 31, 2011.

Status

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

- obtaining a signed management representation letter
- completing our discussions with the audit committee
- obtaining evidence of the Council's approval of the financial statements
- completing our discussions with management regarding subsequent events

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

[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Significant audit, accounting and reporting matters

Matters to discuss

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

Matters related to management's judgment and estimates

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

Valuation of taxes receivable

- The valuation related to tax registered properties requires significant estimates to be made by management.
- Total tax registrations and the provision for tax registrations at December 31, 2011 (with comparative amounts presented) are as follows:

Tax registrations	Total ('000s)	Provision	Provision - %
12/31/11	12,383	9,339	75%
12/31/10	12,290	8,947	73%
12/31/09	11,191	8,165	73%
12/31/08	9,573	6,632	69%

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

  The final allowance for doubtful accounts estimate is reviewed and approved by the senior finance team.

KPMG comments

- With respect to the valuation of taxes receivable, we have, in accordance with the audit plan:
  - Updated our understanding of the activities over the systems that record and age taxes receivable
  - Reviewed the Corporation's taxes receivable aging reports

- Reviewed management's analysis of the provision

- Based on procedures performed, nothing has come to our attention that would cause us to believe that the allowance is materially misstated as at December 31, 2011.

Misstatements

- No misstatements were noted as a result of work performed.

Significant deficiencies

- No control deficiencies were noted as a result of work performed.

Employee benefits payable

- The balance of employee future benefits is comprised of the following:
  - Post-employment and post-retirement benefits of $63.7 million (2010 - $58.2 million) – includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
  - WSIB accrual of $32.0 million (2010 - $25.5 million) – as a Schedule 2 Employer the Corporation must finance its own costs related to WSIB;
  - Vacation liability of $14.3 million (2010 - $13.6 million) – vacation credits earned but not taken by employees as at December 31, and;
  - Unused sick leave liability of $7.3 million (2010 - $8.5 million) – represents liability for accumulated vested sick days that could be taken in cash by an employee on termination.
- The calculation of employee benefits payable requires management to make certain estimates, including estimates of discount rate, salary escalation, retirement age, expected health care and dental costs, and estimated claim costs.
- The liability for the post-employment and post-retirement benefits is determined through an actuarial valuation prepared by Mercer. The most recent valuation report was prepared by Mercer as of December 31, 2009 and extrapolated to December 31, 2011. Management indicated that the assumptions used to develop the 2009 valuation report have not materially changed and therefore there was no reason to update the 2009 report. We corroborated management's assertion by reviewing documentation to support that no significant changes have occurred in the discount rate, salary escalation, retirement age and other variable factors.
- The liability for workplace safety and insurance costs is determined by WSIB and adjusted for other costs known to management, such as claims that existed at year end but were not submitted to WSIB as at December 31, 2011.
- The vacation and unused sick leave liabilities are accrued in the financial statements when they are earned by employees.

KPMG comments

- We reviewed the analysis prepared by management and obtained corroborative evidence to support management's assumptions.
- We agreed the amount accrued for WSIB to statement received from WSIB.
- We identified no other significant matters related to the balance of employee benefits payable and concur with management that these amounts are fairly stated at December 31, 2011.

Misstatements
• See the schedule of corrected audit misstatements for a correction to the WSIB liability that was recorded.
Significant deficiencies
• No control deficiencies were noted as a result of work performed.

Landfill closure and post-closure liability
• The Corporation is required to accrue anticipated closure and post-closure costs for existing and closed landfill sites in accordance with the Ontario Environmental Protections Act and PS 3270. • The liability is the estimated cost to date, based on a volumetric basis, of the expenditures relating to those activities required when the site stops accepting waste. • Determination of this liability is dependent upon significant management estimates including expected and remaining capacity of the landfill, expected closing costs and estimated time needed for post-closure care. • The estimated liability for the landfill sites is calculated as the present value of anticipated future cash flows associated with closure and post-closure costs. • At December 31, 2011 the landfill accrual amounted to $23.2 million (2010 - $23.2 million), $13.9 million of which related to the future closure of the active landfill and $9.3 million relating to monitoring of closed landfills.
KPMG comments
• We obtained an understanding of the calculation through discussions with the City's engineer. • We reviewed the analysis prepared by management and obtained corroborative evidence to support management's assumptions. • The assumptions used by management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with assumptions and estimates made in other sections of the financial statements.
Misstatements
• No misstatements were noted as a result of work performed.
Significant deficiencies
• No control deficiencies were noted as a result of work performed.

Accrued liabilities
• Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the financial statements. • Included within this balance are significant estimates related to provisions for personnel and legal matters in the amount of $14.3 million (2010 - $8.8 million). The accrual for personnel matters amounted to $10.6 million (2010 - $7.3 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to $3.7 million (2010 - $1.5 million) and is comprised of lawsuits brought against the Corporation by external parties.

- Management has accrued these amounts based on previous experience with matters which were similar in nature, based on information provided by the HR department and based on assessments included in both internal and external legal letters.
- Management has represented that these balances are fairly stated for financial reporting purposes.

KPMG comments

- With respect to accrued liabilities, we have:
  - Discussed with management the nature and rationale for the accrual;
  - Reviewed management's assessment of the likelihood of incurring the liability for each claim, range of possible outcomes, and ensuring that the lowest amount in the range has been accrued in the financial statements;
  - Compared the current period accruals to the amounts accrued at the prior year end for significant fluctuations;
  - Reviewed the Corporation's in-house legal letter for any potentially unrecorded accruals at year end;
  - Reviewed legal letters obtained from external legal counsel to ensure all claims have been accrued at year end and that likelihood of outcome of each claim is consistent with management's assessment, and;
  - Where possible, reviewed subsequent payments to determine whether liability at year end is reasonably stated.
- We identified no significant matters related to this balance and concur with management that it is fairly stated at December 31, 2011.

Misstatements

- No misstatements were noted as a result of work performed.

Significant deficiencies

- No control deficiencies were noted as a result of work performed.

Other matters

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

Correction of prior period error in the current period (tangible capital assets and accumulated surplus)
• Rear Yard Catchbasins ("RYCB's") refer to catchbasins that are located on private property. Prior to 1990, it was standard practice for the City to assume ownership of all RYCB's on all new subdivisions by taking an easement in favour of the City. Due to ongoing problems when dealing with RYCB's, a decision was made to stop assuming ownership of most RYCB's by no longer taking easements. From that point forward, the City did not own most RYCB's in new subdivisions, but since the City still provided limited assistance to the affected homeowners, it was decided to enter RYCB's into the Sewer GIS ("SIMS") database when the system was initially built in the late 1980's. • During the initial implementation of PSAB 3150 – Tangible Capital Assets in 2009, an estimated sewer inventory was obtained from the SIMS database and used as the basis for determining the historical cost of all sewer assets. A standard cost was developed with the assistance of external consultants R.V. Anderson and this cost was applied to the estimated inventory of sewer assets and deflated to the year that each respective asset was placed in service. Since the RYCB's were included in the SIMS database since the late 1980's, they were included as part of the estimated inventory of sewer assets. This has been identified as a prior period error as these catchbasins do not belong to the City and should not be included in the City's tangible capital asset values. • This error was identified during the F2011 updating of TCA sewer inventory. • Management has reviewed the impact of this error and has determined that it is not material to previously issued financial statements from an income statement perspective. As such, management has corrected this error in the current period. • The resulting impact is the removal of tangible capital assets in the current year with a net book value of $19.4 million. This amount was also removed from the accumulated surplus balance in the current year.
KPMG comments
• We have examined the evidence prepared by management to support the correction. We have validated the net book value of the RYCB assets in the amount of $19.4 million. • We have reviewed the SIMS database subsequent to the removal of these items and have noted no further items that are marked as being privately held. • Management has corrected the error in the F2011 financial statements. KPMG reviewed management's treatment of this prior period error and concurs that this is not a material error to the prior period financial statements from a user's perspective and from a quantitative perspective. • When an entity decides to make a correction in the current period for immaterial prior period errors in previously issued financial statements, the disclosures required by the financial reporting framework for corrections of errors are not required as such disclosures relate to the correction of material errors.

Misstatements

- No misstatements were noted as a result of work performed.

Significant deficiencies

- No control deficiencies were noted as a result of work performed.

Issuance of debentures

- During the year the Corporation issued new debentures as follows:
  - $63.4 million through CDS Clearing and Depository Services Inc., with interest ranging from 1.4% to 3.55%, annual principal repayments, and a maturity date of December 2021
  - $15.9 million through Canada Mortgage and Housing Corporation, with interest at 3.23%, annual repayments of principal and interest, and a maturity date of March 2021
  - $52.8 million through Ontario Infrastructure and Lands Corporation, with interest at 2.86%, annual repayments of principal and interest, and a maturity date of December 2021
- Management has recorded the liabilities associated with the new debentures, and has included disclosure in the financial statements with respect to the debentures.

KPMG comments

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

Misstatements

- No misstatements were noted as a result of work performed.

Significant deficiencies

- No control deficiencies were noted as a result of work performed.

Tangible capital assets – WIP transfers and balances

- At any given point in time, the Corporation has tangible capital assets that are under construction and are not yet finalized – these are classified as "assets under construction" and are not amortized until they are available for use. They are transferred from assets under construction to their respective tangible capital asset classes and begin to be amortized once they are available for use.

KPMG comments

- During our F2010 audit we identified assets under construction that were available for use but for which this transfer had not yet occurred and no amortization had been taken. We proposed an audit adjustment to correct this. Management did not correct these in the prior year. This resulted in an understatement of amortization expense and an overstatement of tangible capital assets in the prior year. This also has an impact on the current year as the transfer of these assets into their classes in the current year resulted in one half year's amortization being taken when there should be a full year of amortization taken.

- During our F2011 audit we identified further such assets under construction that should have begun to be amortized in F2011 but were still sitting in assets under construction, as well as items relating to Urban Works projects that should not have been included in WIP. This has resulted in an understatement of amortization expense and an overstatement of tangible capital assets for F2011.
- We recommend that management implement a more frequent review of the amounts that remain in assets under construction to ensure that they are appropriately transferred into their tangible capital asset classes and amortized once they are available for use and that it is appropriate to include them in the WIP balance.

Misstatements

- See the summary of uncorrected misstatements for details of the identified audit misstatements.

Significant deficiencies

- During fiscal 2011, the listing of capital projects included in WIP was reviewed only once at year end. As a result, there were some items that were inappropriately included in this listing at year end. KPMG recommends that a review of the WIP listings be performed throughout the year to identify projects that are available for use and should be transferred into the appropriate asset class. This would result in amortization and non-WIP items being expensed in the appropriate year.
- KPMG understands that management has implemented a more frequent review of this listing in fiscal 2012.

Capital grant obligations

- During the year the Corporation committed to provide grant funding as follows:
  - $20m to Fanshawe College, of which $6m was paid during the year, resulting in the remaining $14m being included in long term liabilities
  - $10m to Western University, of which $5m was paid during the year, resulting in the remaining $5m being included in long term liabilities
- Management has recorded the liabilities associated with the new funding commitments, and has included disclosure in the financial statements with respect to the funding.

KPMG comments

- We have agreed the approval of the funding to the agreements with the third parties
- We have vouched the payments that occurred during the year to their cheques.
- We have reviewed management's treatment of the obligations as liabilities which are accrued in the statement of financial position, as opposed to commitments, which would require note disclosure only, and agree that management's assessment is appropriate and in accordance with the required financial reporting framework.

Misstatements

- No misstatements were noted as a result of work performed.

Significant deficiencies

- No control deficiencies were noted as a result of work performed.

Significant qualitative aspects of accounting practices

The following are the significant qualitative aspects of accounting practices that we plan to discuss with you:

Significant accounting policies	• All significant accounting policies are disclosed in Note 1 to the consolidated financial statements. • There were no new accounting policies adopted, and there were no changes made to existing accounting policies during the year. • KPMG reviewed accounting policies adopted by management, including management's assessment of all accounting policies adopted by the Corporation, and all are considered to be appropriate.
Significant accounting estimates	• Management's identification of accounting estimates • Management's process for making accounting estimates • There are no indicators of management bias as a result of our audit over estimates • Management evaluates these estimates on a regular basis to ensure they are appropriate.
Significant disclosures	• Overall neutrality, consistency, and clarity of the disclosures in the financial statements • All disclosures are as required in accordance with PSAB and are not considered to be significant or sensitive in nature • Overall, the disclosures in the financial statements are clear and are consistent with prior periods.

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements over $442,000, including disclosures
- corrected misstatements over $442,000, including disclosures.

Uncorrected misstatements

Professional standards require that we request of management and the audit committee that all uncorrected misstatements be corrected. We have made this request of management. However, management has decided not to correct certain misstatements and represented to us that the uncorrected misstatements—individually and in the aggregate—are, in their judgement, not material to the financial statements based on both qualitative and quantitative considerations.

We concur with management's representation. Accordingly, the uncorrected misstatements have no effect on our audit report. Refer to Management's representation and the Summary of Uncorrected Audit Misstatements in the Appendices for all uncorrected audit misstatements.

We highlight, however, the following uncorrected misstatements that we have previously discussed in the section "Significant audit, accounting and reporting matters":

		Annual Surplus effect	Financial position		
Description	**F/J/P**	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
To record the impact of 2010 differences on F2011.	F	-	(794,500)	-	(794,500)
To record the 2011 impact of WIP that should have begun to be amortized in F2010.	F	(794,500)	(794,500)	-	-
To expense the costs of consulting on projects that should not be capitalized.	F	(561,764)	(561,764)	-	-
To adjust for Urban Works projects that were erroneously included in WIP.	F	(1,185,392)	(1,201,391)	-	(15,999)
To correct for the under accrual of Urban Works payable.	F	(472,110)	-	472,110	-
Total misstatements		**(3,013,766)**	**(3,352,155)**	**472,110**	**(810,499)**

F (Factual); J (Judgmental); P (Projected)

Uncorrected misstatement in disclosure: The Corporation has currently grouped $6m of losses on disposal of tangible capital assets against the "other revenue" line item in the statement of operations. KPMG recommends that this amount be shown separately as an expense rather than netted against other revenue; however, note 22 to the financial statements clearly provides the users with the amounts that are included in other revenues.

Corrected misstatements

We have communicated all misstatements to management which are listed in the representation letter included in the Appendices. We would like to highlight, however, the following corrected misstatements:

	Income effect	**Financial position**		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
To correct for the underaccrual of WSIB liabilities.	(706,464)	-	706,464	-
Total misstatements	**(706,464)**	**-**	**706,464**	**-**

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

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

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR other than what we have previously discussed in the section "Significant audit, accounting and reporting matters".

Appendices

Draft audit report

Independence letter

Management representation letter

KPMG's Audit Quality Framework

Draft audit report

INDEPENDENT AUDITORS' REPORT

To the 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, 2011**,** and the consolidated statements of operations, 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 generally accepted accounting principles, 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 in our audit 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 financial position of the Corporation of the City of London as at December 31, 2011, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Independence letter

KPMG LLP
Chartered Accountants
140 Fullarton Street Suite 1400
PO Box 2305
London, ON N6A 5P2

Telephone (519) 672-4880
Fax (519) 672-5684
Internet www.kpmg.ca

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

June 15, 2012

Members of the Audit Committee

We have been engaged to express an opinion on the consolidated financial statements of the Corporation of the City of London ("the Entity") as at and for the period ended December 31, 2011.

Professional standards specify that we communicate to you in writing, at least annually, 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 are required to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario 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.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since our last letter dated July 14, 2011.

PROVISION OF SERVICES

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

Description of Professional Services
Audit and audit related - Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2011 - Audit of all individual Boards and Commissions, Trust Funds and PUC financial statements for the year ended December 31, 2011, as outlined in our engagement letter - Audit of the financial statements of the City of London Immigration Portal - Review of the City of London Transfer Payment Agency financial statements - Audit of the Dearness Day Program Report and Dearness Long-Term Care Report - Compliance audit with agreement on Transfer of Federal Gas Tax Revenue and Annual Expenditure Report - Audit of Water Financial Statements and specified auditing procedures over Water projects, as required by Ministry agreements - Review of Childcare Program Envelopes - Review of Homelessness Program Envelopes - Federal audit of Homelessness Partnering Strategy
Tax - Preparation of corporate tax return for London Middlesex Housing Corporation

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 to the threats to independence listed above:

- We did not assume the role of management by instituting 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, extent of fees charged, 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 up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario as of the date of this letter.

OTHER MATTERS

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

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

Yours very truly,

KPMG LLP

Chartered Accountants**,** Licensed Public Accountants

Management representation letter

KPMG LLP
1400 – 140 Fullarton Street
London, ON   N6A 5P2

July 24, 2012

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") as at and for the period ended December 31, 2011.

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

   b) providing you with all relevant information and access

   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 of which we are aware and all related party relationships and transactions 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 current or prior year financial statements to which they relate, as a whole.

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

ACCOUNTING POLICIES:

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

12) 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:

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

ESTIMATES / MEASUREMENT UNCERTAINTY:

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

15) 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:

16) 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.

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

18) 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.

19) 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.

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

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

COMPARATIVE FIGURES/FINANCIAL STATEMENTS:

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

RECEIVABLES:

23) 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:

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

25) 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:

26) 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:

27) 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:

28) 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:

29) 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.

30) 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.

31) 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:

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

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

34) 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.

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

36) 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.

37) 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.

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

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

40) 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.

41) 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.

42) 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:

43) 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, City Treasurer, Chief Financial Officer

____

Mr. Mike Turner, Deputy City Treasurer

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 Schedules

The Corporation of the City of London
December 31, 2010
Updated summary of uncorrected audit differences

	Statement of Financial Position effect, if corrected[1]			Annual Surplus effect, if corrected[1]
Description	Assets	Liabilities	Accumulated Surplus	Income Statement Method
Pre-tax audit differences greater than $442,000 individually				
To record removal of privately held TCA **(identified in F2011)**	(19,429,000)	-	19,429,000	-
To remove Urban Works WIP that should have been expensed **(identified in F2011)**	(2,506,078)	-		2,506,078
Reversal of differences from the prior year	-	-	-	(1,425,000)
To correct a consolidation adjustment related to funding provided to the Market several years ago	-	-	(2,700,000)	2,700,000
To correct an understatement of depreciation due to a delay in transferring assets out of WIP	(794,500)	-	-	794,500
Total differences	(22,729,578)	-	16,729,000	4,575,578

[1] Debit (Credit)

The Corporation of the City of London
December 31, 2011
Summary of uncorrected audit differences

Description	Statement of Financial Position effect, if corrected[2]			Annual Surplus effect, if corrected[1]
	Assets	Liabilities	Accumulated Surplus	Income Statement Method
Pre-tax audit differences greater than $442,000 individually				
To record the impact of 2010 differences on F2011	(794,500)	-	794,500	-
To record the 2011 impact of WIP that should have begun to be amortized in F2010.	(794,500)	-	-	794,500
To expense costs of consulting on projects that should not be capitalized.	(561,764)	-	-	561,764
To adjust for Urban Works projects which were erroneously included in WIP.	(1,201,391)	-	15,999	1,185,392
To adjust for the under accrual of Urban Works liabilities.	-	(472,110)		472,110
Total differences	(3,352,155)	(472,110)	810,499	3,013,766

[2] Debit (Credit)

The Corporation of the City of London
December 31, 2011
Summary of corrected audit differences

	Statement of Financial Position effect			Annual Surplus effect
Description	Assets	Liabilities	Accumulated Surplus	Income Statement Method
Pre-tax audit differences greater than $442,000 individually				
To correct for the under accrual of WSIB liabilities.	-	(706,464)	-	706,464

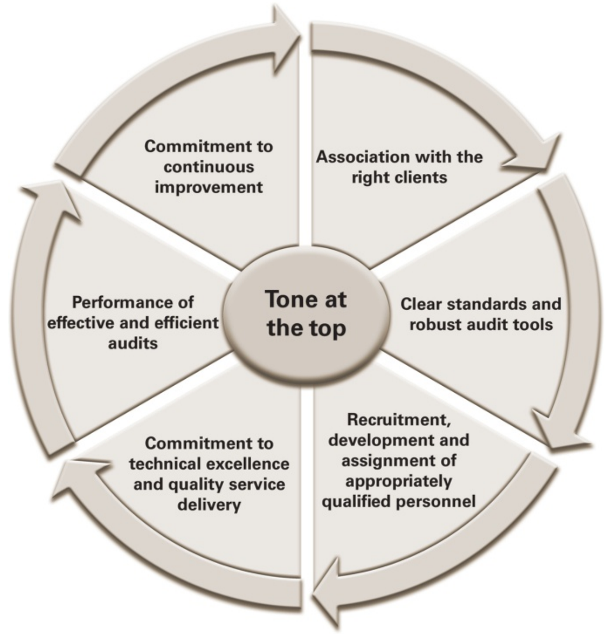
KPMG’s Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



The seven key drivers of audit quality

<table>
<tr><th>Driver</th><th>What it does</th><th>What it means to you</th></tr>
<tr><td>Tone at the top</td><td>Audit quality is part of our culture and our values and therefore non-negotiable

Allows the right behaviours to permeate across our entire organization and each of our engagements</td><td rowspan="4">Assures you that:
• Our culture supports our promise to you of excellent client service and a high quality audit—consistently
• You’re receiving an independent, transparent, audit opinion
• You’re receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements.

Provides you with:
• An engagement team handpicked for your business needs – a team with relevant professional and industry experience
• An audit engagement team whose qualifications evolve</td></tr>
<tr><td>Association with the right clients</td><td>Ethics above all

Eliminates any potential independence and conflict-of-interest issues</td></tr>
<tr><td>Clear standards and robust audit tools</td><td>A solid rule book

Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG’s standards of quality</td></tr>
<tr><td>Recruitment, development and assignment of appropriately qualified personnel</td><td>People who add value

Helps us attract and retain the best people and reinforces the importance of developing their talents

Assigns Partners’ portfolios based on</td></tr>
</table>

Driver	What it does	What it means to you
	their specific skill sets	as your business grows and changes • An audit opinion that continues to meet your needs as a participant in the capital markets **Assists you with:** • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
Commitment to technical excellence and quality service delivery	**The right tools for the right job** Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes	
Performance of effective and efficient audits	**We understand that how an audit is conducted is as important as the final result.** A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality	
Commitment to continuous improvement	**Comprehensive and effective monitoring** We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.	

The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of our clients and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work – it is non-negotiable.