



The Corporation of The City of London

**Audit Findings Report
For the year ended December 31, 2017**

KPMG LLP

Licensed Public Accountants

Prepared as of June 4, 2018 for presentation on June 20, 2018

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 (the “Corporation”) as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 7, 2018.

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

A number of **significant financial reporting risks** were presented to you in our Audit Planning Report. 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 6 – 7.

*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 (continued)

Finalizing the audit

As of June 4, 2018 we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- completion of our legal testing procedures, including obtaining responses to our external legal letters;
- tie-out of the consolidation workbook and financial statements, including notes;
- 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:

- Non-capitalization of certain HST amounts related to the purchase of TCA
- processing of payroll for casual employees
- monitoring of WIP balances
- confirmation of unrestricted deposit balances at year-end

See pages 14 - 16.

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, legal and other accruals.

See pages 8-9.

Independence

We have included a copy of our independence letter, which notes that we are independent with respect to the Corporation, 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.

Significant financial reporting risks	Our response and significant findings
Completeness of accruals	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> • We obtained an understanding of management's process and calculations. • We obtained corroborative evidence to support management's assumptions and reviewed subsequent payments, where possible. • We sent legal letters to internal and external legal counsel and risk management, reviewed Council minutes, severance agreements, reports prepared by external consultants etc. to identify any potential unrecorded liabilities. <p><i>Findings</i></p> <p>No significant issues were noted.</p>
Fraud risk from management override of controls	<p>This is a presumed risk. We have not identified any specific additional risks of management override relating to this audit.</p> <p><i>Audit Approach</i></p> <p>As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:</p> <ul style="list-style-type: none"> • testing of journal entries and other adjustments; • retrospective review of estimates; • evaluating the business rationale of significant unusual transactions. <p><i>Findings</i></p> <p>No significant issues were noted.</p>

Audit risks and results (continued)

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
<p>Capital projects and acquisitions</p>	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> • 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. • KPMG reviewed management’s determination of the useful lives of capital assets and the related amortization rates. KPMG also recalculated amortization expense. • KPMG used data and analytics to perform specific tests regarding WIP transfers, holdbacks and disposals of tangible capital assets. <p><i>Findings</i></p> <ul style="list-style-type: none"> • No reportable differences were identified as a result of procedures performed. KPMG has identified a process improvement observation related to the monitoring of WIP accounts. The observation is described on page 16. • 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. <p>See page 10 for further details on the data and analytics performed.</p>
<p>Payroll and employee future benefits</p>	<ul style="list-style-type: none"> • The balance of employee future benefits is comprised of the following: <ul style="list-style-type: none"> ○ Post-employment and post-retirement benefits of \$89.8 million (2016 - \$86 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years; ○ WSIB accrual of \$46.7 million (2016 - \$43.3 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB; ○ Vacation liability of \$16.2 million (2016 - \$16.3 million) – relates to vacation credits earned but not taken by employees as at December 31; and ○ Unused sick leave liability of \$2.2 million (2016 - \$3.2 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination. • The calculation of employee benefits payable requires Management to make certain estimates, including estimates of discount rate, salary escalation, retirement age, expected health care and dental costs, and estimated claim costs. • The liability for the post-employment and post-retirement benefits is determined through an actuarial valuation which was prepared by Mercer as of December 31, 2015 and extrapolated for fiscal 2017. • 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.

Other areas of focus	Our response and significant findings
Payroll and employee future benefits (continued)	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> • KPMG obtained corroborative evidence to support the reasonableness of assumptions provided by management to the actuaries that are used in developing the valuation and calculating the liability. • In a prior year, KPMG performed testing over the employee attributes provided to Mercer to perform the valuation. • KPMG agreed the WSIB accrual to the statement received from the WSIB. • KPMG took a combined approach to testing payroll expense, which included both substantive and control testing. <p><i>Findings</i></p> <ul style="list-style-type: none"> • 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, 2017 • A control observation has been identified as a result of our procedures. The control observation has been summarized on page 15.
Taxation, user charges, and transfer payments revenue	<p><i>Audit Approach</i></p> <ul style="list-style-type: none"> • KPMG performed substantive procedures over these revenue streams by inspecting the supporting billings and tracing to cash receipt in the bank. • 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. • 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. <p><i>Findings</i></p> <p>No issues were noted in the testing performed.</p>

Critical accounting estimates

In accordance with Canadian public sector accounting standards, 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.

Asset / liability	KPMG comment
Landfill closure and post-closure liability	<ul style="list-style-type: none"> • 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, 2017, the landfill accrual amounted to \$36.7.0 million (2016 - \$34.4 million), \$27.4 million of which related to the future closure of the active landfill and \$9.7 million relating to monitoring of closed landfills. • 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.
Accrued liabilities	<ul style="list-style-type: none"> • 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 estimates related to provisions for personnel and legal matters in the amount of \$4.7 million (2016 - \$20.8 million). The accrual for personnel matters amounted to \$0.7 million (2016 - \$17.1 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$4.0 million (2016 - \$3.7 million) and is comprised of lawsuits brought against the Corporation by external parties.

Asset / liability	KPMG comment
	<ul style="list-style-type: none"> • 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 \$1.2 million (2016 - \$1.3 million) 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: <ul style="list-style-type: none"> ○ 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 as reported by external counsel 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 2017 to the WIP detail in fiscal 2016, testing any projects that did not incur costs in fiscal 2017 and still remain in WIP. This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense.	Refer to page 16 for discussion of audit findings.
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	<ul style="list-style-type: none"> • 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 Disclosures – applicable for the year ending December 31, 2018 <ul style="list-style-type: none"> ◦ As noted in our Audit Planning Report, Management will be implementing a process to ensure that all related party relationships have been identified, including those with key management, members of Council or Boards of the City and its Boards and Commissions. • PS 3420 Inter-Entity Transactions – applicable for the year ending December 31, 2018 • PS 3430 Restructuring Transactions – applicable for the year ending December 31, 2019 • PS 1201 Financial Statement Presentation – applicable for the year ending December 31, 2020 • PS 3041 Portfolio Investments – applicable for the year ending December 31, 2020 • PS 3450 Financial Instruments – applicable for the year ending December 31, 2022 • PS 2601 Foreign Currency Translation – applicable for the year ending December 31, 2022 <p>No concerns at this time regarding future implementation.</p>

Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Corporation's related parties, significant difficulties encountered during the audit, and disagreements with management.

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

Matter	KPMG comment
Debt Issuances	Debentures totaling \$41 million were issued in March 2017. KPMG reviewed the accounting for this transaction in detail during the audit and found no issues.

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

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

Uncorrected differences

We did not identify differences in excess of \$765,000 that remain uncorrected.

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 15-16.	

Control observations (continued)

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

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

Description	Potential effect
<p>Non-capitalization of HST under \$1,000 relating to operating additions paid through a purchase order</p>	<p>During our testing over tangible capital asset additions, we noted one instance where the HST portion of an operating addition was recorded separately from the pre-tax amount. In this instance, as the HST portion was under the capitalization threshold applied by the Corporation, the amount was expensed. KPMG notes that both the pre-tax amount and applicable HST should both be capitalized if the underlying asset is capital in nature.</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. KPMG performed procedures to quantify the impact of similar HST adjustments and notes that the aggregate difference did not result in a misstatement that exceeded our misstatement posting threshold. KPMG recommends that management implement review procedures to ensure that tangible capital asset additions are being recorded at an aggregate amount which includes HST.</p>
<p>Payroll – Agency 3</p>	<p>During our control testing over the payroll process, 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> <p>Management is undertaking steps to implement processes in an effort to remediate the deficiency.</p>
<p>Confirmation of unrestricted deposit balances at year-end</p>	<p>While performing confirmation of reserve funds held by a third party, KPMG noted that an adjustment had not been recorded to bring the statement of financial position to the correct values as at December 31, 2017. KPMG notes that the quantified difference is less than our audit misstatement posting threshold. As such, an adjustment has not been proposed.</p> <p>KPMG recommends that management perform confirmation of all third party funds held as at December 31 to gain assurance that assets held by the Corporation are appropriately reported at year-end.</p>

Description	Potential effect
Monitoring of WIP balances	<p>KPMG used data and analytics to perform procedures over WIP balances that did not incur costs in fiscal 2017 and remained in WIP as at December 31, 2017. We noted two instances where conditions indicated that costs included in WIP are not expected to contribute to the Corporation's ability to provide future goods and services thereby not meeting the definition of TCA. KPMG quantified the impact and notes that the difference is below our audit misstatement posting threshold. As such, an audit adjustment has not been proposed.</p> <p>We recommend that management implement additional procedures such that WIP balances are reviewed by project managers to gain assurance that the future economic benefit is in excess of the net book value of the asset.</p>

Appendices

Appendix 1: Financial Indicators

Appendix 2: Required communications

Appendix 3: Independence

Appendix 4: Management representation letter

Appendix 5: Background and professional standards

Appendix 6: Lean in Audit

Appendix 1: Financial Indicators



Indicators of Financial Performance



Financial Indicators

A. Reporting on financial condition

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with establishing accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is *'a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others'*. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability.** Sustainability is the degree to which the City can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the City's assessment base, there is an increased risk that the City's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility.** Flexibility reflects the City's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability.** Vulnerability represents the extent to which the City is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

Financial Indicators

B. Selected financial indicators

As a means of reporting the City's financial condition, we have considered the following financial indicators (*denotes PSAB recommended financial indicator).

Financial Condition Category	Financial Indicators
Sustainability	<ol style="list-style-type: none"> 1. Financial assets to financial liabilities* 2. Total reserves and reserve funds per household 3. Total operating expenses as a percentage of taxable assessment* 4. Capital additions as a percentage of amortization expense
Flexibility	<ol style="list-style-type: none"> 5. Residential taxes per household 6. Total long-term debt per household 7. Residential taxation as a percentage of average household income 8. Total taxation as a percentage of total assessment* 9. Debt servicing costs (interest and principal) as a percentage of total revenues* 10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets*
Vulnerability	<ol style="list-style-type: none"> 11. Operating grants as a percentage of total revenues* 12. Capital grants as a percentage of total capital expenditures*

A detailed description of these financial indicators, as well as comparisons to selected municipalities, is included on the following pages.

Our analysis is based on Financial Information Return data. Given the timing of financial reporting for municipalities, the analysis is based on 2016 FIR data as 2017 FIRs are not available at the time of this report.

Financial Indicators

C. Selecting Comparator Municipalities

There are a number of factors that will influence the financial performance and position of municipalities, including but not limited to geographic size, number of households, delegation of responsibilities between upper and lower tier levels of government and services and service levels. Accordingly, there is no 'perfect' comparative municipality for the City. However, in order to provide some perspective as to the City's financial indicators, we have selected comparator municipalities that have comparable:

- Governance structures (i.e. single-tier municipality);
- Household levels; and
- Geographic size.

Based on these considerations, the selected comparator municipalities are as follows:

Municipality	Population	Households	Area (square km)
London	383,822	175,342	420.35
Ottawa	968,580	409,643	2790.3
Hamilton	558,397	222,918	1117.29
Windsor	217,188	99,233	146.38
Kingston	123,798	53,518	451.19
Guelph	131,794	54,881	87.22

Financial Indicators

FINANCIAL ASSETS TO FINANCIAL LIABILITIES

This financial indicator provides an assessment of the City's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

TYPE OF INDICATOR

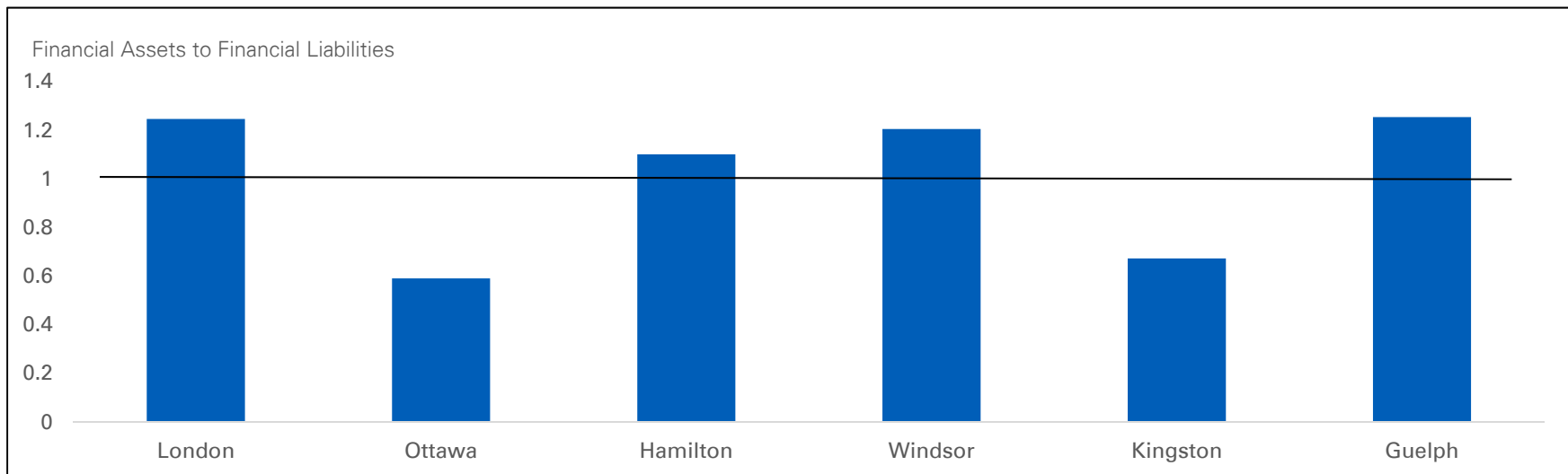
Sustainability ✓
Flexibility
Vulnerability

FORMULA

FIR Schedule 70, Line 9930,
Column 1 divided by FIR
Schedule 70, Line 9940,
Column 1

POTENTIAL LIMITATIONS

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years



Financial Indicators

TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.

TYPE OF INDICATOR

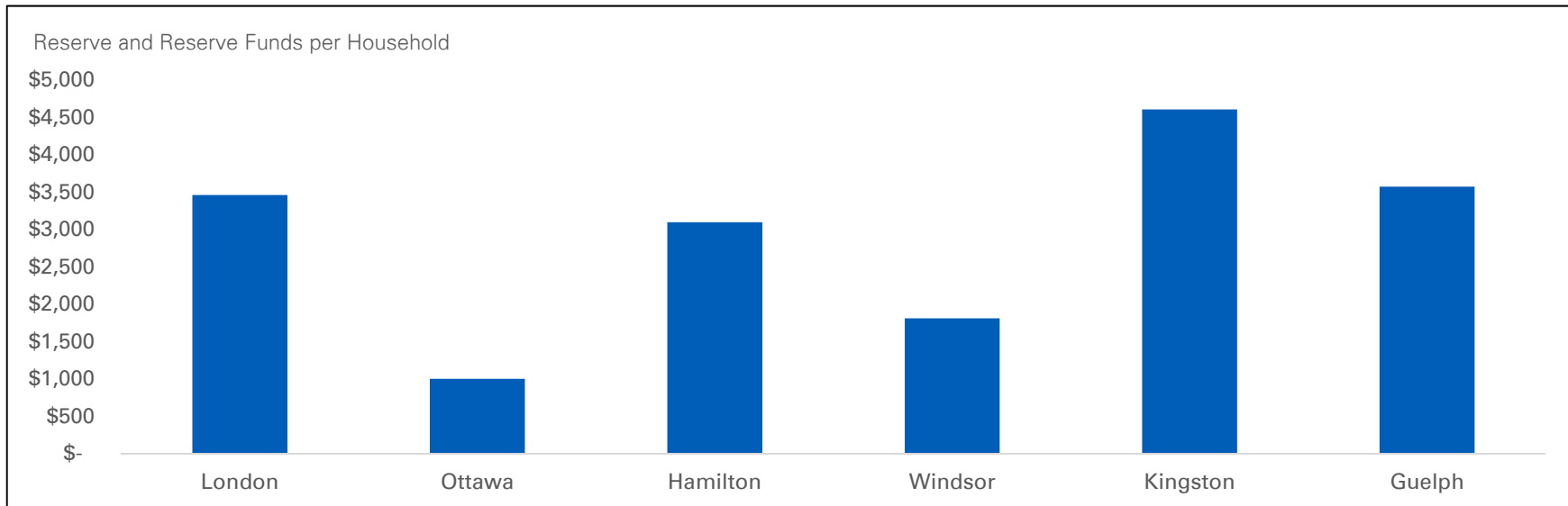
Sustainability ✓
Flexibility
Vulnerability

FORMULA

FIR Schedule 70, Line 6420,
Column 1 divided by FIR
Schedule 2, Line 40, Column 1

POTENTIAL LIMITATIONS

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the City may not actually have access to financial assets to finance additional expenses or revenue losses



Financial Indicators

TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

This financial indicator provides an assessment of the City's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the City can fund any increases in operating costs without raising taxation rates.

TYPE OF INDICATOR

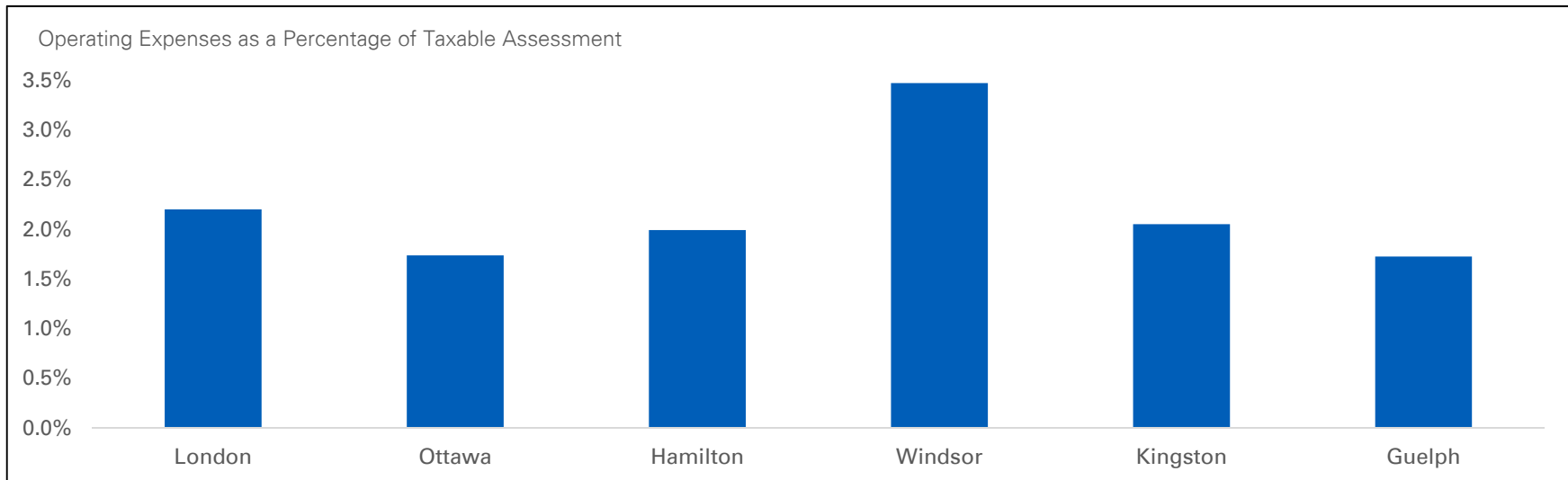
Sustainability ✓
Flexibility
Vulnerability

FORMULA

FIR Schedule 40, Line 9910, Column 7 less FIR Schedule 40, Line 9910, Column 16 divided by FIR Schedule 26, Column 17, Line 9199

POTENTIAL LIMITATIONS

- As operating expenses are funded by a variety of sources, the City's sustainability may be impacted by reductions in other funding sources that would not be identified by this indicator.



Financial Indicators

CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the City's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

TYPE OF INDICATOR

Sustainability ✓
Flexibility
Vulnerability

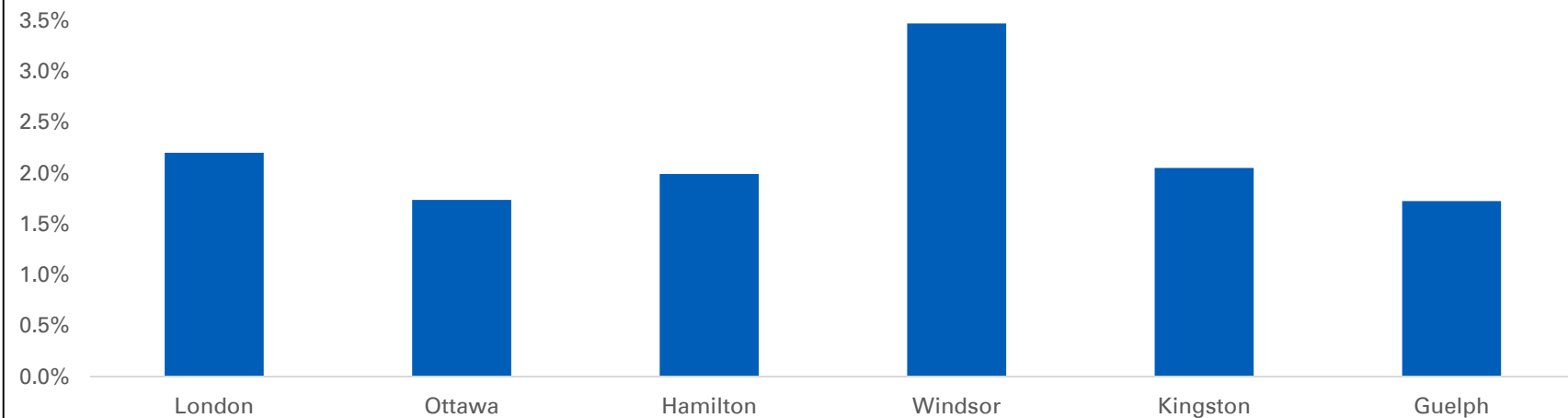
FORMULA

FIR Schedule 51, Line 9910,
Column 3 divided by FIR
Schedule 40, Line 9910,
Column 16

POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the City's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.

Capital Additions as a Percentage of Amortization Expense



Financial Indicators

RESIDENTIAL TAXES PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to increase taxes as a means of funding incremental operating and capital expenditures.

TYPE OF INDICATOR

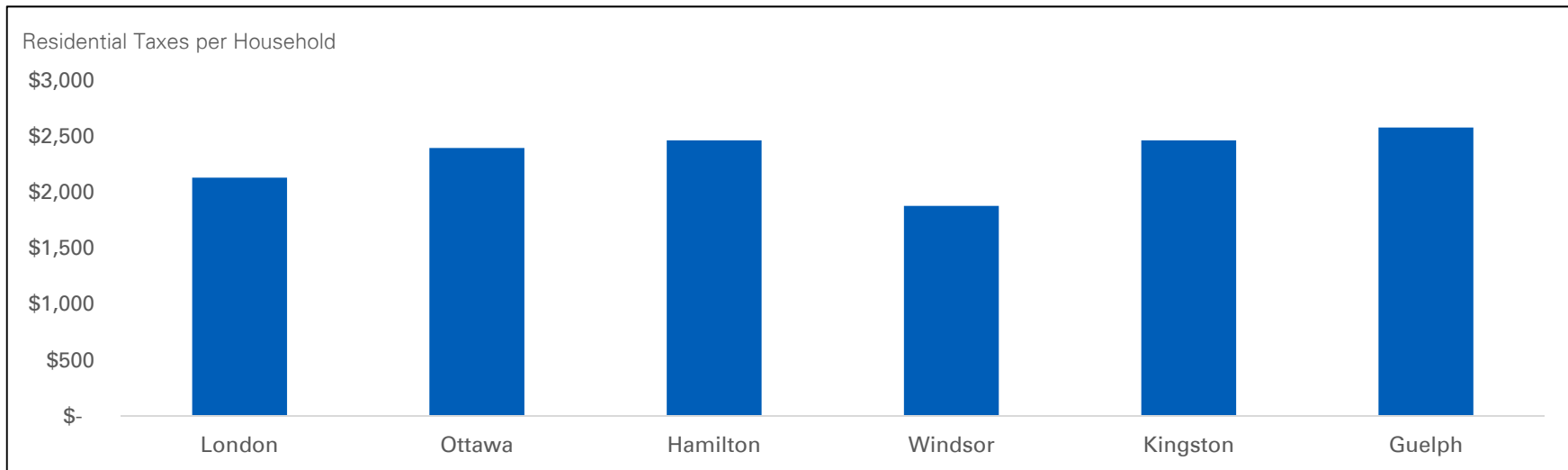
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1

POTENTIAL LIMITATIONS

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- This indicator is calculated based on lower-tier taxation only and does not consider upper tier or education taxes.
- This indicator does not consider the level of service provided by each municipality



Financial Indicators

TOTAL LONG-TERM DEBT PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to issue more debt by considering the existing debt load on a per household basis. High debt levels per household may preclude the issuance of additional debt.

TYPE OF INDICATOR

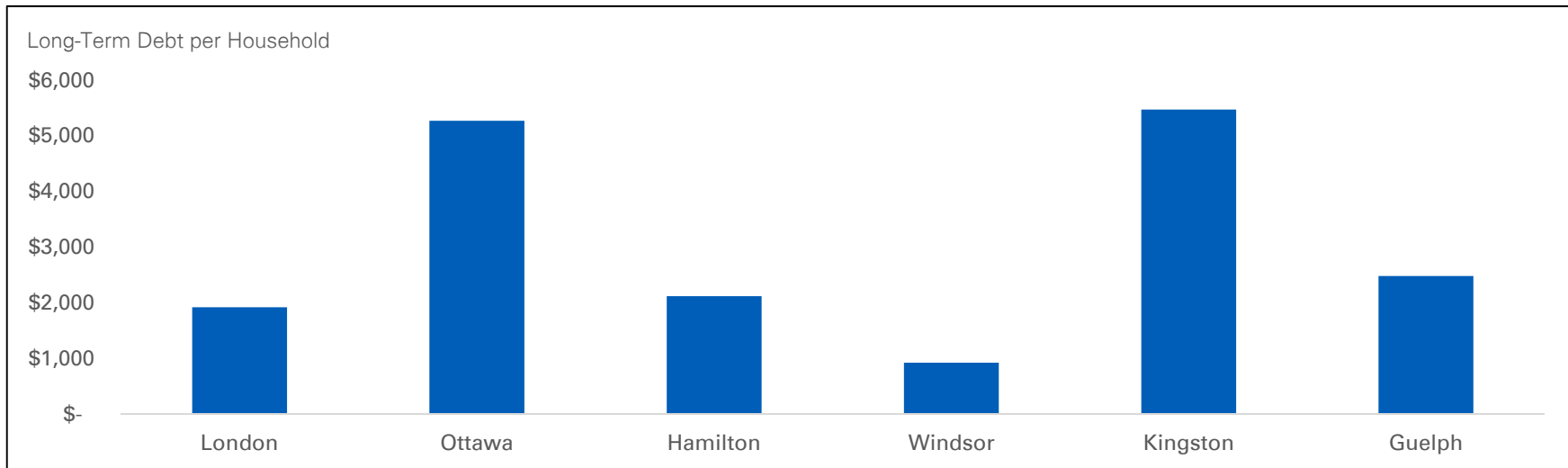
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 70, Line 2699,
Column 1 divided by FIR
Schedule 1, Line 0040, Column
1

POTENTIAL LIMITATIONS

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board



Financial Indicators

RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.

TYPE OF INDICATOR

Sustainability
Flexibility ✓
Vulnerability

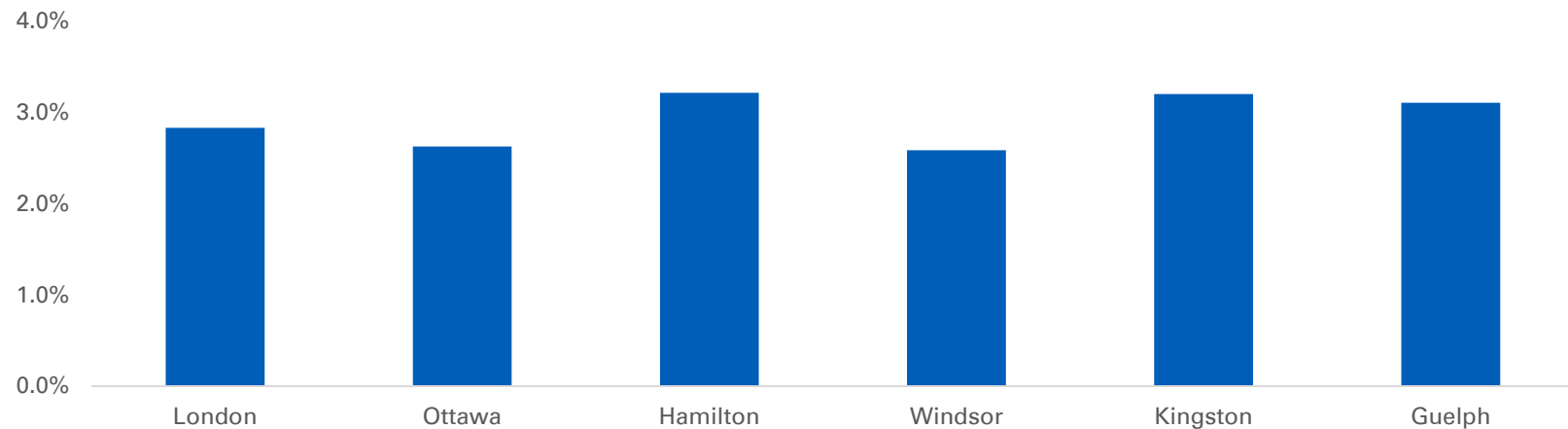
FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Average household income is derived from the National Housing Survey.

POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average household basis and does not provide an indication of affordability concerns for low income or fixed income households.

Residential Taxation as a Percentage of Household Income



Financial Indicators

TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

This financial indicator provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax rate percentages may limit the City's ability to generate incremental revenues in the future.

TYPE OF INDICATOR

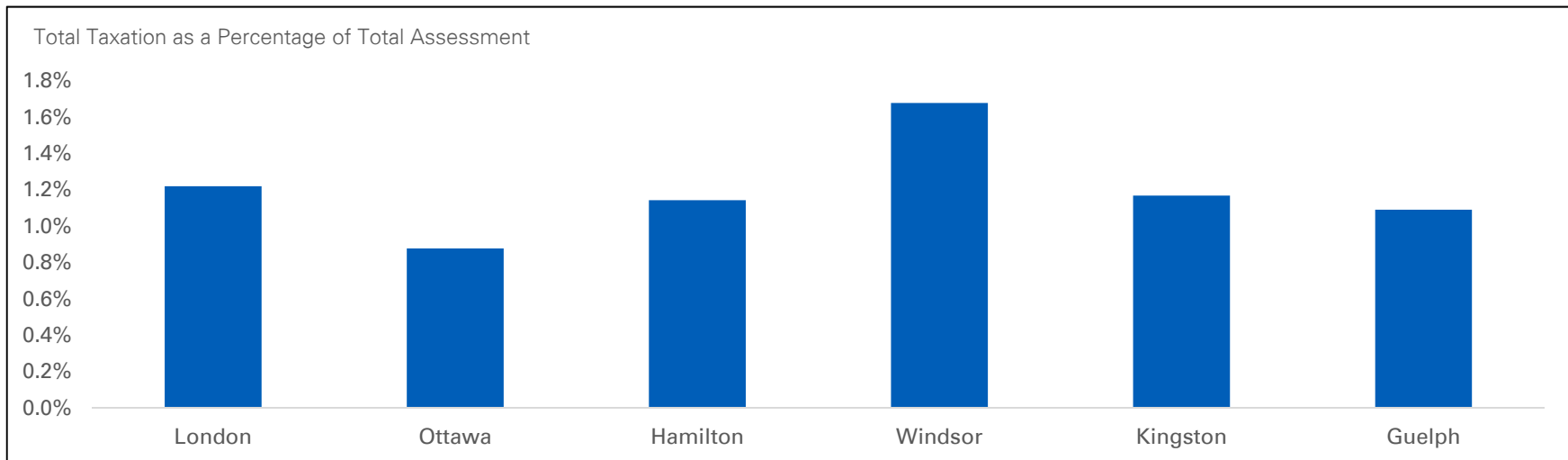
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 26, Line 9199 and Line 9299, Column 4 divided by FIR Schedule 26, Line 9199 and 9299, Column 17.

POTENTIAL LIMITATIONS

- This indicator considers the City's overall tax rate and will not address affordability issues that may apply to individual property classes (e.g. commercial).



Financial Indicators

DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

TYPE OF INDICATOR

Sustainability
Flexibility ✓
Vulnerability

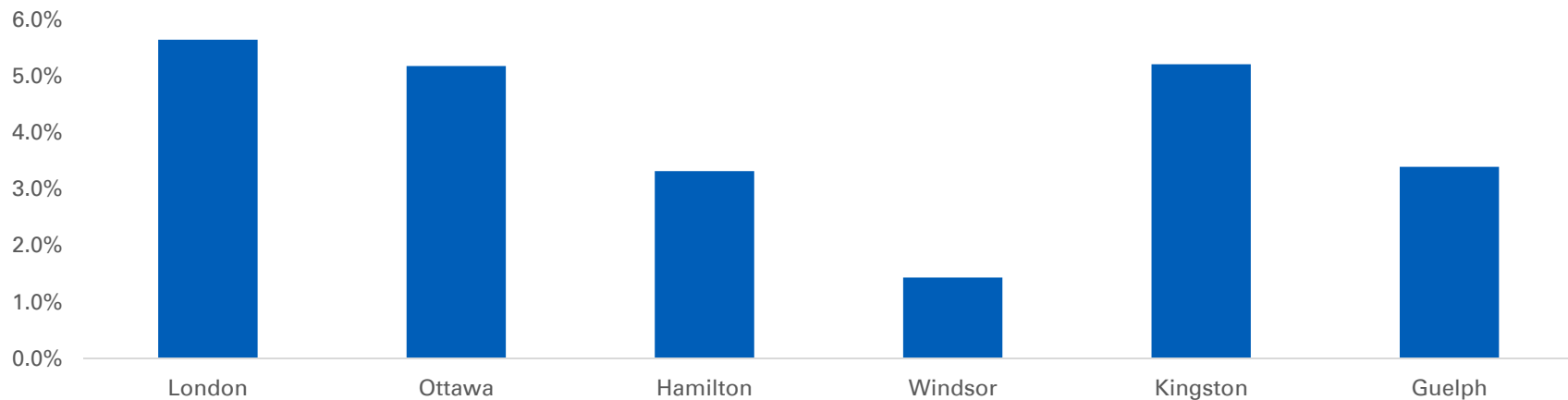
FORMULA

FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- No significant limitations have been identified in connection with this indicator

Debt Servicing Costs as a Percentage of Total Revenues



Financial Indicators

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS

This financial indicator provides an indication as to the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.

TYPE OF INDICATOR

Sustainability
Flexibility ✓
Vulnerability

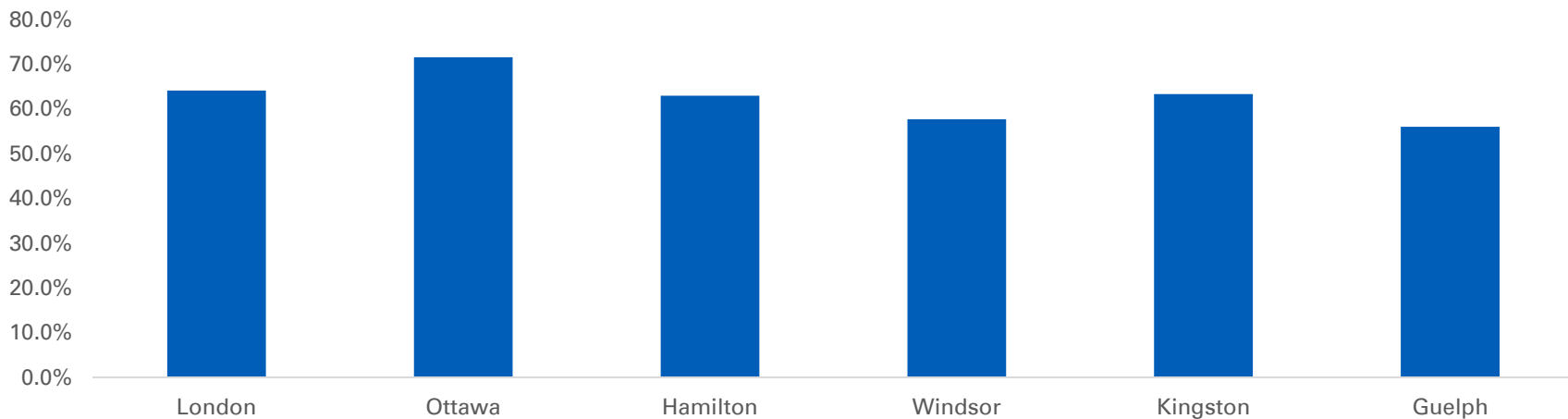
FORMULA

FIR Schedule 51A, Line 9910, Column 11 divided by FIR Schedule 51A, Line 9910, Column 6.

POTENTIAL LIMITATIONS

- This indicator is based on the historical cost of the City's tangible capital assets, as opposed to replacement cost. As a result, the City's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.

Net Book Value of Tangible Capital Assets to Historical Cost of Tangible Capital Assets



Financial Indicators

OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability ✓

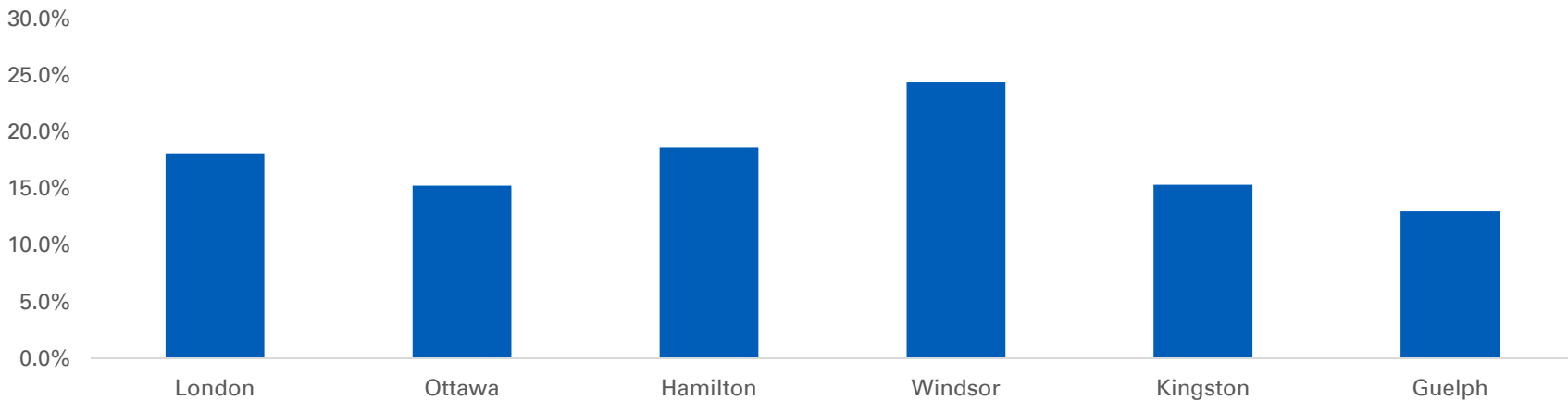
FORMULA

FIR Schedule 10, Line 0699,
Line 0810, Line 0820, Line
0830, Column 1 divided by FIR
Schedule 10, Line 9910,
Column 1.

POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.

Operating Grants as a Percentage of Total Revenues



Financial Indicators

CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

TYPE OF INDICATOR

Sustainability
Flexibility
Vulnerability ✓

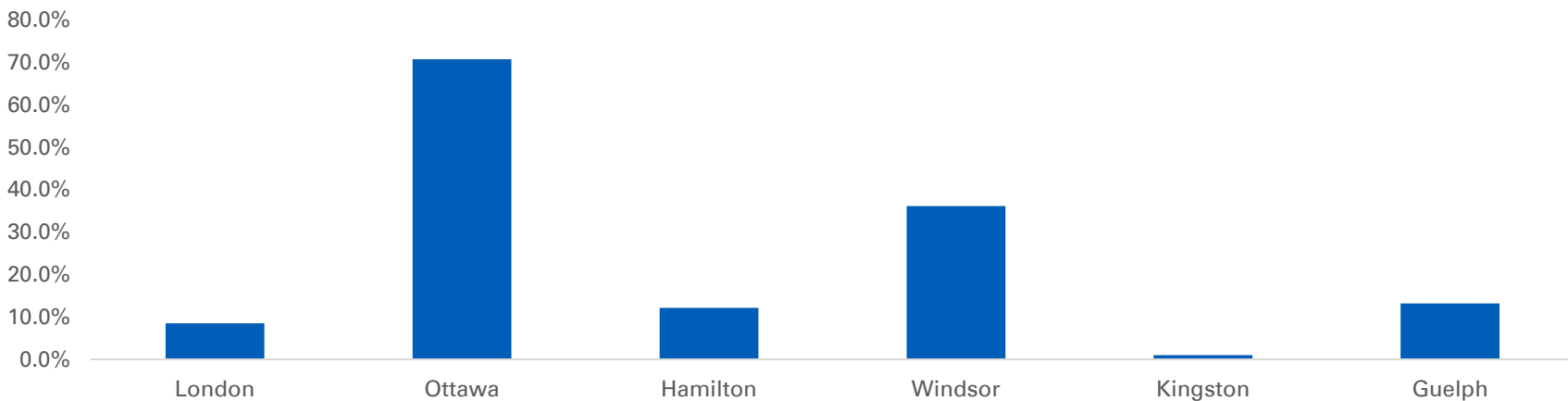
FORMULA

FIR Schedule 10, Line 0815,
Line 0825, Line 0831, Column 1
divided by FIR Schedule 51,
Line 9910, Column 3.

POTENTIAL LIMITATIONS

- To the extent possible, the City should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.

Capital Grants as a Percentage of Total Capital Expenditures





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Appendix 2: 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 4.
- **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 3.

Appendix 3: Independence

Audit Committee

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

Date

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, 2017 up to the date of our auditors' report:

Description of Professional Services
<p>Audit and audit related</p> <ul style="list-style-type: none"> • Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2017 • Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2017, as outlined in our engagement letter • Audit of the Dearness Program Report and Dearness Long-Term Care 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 Ontario Works • Federal audit of Homelessness Partnering Strategy <p>Specified auditing procedures over the City of London Closed Circuit Television System for the year ended 2017</p>
<p>Tax</p> <ul style="list-style-type: none"> • Preparation of corporate tax return for London Middlesex Housing Corporation • Preparation of corporate tax return for Eldon House • Preparation of corporate tax return for Housing Development Corporation, London • Preparation of corporate tax return for Argyle Business Improvement Area Board of Management

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, 2017 up to the date of our auditors’ report.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2017 up to the date of our auditors’ report.

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

Appendix 4: Management Representation Letter

(Letterhead)

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

Date

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, 2017.

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, including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
 - c) providing you with additional information that you may request from us for the purpose of the engagement.

- d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, 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 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.

Going concern:

- 1) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 2) We confirm that we are not aware of material uncertainties related to events or conditions that may cast doubt upon the Entity's ability to continue as a going concern.

Misstatements:

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

Non-SEC registrants or non-reporting issuers:

- 4) 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:

- 5) 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:

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

- 7) 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:

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

Estimates / Measurement Uncertainty:

- 9) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 10) 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:

- 11) 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.
- 12) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 13) 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.
- 14) 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.
- 15) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 16) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

Comparative Figures/Financial statements:

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

Receivables:

- 18) 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:

- 19) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 20) 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:

- 21) 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:

- 22) 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:

- 23) 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:

- 24) 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.
- 25) 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.
- 26) 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:

- 27) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 28) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
- 29) 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.
- 30) The set of actuarial assumptions for each plan is individually consistent.
- 31) 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.
- 32) 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.

- 33) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 34) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 35) 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.
- 36) 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.
- 37) 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:

- 38) 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,

Mr. Ian Collins, Director of Financial Services

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

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

**The Corporation of the City of London
December 31, 2017
Summary of Corrected Audit Misstatements**

(\$'000)		Annual surplus effect	Financial position		
Description	F/J/P	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
To reclassify amounts paid for assumed assets from TCA donated asset revenue to WIP.	F	1,469	1,469	-	1,469
Total corrected misstatements		1,469	1,469	-	1,469

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: Lean in Audit™

An innovative approach leading to enhanced value and quality

In March 2018, KPMG utilized our new innovative audit approach, Lean in Audit, to improve our understanding of the payroll process and help deliver real insight to the Corporation. With the assistance of organizational stakeholders and hands-on tools, such as walkthroughs and flowcharts, our team was able to enhance our understanding of the process and control environment. The workshop allowed us to provide actionable quality and productivity improvement observations which were presented in a report to management. As a follow up to the workshop, we have met with management to discuss the application of such insights to streamline processes, improve efficiencies, increase productivity and drive overall performance. We encourage management to ask us for more information on any of the matters covered in the report and beyond.



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