

AUDIT

# Corporation of the City of London

Audit Findings Report to the Audit Committee  
For the year ending December 31, 2010

**KPMG LLP**, Chartered Accountants, Licensed Public  
Accountants

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## Executive Summary

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### Overview and Status

The purpose<sup>1</sup> of this Audit Findings Report is to assist the Audit Committee in your review of the consolidated financial statements of the City of London for the period ended December 31, 2010.

We have completed the audit of the financial statements with the exception of the following remaining procedures:

- obtaining a signed representation letter from management
- engagement quality partner to finalize review
- completing our discussions with the Audit Committee
- obtaining evidence of Council's approval of the financial statements.

We will update the Audit Committee on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that:

- all the statements that comprise the financial statements, including the related notes, have been prepared
- Council has approved the financial statements.

### Topics to Discuss

Below are topics identified from the audit that we have highlighted for discussion at the upcoming Audit Committee meeting. We believe these topics need to be brought to your attention, and we look forward to discussing our findings with you:

- Significant Audit, Accounting and Reporting Matters
  - City – YMCA Joint Venture Partnership
- Significant Qualitative Aspects of Accounting Practices
- Misstatements
- Control Deficiencies

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<sup>1</sup> This Audit Findings Report should not be used for any other purpose. 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 any other purpose.

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## Significant Audit, Accounting and Reporting Matters

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### City – YMCA Joint Venture Partnership

#### Significant Risks Related to Management's Judgment and Action

- The Corporation entered into a joint venture with the YMCA to construct and operate the Stoney Creek Community Center in North London.
- The Corporation contributed land, a portion of the funding related to construction of the building and was in charge of running the construction project, while the YMCA contributed costs related to construction of the building. The Corporation's total contribution to this project was \$19.7 million or 73.8% and the YMCA's contribution was \$7 million or 26.2%.
- The construction of the facility was completed in October 2010.
- The joint venture (as the owner and landlord of the land and building) has entered into a 40 year lease agreement with the YMCA (as the tenant), which states that the YMCA, and not the joint venture, is solely responsible for all capital and operating costs relating to the community centre following the initial construction. In accordance with the terms of the agreement, the annual rent to be paid by the YMCA to the joint venture is a nominal amount of \$1.
- Furthermore, at the end of the 40 year lease term, the joint venture will transfer the land and building to the YMCA for zero consideration, which will result in the dissolution of the joint venture in 2049.

#### Results / Effect on the Audit

- We reviewed the Joint Venture Agreement and the Lease Agreement related to this arrangement.
- This joint venture is considered to be a government business partnership within the context of PSAB. Therefore the accounting for this joint venture is similar to that of the Fair-City Joint Venture and London Hydro, which are also considered to be government business partnerships.

#### Misstatements and Control Deficiencies

- We reviewed management's accounting for the joint venture and conclude that it is considered to be appropriate at December 31, 2010.
- No misstatements or control deficiencies were noted as a result of work performed.

## Valuation of taxes receivable

### Significant Risks Related to Management's Judgment and Action

- 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, 2010 (with comparative amounts presented) are as follows:

Tax registrations	Total ('000s)	Provision	Provision - %
12/31/10	12,290	8,947	73%
12/31/09	11,191	8,165	73%
12/31/08	9,573	6,632	69%
12/31/07	9,612	6,768	70%

### Results / Effect on the Audit

- 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. However some collection risk 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.

### Misstatements and Control Deficiencies

- 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.
  - We reviewed the Corporation's taxes receivable aging reports.
  - We reviewed management's analysis of the provision.
- Based on procedures performed, nothing has come to our attention that would lead us to believe that the allowance is materially misstated as at December 31, 2010.
- No misstatements or control deficiencies were noted as a result of work performed.

## Employee benefits payable

### Significant Risks Related to Management's Judgment and Action

- The balance of employee future benefits is comprised of the following:
  - Post-employment and post-retirement benefits of \$58.2 million (2009 - \$52.4 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
  - WSIB accrual of \$25.5 million (2009 - \$25 million) - as a Schedule 2 Employer the Corporation must finance its own costs related to WSIB;
  - Vacation liability of \$13.6 million (2009 - \$12.9 million) - vacation credits earned but not taken by employees as at December 31; and
  - Unused sick leave liability of \$8.5 million (2009 - \$10.7 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.

### Results / Effect on the Audit

- 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, 2010. 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, 2010.
- The vacation and unused sick leave liabilities are accrued in the financial statements when they are earned by employees.

### Misstatements and Control Deficiencies

- 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, 2010.
- No misstatements or control deficiencies were noted as a result of work performed.

### Landfill closure and post-closure liability

#### Significant Risks Related to Management's Judgment and Action

- 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.
- This 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, 2010 the landfill accrual amounted to \$23.2 million (2009- \$23.3 million), \$14.1 million of which related to the future closure of the active landfill and \$9.1 million relating to monitoring of closed landfills.

#### Results / Effect on the Audit

- We obtained an understanding of the calculation through discussions with the City's engineer
- We reviewed the analysis prepared by management and obtained corroborative evidence to support management's assumptions.
- The assumptions used by management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with assumptions and estimates made in other sections of the financial statements.

#### Misstatements and Control Deficiencies

- We concur with management's estimates and assumptions at year end.
- No misstatements or control deficiencies were noted as a result of work performed.

### Accrued liabilities

#### Significant Risks Related to Management's Judgment and Action

- 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.
- Significant estimates relate to provision for personnel and legal matters in the amount of \$8.8 million (2009 - \$7.1 million). The accrual for personnel matters amounted to \$7.3 million (2009 - \$5.3 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$1.5 million (2009 - \$1.8 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.

#### Results / Effect on the Audit

- With respect to accrued liabilities, we have:
  - Discussed with management the nature and rationale for the accrual;
  - Reviewed management's assessment of 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.

#### Misstatements and Control Deficiencies

- We identified no significant matters related to this balance and concur with management that it is fairly stated at December 31, 2010.

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



## Significant Qualitative Aspects of Accounting Practices

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The following are the significant qualitative aspects of accounting practices that we will discuss:

<b>Significant Accounting Policies</b>	<ul style="list-style-type: none"><li>• All significant accounting policies are disclosed in Note 1 of the consolidated financial statements.</li><li>• There were no new accounting policies adopted, and there were no changes made to existing accounting policies during the year.</li><li>• 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.</li></ul>
<b>Significant Accounting Estimates</b>	<ul style="list-style-type: none"><li>• Management's identification of accounting estimates</li><li>• Management's process for making accounting estimates</li><li>• There are no indicators of management bias as a result of our audit over estimates</li><li>• Management's evaluates these estimates on a regular basis to ensure they are appropriate.</li></ul>
<b>Significant Disclosures</b>	<ul style="list-style-type: none"><li>• Overall neutrality, consistency, and clarity of the disclosures in the financial statements</li><li>• All disclosures are as required in accordance with PSAB and are not considered to be significant or sensitive in nature.</li><li>• Overall, the disclosures in the financial statements are clear and are consistent with prior periods.</li></ul>

## Misstatements

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### Audit Misstatements – Identification

- Misstatements identified during the audit have been categorized as follows:
  - uncorrected audit misstatements, including disclosures
  - corrected audit misstatements, including disclosures

### Uncorrected Audit Misstatements

- Management has represented to us that the uncorrected audit misstatements, individually and in the aggregate, are, in their judgement, not material to the financial statements.
- We concur with management’s representation. Accordingly, the uncorrected audit misstatements have no effect on our audit report.
- Refer to Management's representation and the Summary of Uncorrected Audit Misstatements in Appendix 2 for all uncorrected audit misstatements.

Description	Annual Surplus	Statement of Financial Position		
	Over (under) Stated	Assets over (under) Stated	Liabilities over (under) Stated	Accumulated Surplus over (under) stated
Reversal of differences from the prior year - Amounts which were corrected in the current year but relate to adjustments that should have been made in the prior year. The net adjustment only impacts the annual surplus in the current year as all balance sheet accounts are correctly stated as at Dec 31, 2010.	(1,425,000)	-	-	-
To correct a consolidation adjustment related to funding provided to the Market several years ago. The amount is recorded as a deferred contribution by the Market and should be adjusted through accumulated surplus rather than expense by the City in the current year	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	-	-
<b>Total differences</b>	<b>2,069,500</b>	<b>794,500</b>	<b>-</b>	<b>(2,700,000)</b>

## **Audit Findings Report to the Audit Committee**

- We request that all uncorrected audit misstatements be corrected. We previously made this request of Management but they have indicated to us that they do not believe the financial statements are materially misstated without making these adjustments.

### **Corrected Audit Misstatements**

- There were no corrected audit misstatements identified during the audit.

## Control Deficiencies

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### Background

- In planning and performing our audit of the financial statements, we considered internal control 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 consideration of internal control was for the limited purpose described in the preceding paragraph 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 consider to be significant deficiencies in internal control.

## Appendices

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### Appendix 1 – Independence Letter



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July 14, 2011

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, 2010.

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 September 7, 2010, the date of our last letter.



**PROVISION OF SERVICES**

The following summarizes the professional services rendered by us to the Entity (and its related entities) for the period ended December 31, 2010.

<b>Description of Professional Services</b>
<p><b>Audit</b></p> <ul style="list-style-type: none"><li>- Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2010</li><li>- Audit of all individual Boards and Commissions, Trust Funds and PUC financial statements for the year ended December 31, 2010</li><li>- Audit of the financial statements of the City of London Immigration Portal</li><li>- Review of the City of London Transfer Payment Agency financial statements</li><li>- Audit of the Dearness Day Program Report and Dearness Long-Term Care Report</li><li>- Compliance audit with agreement on Transfer of Federal Gas Tax Revenue and Annual Expenditure Report</li><li>- Audit of Water Financial Statements</li><li>- Review of Childcare Program Envelopes</li><li>- Review of Homelessness Program Envelopes</li><li>- Federal audit of Homelessness Partnering Strategy</li></ul>

**OTHER RELATIONSHIPS**

We are not aware of any relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence during the period from January 1, 2010 to July 14, 2011.



**CONFIRMATION OF INDEPENDENCE**

Professional standards require that we confirm our independence to you in the context of the relevant ethical requirements regarding independence.

Accordingly, we hereby 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 July 14, 2011.

**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 for any other purpose.

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants