

AUDIT

Corporation of the City of London

Audit Planning Report

For the year ending December 31, 2012

Meeting date: November 29, 2012

KPMG LLP, Chartered Accountants, Licensed Public Accountants

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Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose¹ of carrying out and discharging your responsibilities and exercising oversight over our audit of the consolidated financial statements.

What has changed

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- Debentures in the amount of \$70M were issued in October 2012. KPMG will review the accounting for this transaction in detail during the audit.
- A new actuarial valuation is being prepared by Mercer for the post employment and post retirement benefits obligation. KPMG will review management's assumptions for reasonability during the audit.
- Argyle BIA was established in October 2012. KPMG will be performing an audit of the opening balance sheet, as well as an audit for the period ended December 31, 2012.
- Eldon House will commence operations as a stand-alone entity effective January 1, 2013. Previously, Eldon House was operated through Museum London. KPMG will be performing an audit of the Eldon House beginning with the year ending December 31, 2013.

Accounting standards

- No changes for the current year
- Upcoming changes with effective dates ranging from 2013 to 2016 include:
 - PS 3410 – Government Transfers
 - PS 3450 - Financial Instruments
 - PS 2601 – Foreign Currency Translation
 - PS 3260 – Liability for Contaminated Sites
- Refer to the appendices for further discussion on these standards.

Annual inquiries to the audit committee

Professional standards require that we ask you the following question:

- Are you aware of, or have you identified any instances of, actual, suspected or alleged fraud or non-compliance of laws and regulations, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

¹ This Audit Planning 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 Planning 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.

Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the consolidated financial statements fairly present, in all material respects, the financial position, results of operations, changes in net financial assets and cash flows of the City in accordance with Canadian Public Sector accounting standards.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

Objectives of the audit, our responsibilities, management's responsibilities

- The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter.
- There have been no changes related to objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, or the terms of our engagement since the date of our last engagement letter dated December 1, 2010.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- For the current period, materiality of \$9.2M (2011 - \$8.8M) has been determined.
- We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.
- We will communicate uncorrected misstatements to you, other than those that are clearly trivial.
- Should uncorrected misstatements remain, in accordance with professional standards, we will:
 - request of management and of the audit committee that all uncorrected misstatements be corrected.
 - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.

Consolidated organizations ("components") in consolidated financial statements

Professional standards require that we obtain an understanding of City's organizational structure, including its components, and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit. Where component auditors will perform work on the financial information of such components, we are required to evaluate whether we, as group auditors, will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence.

As group auditors, the basis for serving as group auditor is premised on the ability to obtain sufficient appropriate audit evidence regarding component financial information.

During the current year, we will be performing full scope stand-alone audits of all of the Boards and Commissions which are consolidated in the financial statements. These audits will be performed to each Board and Commission's respective materiality.

Significant financial reporting risks

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

The significant financial reporting risks identified during our audit planning are listed below:

Landfill Liability
Risk of material misstatement prior to consideration of internal controls
Significant risk due to management judgments and assumptions
Summary of planned audit approach
<ul style="list-style-type: none">- Obtain an understanding of the calculation through discussion with the City's engineer.- Audit the analyses prepared by management and obtain corroborative evidence to support management's assumptions.

Claims and Legal Accruals included in Accrued Liabilities
Risk of material misstatement prior to consideration of internal controls
Significant risk due to management judgments and estimates
Summary of planned audit approach
<ul style="list-style-type: none">- Obtain an understanding of the process for recording the legal accruals through discussion with management.- Review management's assessment of the likelihood of incurring the liability for each claim and the range of possible outcomes.- Obtain legal letters and examine for any potentially unrecorded claim liabilities.- Where possible, review subsequent payments to determine whether the liabilities at year end are reasonably stated.

Fees and assumptions

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fees have been reviewed and agreed upon in our most recent successful proposal of September 2010.

Our fees are estimated as follows:

	Current Period Budget	Prior Period Actual
Audit of the annual financial statements	\$85,900	\$84,700

These fees are based on the assumptions described in the engagement letter dated December 1, 2010. There have been no changes in the terms and conditions of our engagement since the date of our last letter.

Timing of the audit

We have discussed the key audit deliverables with management and the expected dates indicated below have been agreed upon:

Key deliverables and expected dates	
Deliverables	Expected dates
Conduct interim audit field work	January 2013
Conduct year-end audit field work	April – June 2013
Present the Audit Findings Report to the Audit Committee	June 2013
Provide audit opinion on financial statements	June 2013

Appendices

KPMG's Audit Quality Framework

Other current developments

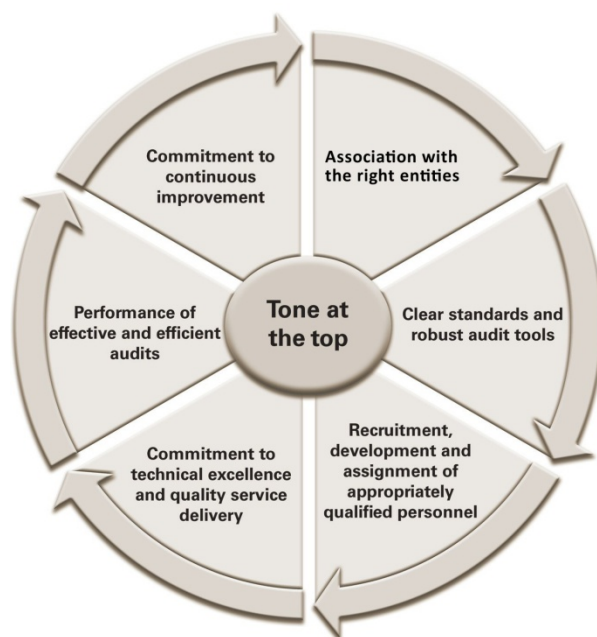
KPMG's Audit Quality Framework

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

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

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

The framework comprises seven key drivers of audit quality.



The seven key drivers of audit quality

Driver	What it does	What it means to you
Tone at the top	<p>Audit quality is part of our culture and our values and therefore non-negotiable</p> <p>Allows the right behaviours to permeate across our entire organization and each of our engagements</p>	<p>Assures you that:</p> <ul style="list-style-type: none"> • Our culture supports our promise to you of excellent service and a high quality audit—consistently • You're receiving an independent, transparent, audit opinion • You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements. <p>Provides you with:</p> <ul style="list-style-type: none"> • An engagement team handpicked for your business needs – a team with relevant professional and industry experience • An audit engagement team whose qualifications evolve as your business grows and changes • An audit opinion that
Association with the right entities	<p>Ethics above all</p> <p>Eliminates any potential independence and conflict-of-interest issues</p>	
Clear standards and robust audit tools	<p>A solid rule book</p> <p>Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality</p>	
Recruitment, development and assignment of appropriately qualified personnel	<p>People who add value</p> <p>Helps us attract and retain the best people and reinforces the importance of developing their talents</p> <p>Assigns Partners' portfolios based on their specific skill sets</p>	

Driver	What it does	What it means to you
<p>Commitment to technical excellence and quality service delivery</p>	<p>The right tools for the right job</p> <p>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</p>	<p>continues to meet your needs as a participant in the capital markets</p> <p>Assists you with:</p> <ul style="list-style-type: none"> • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
<p>Performance of effective and efficient audits</p>	<p>We understand that how an audit is conducted is as important as the final result.</p> <p>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</p>	
<p>Commitment to continuous improvement</p>	<p>Comprehensive and effective monitoring</p> <p>We regularly solicit feedback from the audit committees of the entities we audit. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed entities are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accounting Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</p>	

The regulatory landscape is changing

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

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

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

Our commitment to quality

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

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

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

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

Audit quality is fundamental to the way we work.

Other current developments

Revised Standard on Government Transfers

Highlights

PSAB issued a revised standard for accounting for Government Transfers. This standard sets out standards on how to account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2012 however earlier adoption is encouraged. The standard may be applied retroactively or prospectively.

Implications

The standard will be applicable to the December 31, 2013 fiscal year. This standard could affect the timing of revenue recognition for certain government transfers. Retroactive application of this standard, if chosen, will be challenging since financial records and terms for government transfers received in prior years for capital purposes may not be available.

New Standard on Financial Instruments

Highlights

A new standard has been issued establishing a standard on accounting for and reporting all types of financial instruments including derivatives.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2015 for governments however earlier adoption is permitted. An entity early adopting this standard must also adopt the revised Foreign Currency Translation standard. PSAB intends to review the application of this standard for governments by December 31, 2013.

Implications

This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. Long term debt that has been purchased by the City (i.e. investments in own debentures) will have to be accounted for as an extinguishment of that debt. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type (credit, liquidity and market).

Revised Standard on Foreign Currency Translation

Highlights

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2015 for governments however earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard. PSAB intends to review the application of this standard for governments by December 31, 2013.

Implications

Exchange gains and losses arising prior to settlement are recognized in the statement of remeasurement gains and losses.

New Standard on Liability for Contaminated Sites

Highlights

A new standard has been issued establishing a standard for the recognition of liabilities for contaminated sites.

Effective date and transition

This standard is effective for fiscal years beginning on or after April 1, 2014 however earlier adoption is encouraged.

Implications

A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility for the remediation, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.

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