

The Corporation of The City of London

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

Prepared as of June 7, 2019 for
presentation on June 19, 2019

kpmg.ca/audit



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The contacts at KPMG in connection with this report are:

Katie denBok
Lead Audit Engagement Partner
Tel: 519 660 2115
kdenbok@kpmg.ca

Melissa Redden
Audit Senior Manager
Tel: 519 660 2124
mredden@kpmg.ca

Deanna Baldwin
Audit Manager
Tel: 519 660 2156
deannabaldwin@kpmg.ca

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, 2018.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 6, 2019.



Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.



Finalizing the Audit

As of June 7, 2019, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Obtaining outstanding documentation and inquiries in a few remaining areas, including urban works payable
- Completion of our legal testing procedures, including obtaining updates to our internal and external legal letters;
- Tie-out of the consolidation workbook and financial statements, including notes;
- Tie-out of the annual report;
- Completion of manager and partner final review;
- 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.

*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



Audit risks and results

We discussed with you at the start of the audit a number of significant financial reporting risks:

- These include the presumed risk of management override of controls as well as the risk over the completeness of accruals.
- We also discussed with you some other areas of audit focus.
- These risks and the other areas of focus have been addressed in our audit.

See pages 4 – 10 for a discussion of these matters.



Significant accounting estimates

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

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

See pages 11 – 12.



Significant accounting policies and practices

The following accounting standards came into effect for the current year:

- PS 2200 Related Party Disclosures
- PS 3210 Assets
- PS 3320 Contingent Assets
- PS 3380 Contractual Rights
- PS 3420 Inter-entity Transactions

Implementation of the last four standards noted did not have a significant impact on the Corporation. With regards to PS 2200, management has implemented a process to ensure that all related party transactions have been identified and have been appropriately disclosed in the consolidated financial statements, including those with key management, members of Council or Boards of the Corporation and its Boards and Commissions. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.



Executive summary



Adjustments and differences

We did not identify differences that remain uncorrected.

See page 15 and Appendix 4.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting (ICFR).

We have identified other observations with respect to the following:

- Management review of grant contracts and associated revenue recognition
- Review over general accounting entries in Tangible Capital Assets
- Processing of payroll for casual employees
 - Review of timecards
 - Payment after termination
- Employee IT login security practices

See pages 16 – 19.



Independence

We have included a copy of our annual independence letter, which notes that we are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. See Appendix 3.



Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks

Completeness of accruals

Why is it significant?

The financial statements include certain accruals, such as legal and landfill liabilities and liabilities for contaminated sites, which involve a significant amount of management judgment and assumptions in developing.

Our response and significant findings

Audit Approach

KPMG performed the procedures as indicated in our audit planning report.

Findings

No significant issues were noted. See pages 11 – 12 for a further discussion of the significant accounting estimates.





Audit risks and results

Significant financial reporting risks

Fraud risk from management override of controls

Why is it significant?

This is a presumed risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Audit Approach

As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. KPMG performed the procedures as indicated in our audit planning report.

Findings

No significant issues were noted.



Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Capital projects and acquisitions	The City of London has a large balance of tangible capital assets and is continually spending on capital projects. There is judgment involved in determining the useful lives of capital and when the amortization period should begin.
Our response and significant findings	
<i>Audit Approach</i> KPMG performed the procedures as indicated in our audit planning report.	
<i>Findings</i> No significant issues were noted. There have been no changes to the amortization rates used in the prior year. This is reasonable given the nature of assets and their useful lives. See Appendix 1 for a visualization of the amortization timeline. See page 13 for further details on the data and analytics performed.	



Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Payroll and employee future benefits	The City of London provides defined retirement and other future benefits for some groups of its retirees and employees. These amounts are quantitatively significant to the financial statements.

Our response and significant findings

The balance of employee future benefits is comprised of the following:

- Post-employment and post-retirement benefits of \$92.6 million (2017 - \$89.8 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
- WSIB accrual of \$48.8 million (2017 - \$46.7 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
- Vacation liability of \$16.5 million (2017 - \$16.2 million) – relates to vacation credits earned but not taken by employees as at December 31; and
- Unused sick leave liability of \$1.7 million (2017 - \$2.2 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, 2018.

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.

Audit Approach

KPMG performed the procedures as indicated in our audit planning report.

Findings

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, 2018.

A control observation and performance improvement point have been identified as a result of our payroll testing procedures. The control observation and performance improvement point have been summarized on pages 17 and 19.



Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus

Taxation, user charges, and transfer payments revenue

Why are we focusing here?

For the year ending December 31, 2018, these revenue streams amounted to more than \$1.2 billion for the City of London.

Our response and significant findings

Audit Approach

KPMG performed the procedures as indicated in our audit planning report.

Findings

During our testing over grant revenue, KPMG identified a misstatement where revenue was recognized for a grant provided to the Corporation in 2018; however, there were restrictions on what the funding could be used for and no amounts had been spent on the stipulated project during 2018. This resulted in an overstatement of grant revenue and understatement of deferred revenue. The cause of the error was primarily due to the transferring of funding from one department to another. As a result, KPMG performed testing on additional items within grant revenue.

No further issues were noted in the testing performed.



Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus	Why are we focusing here?
Update of standard cost estimates for assumed assets	The City of London has engaged C.D. Watters Engineering Ltd. to prepare an updated estimate of standard costs to be used to value assumed assets. This requires the use of assumptions and judgment. The value of assumed asset additions recorded during the year is \$73.3 million (2017 - \$36.8 million).

Our response and significant findings

Audit Approach

KPMG performed the procedures as indicated in our audit planning report.

Findings

No issues were noted in the testing performed. The inputs and assumptions used are considered to be reasonable based on the audit evidence obtained.



Other audit matters

Other area of focus	Why are we focusing here?
Debt Issuances	Individual debt issuances at the Corporation have historically been for significant amounts.
New Boards & Commissions – Hyde Park BIA	New entities will require audited financial statements and consolidation into the Corporation's consolidated financial statements.
Southwest Community Centre (Bostwick) Joint Arrangement	During fiscal 2016, the Corporation entered into a joint arrangement with the YMCA of Southwestern Ontario and London Public Library to design, construct, and operate a multi-use community facility for approximately \$54 million. The facility was completed in 2018.
Springbank Dam	Historically, this asset has been included within Assets under Construction until its future use could be determined. The value of its future use has been determined, resulting in a write-down of \$6.3 million in 2018.
Dissolution of the Public Utility Commission	The Public Utility Commission was dissolved October 16, 2018 and land with a value of \$2.9 million was transferred to the Corporation.
Municipal Accommodation Tax	This is a new revenue stream for the Corporation effective October 1, 2018. Half of collections will be remitted to Tourism London. The Corporation reported gross revenues of \$0.9 million in fiscal 2018 and their net share amounted to 50% of revenue collected.

Our response and significant findings

Audit Approach

KPMG performed the procedures as indicated in our audit planning report.

Findings

No issues were noted in the testing performed.



Significant accounting estimates

Management is required to disclose information in the consolidated 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.

We have summarized our assessment of the subjective areas.

Asset / liability	Balance
Landfill closure and post-closure liability	\$39.2 million
KPMG comment	

- 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, 2018, the landfill accrual amounted to \$39.2 million (2017 - \$36.7 million), \$29.7 million of which related to the future closure of the active landfill and \$9.5 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.

We believe management's process for identifying significant accounting estimates is considered adequate.



Significant accounting estimates

Asset / liability	Balance
Accounts payable and accrued liabilities	\$170.4 million
KPMG comment <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 \$4.6 million (2017 - \$4.7 million). The accrual for personnel matters amounted to \$1.4 million (2017 - \$0.7 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$3.2 million (2017 - \$4.0 million) and is comprised of lawsuits brought against the Corporation by external parties. – 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 \$0.9 million (2017 - \$1.2 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 significant accounting estimates is considered adequate.

Data & Analytics in the audit

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.	As at the date of this report, this procedure is in progress.
Tangible capital assets – WIP	Utilized CAATs to compare the WIP detail in fiscal 2018 to the WIP detail in fiscal 2017, testing any projects that did not incur costs in fiscal 2018 and still remain in work in progress (WIP). This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense.	No issues noted during the test.
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.

We also highlight the following:

Form, arrangement, and content of the financial statements

Adequate

Application of accounting pronouncements issued but not yet effective

- PS 3430 Restructuring Transactions – applicable for the year ending December 31, 2019
- PS 1201 Financial Statement Presentation – applicable for the year ending December 31, 2022
- PS 3041 Portfolio Investments – applicable for the year ending December 31, 2022
- 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
- PS 3280 Asset Retirement Obligations – applicable for the year ending December 31, 2022
- PS 3400 Revenue – applicable for the year ending December 31, 2023

No concerns at this time regarding future implementation

Adjustments and differences



Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements. See Appendix 4.

Uncorrected differences

We did not identify differences in excess of \$810,000 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 material weaknesses or significant deficiencies in ICFR.

Significant deficiencies

Description	Potential effect	Component entity
No significant control deficiencies were noted. Please see other control deficiencies on pages 17 - 19.		

Other control observations



Other control observations may be identified during the audit that do not rise to the level of material weakness or significant deficiency.

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

Description	Potential effect
Management review of grant contracts transferred between departments	<p>During our testing over grant revenue, we noted one instance where revenue was recognized for a grant provided to the Corporation in 2018; however, there were restrictions on what the funding could be used for and no amounts had been spent on the stipulated project. This resulted in an overstatement of grant revenue and understatement of deferred revenue. The cause of the error was primarily due to the transferring of funding from one department to another.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant deficiency. KPMG performed additional procedures to identify whether other misstatements existed within this area and found no further issues. KPMG recommends that a review process be implemented to ensure that grant revenue for each contract is appropriately recorded, even when transferred between departments.</p>
Payroll – Agency 3	<p>During our control testing over the payroll process in prior years, we noted instances where there was a significant time lag between when the employee was terminated and when the payroll department received the termination form. These instances 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. KPMG did not identify any instances in current year testing, however, per discussion with Management, this continues to be an issue, albeit to a lesser extent in 2018.</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.</p> <p>We understand that management is taking the recommended steps to implement processes in an effort to remediate the deficiency.</p>

Other control observations (continued)



Other control observations may be identified during the audit that do not rise to the level of material weakness or significant deficiency.

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

Description	Potential effect
Review over general accounting journal entries in TCA	<p>During our testing over journal entries, we noted that general accounting journal entries relating to allocations within Tangible Capital Assets were prepared by one individual in the TCA department and posted by one individual in the Finance department. No review of these journal entries is currently taking place within the TCA department. This could result in fraudulent or inaccurate journal entries being recorded, with management being unaware of the entries.</p> <p>While this represents a control deficiency, it should be noted that it has not been identified as a significant deficiency as this issue is limited to one type of journal entry within one department. In addition, management has mitigating controls within the TCA process through periodic reconciliations and balancing. KPMG recommends that management implement a formalized process whereby these journal entries are reviewed by an employee in the TCA department and the review is clearly documented prior to the journal entry being posted by the Finance department.</p>

Other observations



Other observations may be identified during the audit that do not rise to the level of a control deficiency; but have been highlighted as performance improvement areas.

Item	Observation
Payroll – Management review of timecards	During our testing over payroll, KPMG noted that the payroll department will frequently receive a request to add or subtract hours from a timecard from a previous pay period that has already been approved by the manager. This is particularly prevalent in Agency 3 (Casual employees) where managers input time on behalf of the employee. These adjustments are not significant; however, they suggest that some managers may be approving timecards without reviewing the accuracy of the hours. KPMG recommends that managers should always perform a check for accuracy before signing off on timecards or alternatively, casual employees should input their own time, followed by management review.
Employee IT login security practices	KPMG noted that some employees use an automatic password function to log into IT systems or leave their computers unlocked while away from their work station. There is a risk that if computers are left unlocked or passwords left auto populated, other employees are able to access IT systems using other's logins, and could can gain inappropriate access and change rights to the IT system. KPMG recommends that training be provided to employees on IT security and system settings should be modified to prevent the ability to automatically save the password within the IT system.



Appendices



Appendix 1: Amortization visualization



Appendix 2: Required communications



Appendix 3: Independence letter



Appendix 4: Management representation letter



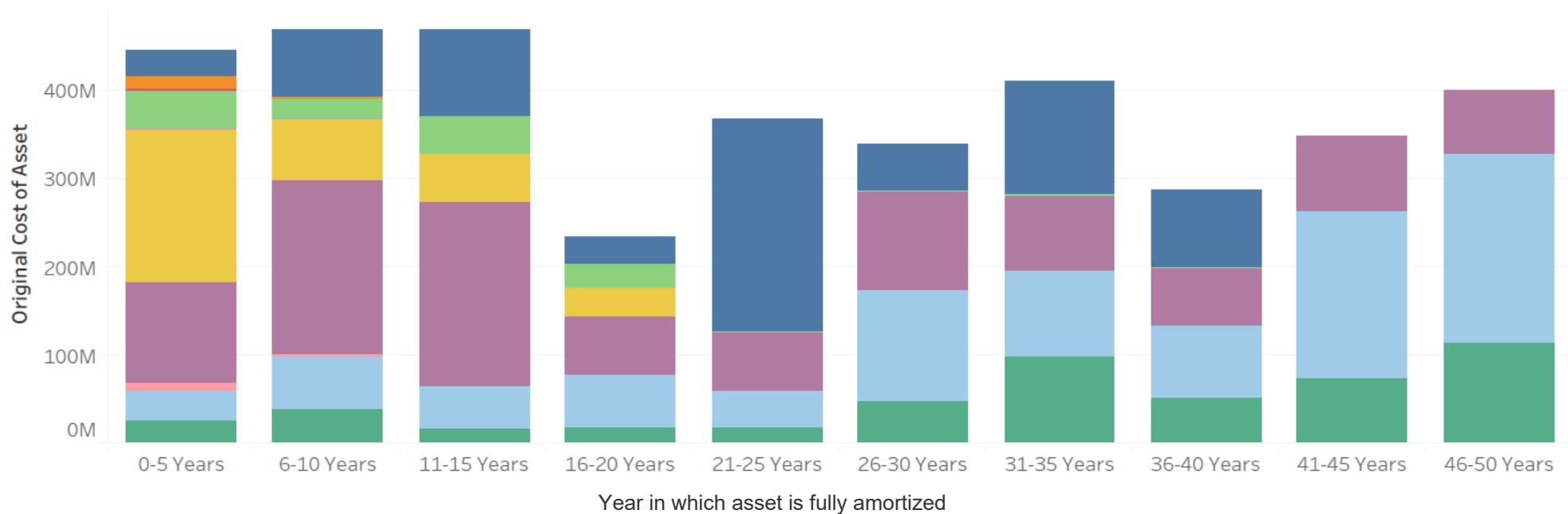
Appendix 5: Current developments



Appendix 6: 2019 Cyber in the External Audit and Cyber Questionnaire

Appendix 1: Amortization visualization

Tangible Capital Asset Amortization Timeline 0-50 Years



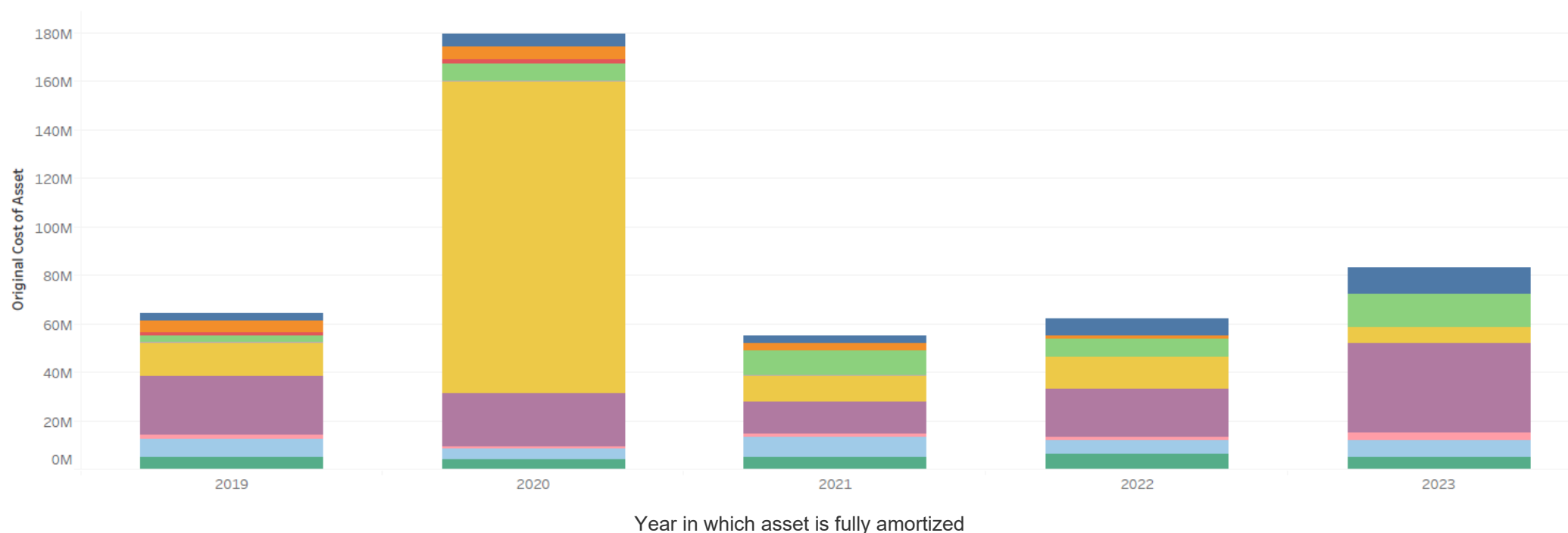
This chart represents the time in which current tangible capital assets owned by the City of London (unconsolidated) will be fully amortized over a 50 year time period. This chart may be useful in determining when assets will have to be replaced assuming that useful lives used for accounting purposes are relatively close to the true useful lives. Please note that this chart excludes assets that have been fully amortized, but are still in use. In addition, some assets may be used beyond their expected useful life or may require replacement sooner. This chart also does not include capital assets that will be fully amortized in greater than 50 years.

Tangible Capital Asset Category

- Buildings and building improvements (10-40 years)
- Computers under capital lease (3 years)
- Leasehold Improvements (7 years)
- Roads Infrastructure (10-80 years)
- Wastewater infrastructure (10-100 years)
- Computers (3-8 years)
- Landfill and land improvements (10-40 years)
- Machinery, equipment and furniture (7-20 years)
- Vehicles (5-7 years)
- Water infrastructure (10-60 years)

Appendix 1: Amortization visualization (continued)

Tangible Capital Asset Amortization Timeline 0-5 Years



This chart represents the time in which current tangible capital assets owned by the City of London (unconsolidated) will be fully amortized over a 5 year time period. This chart may be useful in determining when assets will have to be replaced assuming that useful lives used for accounting purposes are relatively close to the true useful lives. Please note that this chart excludes assets that have been fully amortized, but are still in use. In addition, some assets may be used beyond their expected useful life or may require replacement sooner. This chart also does not include capital assets that will be fully amortized in greater than 5 years.

Tangible Capital Asset Category

- Buildings and building improvements (10-40 years)
- Computers (3-8 years)
- Computers under capital lease (3 years)
- Landfill and land improvements (10-40 years)
- Leasehold Improvements (7 years)
- Machinery, equipment and furniture (7-20 years)
- Roads Infrastructure (10-80 years)
- Vehicles (5-7 years)
- Wastewater infrastructure (10-100 years)
- Water infrastructure (10-60 years)



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 consolidated 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 are provided to the Audit Committee. See Appendix 4.



Annual independence letter

In accordance with professional standards, we have attached our annual independence letter. See Appendix 3.

Appendix 3: Independence letter





KPMG LLP
140 Fullarton Street
Suite 1400
London, ON N6A 5P2
Tel 519 672-4880
Fax 519 672-5684

Audit Committee

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

June 19, 2019

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, in our professional judgment, 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 professional services performed for the Entity (and its related entities) relating to 2018:



Description of Professional Services
Audit and audit related <ul style="list-style-type: none">• Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2018• Audit of all individual Boards and Commissions and Trust Funds financial statements for the year ended December 31, 2018, as outlined in our engagement letter• Audit of the PUC financial statements for the year ended October 16, 2018• Audit of the Dearness Program Report and Dearness Long-Term Care Report• Audit of Joint Water Board (Huron and Elgin) Financial Statements• Review of Childcare Program Envelopes• Review of Ontario Works• Federal audit of Homelessness Partnering Strategy• Specified auditing procedures over the City of London Closed Circuit Television System for the year ended 2018
Tax <ul style="list-style-type: none">• Preparation of corporate tax return for London & Middlesex Community Housing Inc.• 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 Association Board of Management• Preparation of corporate tax return for Hyde Park Business Improvement Association Board of Management
Advisory <ul style="list-style-type: none">• Municipal Service Review

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. We have not provided any prohibited services. We have applied the following safeguards regarding threats to independence created by the services 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 that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in

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,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Appendix 4: Management representation letter

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

June 19, 2019

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, 2018.

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. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.
 - f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

- g) 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.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) 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 that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected 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:

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions
Comparative information:

Misstatements:

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

Non-SEC registrants or non-reporting issuers:

- 12) 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:

- 13) There are no:
 - i) 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
 - ii) Other environmental matters that may have an impact on the financial statements

Accounting Policies:

- 14) The accounting policies selected and applied are appropriate in the circumstances.
- 15) 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:

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

Estimates / Measurement Uncertainty:

- 17) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 18) 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:

- 19) 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.

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

Comparative Figures/Financial statements:

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

Receivables:

- 26) 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:

- 27) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 28) 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:

- 29) 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:

- 30) 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:

- 31) 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:

- 32) 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.
- 33) 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.
- 34) 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:

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

- 43) 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.
- 44) 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.
- 45) 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:

- 46) 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.
- 47) We agree with the findings of C.D. Watters Engineering Ltd. as management's expert in preparing the estimate for standard unit rates for assumed assets. 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:

- 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, 2018
Summary of Corrected Audit Misstatements**

(000's)	Annual surplus effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Adjustment to transfer grant funding received from revenue to deferred revenue.	(3,304)	-	3,304	(3,304)
Total corrected misstatements	(3,304)	-	3,304	(3,304)

Appendix 5: Current developments

Standard	Summary and implications
PSAB Non-Traditional Pension Plans	<ul style="list-style-type: none">• In October 2018, an invitation to comment was put out by the Public Sector Accounting Board (PSAB) regarding the Employer Benefits: Non-Traditional Pension Plans.• Non-traditional pension plans are plans that involve employers sharing different degrees of risk related to pension benefits with other parties, including employees and other employers. The accounting principles and guidance explored in the Invitation to Comment may have significant effect on the accrued benefit obligation reported by public sector entities.• KPMG responded to the Invitation to Comment and is in support of the matter on a principle basis, whereby paragraph .100 of the document states “The entity should recognize its share of the accrued benefit obligation of the pension plan in its financial statements, reflecting the substance of the terms in the plan and taking into consideration relevant factors, facts, events and circumstances.”• We are concerned with significant inconsistencies that will likely arise across entities within a pension plan regarding the economic substance of the plan, and how it should be accounted for. This inconsistency across entities within a plan, and more broadly across the public sector would undermine the anticipated benefits of these standards. We are also concerned with the impact year to year swings in accrued benefit obligations could have on public sector entity compliance with accountability agreements.• Further, where a pension plan is in a surplus position, we also question whether a public sector entity's proportionate share of the surplus would meet the definition of an asset under PS3210, since the public sector entity itself does not necessarily control access to that proportionate share.• KPMG will remain actively engaged in the development of this proposed accounting standard change and ensure Management is aware of this emerging issue.

Appendix 6: 2019 Cyber in the External Audit & Cyber Security Questionnaire



Cyber Security

Services for External Audit

2019

As your External Auditors, we are able to leverage our insight and knowledge of your business, to provide you with access to a selection of our award winning Cyber Security Services.

What Forrester Research says about KPMG's Cyber Security services?

"KPMG has the clearest, most direct vision.

KPMG asserts its desire to help CISOs and boards of directors come together on information security as a business issue, not an IT issue. The company's go-to-market approach leads with vertical expertise, while it is also applying investments across global member firms in areas like data analytics to cyber security engagements."

In these days of incidents and breaches regularly making news headlines, Cyber Security, and the steps you take to protect your data and systems, can have a huge impact on your organization. How you then respond, if or when you do have an incident, is also key. How prepared do you think your organization is?

What's on your mind?

Our discussions with our external audit clients tell us some of the most common questions they ask in relation to Cyber Security are:

- **Are we doing enough** to protect ourselves and reduce our Cyber risk to an acceptable level?
- **Are our systems secure enough?**
- **How do we compare** to the rest of our industry, in terms of our investment in Cyber Security and our level of protection?

How can we demonstrate to our customers, clients, and other stakeholders that we take security seriously?

- **We have a limited budget**, how we can be sure we are investing in the right areas to reduce our risks?
- **How would we respond** if we had a serious incident that impacted our ability to do business or serve our customers?

How we can help turn risk to advantage?

Our permissible¹ Cyber Security services for External Audit clients can help you to answer the concerns listed above. These include:

Independent Cyber Security Reviews and Certification Audits

A formal certification is a key way to demonstrate to your customers or clients that you are taking security seriously. Going through the process can also drive improvements in security across your organization, by embedding processes and policies, and raising overall awareness.

We are able to perform formal Certification Audits to international standards such as the Information Security Management System standard (ISO27001) and Business Continuity Management (ISO22301). We can also perform Privacy by Design assessments which enable you to show that privacy is embedded into your organization and processes.

¹ The scope of our services may be subject to certain limitations in order to maintain our independence as your external auditors; as such, permissibility shall be ultimately evaluated based on the relevant facts and circumstances on a case-by-case basis.

Cyber Maturity Assessment (CMA)

Our CMA service helps you to understand your key cyber risks and your cyber security position relative to industry standards, providing observations for how you can improve.

Potential benefits to you:

- Greater visibility into your Cyber risk landscape and organizational Cyber capabilities.
- A comparison of your relative position compared to your industry competitors, whether you are behind, ahead or within 'the pack'.



Source: KPMG in Canada

Business Resilience Reviews

If you need to test or demonstrate resilience in the face of Cyber attacks, data breaches, unplanned IT or telecom outages, loss of talent/skills, adverse environmental conditions, and other challenges. KPMG can deliver tabletop scenario tests of DR, crisis response and Business Continuity to audit clients.

This will help to increase your understanding of what matters most to the business and how prepared you are to protect it.

It will identify resiliency risks and recommended actions to become more resilient.

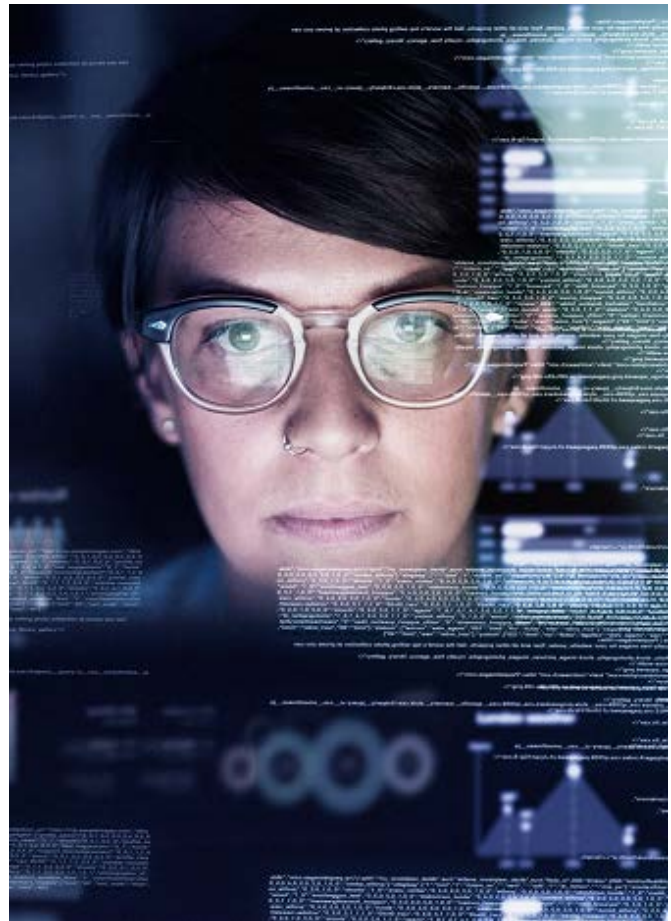
RedTeaming and Ethical Hacking Services

This service provides the opportunity to 'simulate an attack' on your systems. We are then able to identify potential weaknesses so you can better understand the effectiveness of your monitoring and detection capabilities, and then take steps to improve your defences.

Incident Response Assessments and Simulations

If you have concerns over your ability to react to an incident, which could impact how you are able to recover data, or investigate potential breaches and deal with negative publicity. We can provide an in-depth review of your readiness against a cyber-attack and the potential consequences.

We can also help with Cyber incident response tabletop exercises, to validate how you are able to execute your response plans.



Contact us

If any of these potential issues and our services resonate with you, don't hesitate to contact your KPMG External Audit contact or our Regions East Cyber Security leaders below:



Darren Jones
Senior Manager
T: (613) 212-3726
E: darrenjones@kpmg.ca



Peter Morin
Senior Manager
T: (902) 377-7827
E: petermorin@kpmg.ca



Paul Sammut
Senior Manager
T: (613) 212-3660
E: paulsammut@kpmg.ca



Cyber Security Questionnaire

As part of our efforts to provide value for our audit clients, KPMG has prepared the following questionnaire that is intended to assess potential indicators of cyber security risks. The responses provided will be used to provide a presentation to the City's audit committee with respect to cyber security risks and the City's preparedness and response.

RESTRICTIONS

This questionnaire does not constitute a formal assessment of the City's information technology systems and cyber security risks.

We are not responsible for evaluating cybersecurity risks across the City's entire IT platform as part of a financial statement audit. As such, we have not and will not make any explicit or implicit conclusions about the City's ability to withstand a cybersecurity incident, the appropriateness of actions taken by the City in addressing cybersecurity risk, or any other matters that are outside the scope of our audit responsibilities.

QUESTION	RESPONSE
1. Does the City have systems and processes in place to generate awareness on a timely basis if its IT applications, databases, and operating systems had been subject to a cybersecurity incident that could impact the integrity of financial information used in the financial reporting process?	Yes. The City of London employs a Security Information and Event Management System that is monitored 24/7, 365 days per year.
2. Does the City have formal processes for identifying, assessing, and responding to risks related to attacks perpetrated through business email compromise scams or spoofing or phishing routines?	Yes.
3. Does the City undertake periodic network vulnerability assessments to scan, investigate, analyze, and report on any security vulnerabilities discovered on the public, internet-facing devices and to provide the City's management with appropriate mitigation strategies to address those discovered vulnerabilities?	Yes.
4. Has the City installed software to help protect it from Web-based threats including spyware, viruses, and phishing attacks?	Yes.
5. Does the City use virtual private networks and email encryption to prevent unauthorized disclosure of information?	Yes.
6. Are personnel required to complete security training upon hire, which focuses on IT security and access, business email compromise threats, communication, etc?	Yes.
7. Are security policies and procedures available to employees throughout the year?	Yes.
8. Are all employees required to complete an annual security "refresh" training?	Yes. Employees who are not successful on thrice annual Information Security testing are required to complete additional training and are then retested.
9. Does the City use various software tools across the organization to monitor network access, including but not limited to vulnerability scanners, packet sniffers, intrusion detection system (IDS), vulnerability exploitation devices, packet crafting tools, and firewall monitoring devices?	Yes.
10. Does the City have various controls that verify changes to bank account information or vendor payment information (e.g. routing numbers, vendor names, etc.) to authenticate the validity of the changes?	Yes, for Accounts Payable EFT, the City has strict controls in place to validate vendor bank account information both during the initial set-up and if/when changes are requested. Segregation of the collection, entry and approval functions within the process ensure that the controls are

	consistently followed
<p>11. Does the City have a Corporate Security Cyber Incident Response Team, and a documented and tested Cyber Incident Response Plan as a part of their Cyber Intrusion Protection Program (CIPP), which monitors threats and/or breaches of data on a real-time basis?</p> <ul style="list-style-type: none"> — The team identifies, assesses, evaluates, and implements action to mitigate data breaches or other types of unauthorized cyber intrusion. — The cyber incident response plan manages a cybersecurity incident in a manner that limits damage, reduces recovery time and costs, and increases the confidence in the City. 	<p>Yes. The City of London employs a Security Information and Event Management System and associated response program. This system is monitored 24/7, 365 days per year.</p>
<p>12. Does the Audit Committee receive a report on cybersecurity activities on a periodic basis?</p>	<p>Yes. City of London Internal Auditors Deloitte working with Information Technology Services set the information security audit priorities. ITS also works with third parties to perform Threat Risk Assessments and Penetration testing.</p>
<p>13. Is Council briefed on findings/concerns as they relate to the City's CIPP, described above, as well as other measures management is taking to mitigate associated risks?</p>	<p>Yes. In association with The City of London's internal auditors Deloitte, update sessions for Councillors have been provided. These sessions outline the current and evolving Information Security threat environment and the investments the City of London has made to decrease associated risk.</p>



kpmg.ca/audit



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