

The Corporation of the City of London

Audit Planning Report
for the year ending
December 31, 2019

KPMG LLP

Prepared as of February 3, 2020 for
our meeting on March 11, 2020

kpmg.ca/audit

KPMG

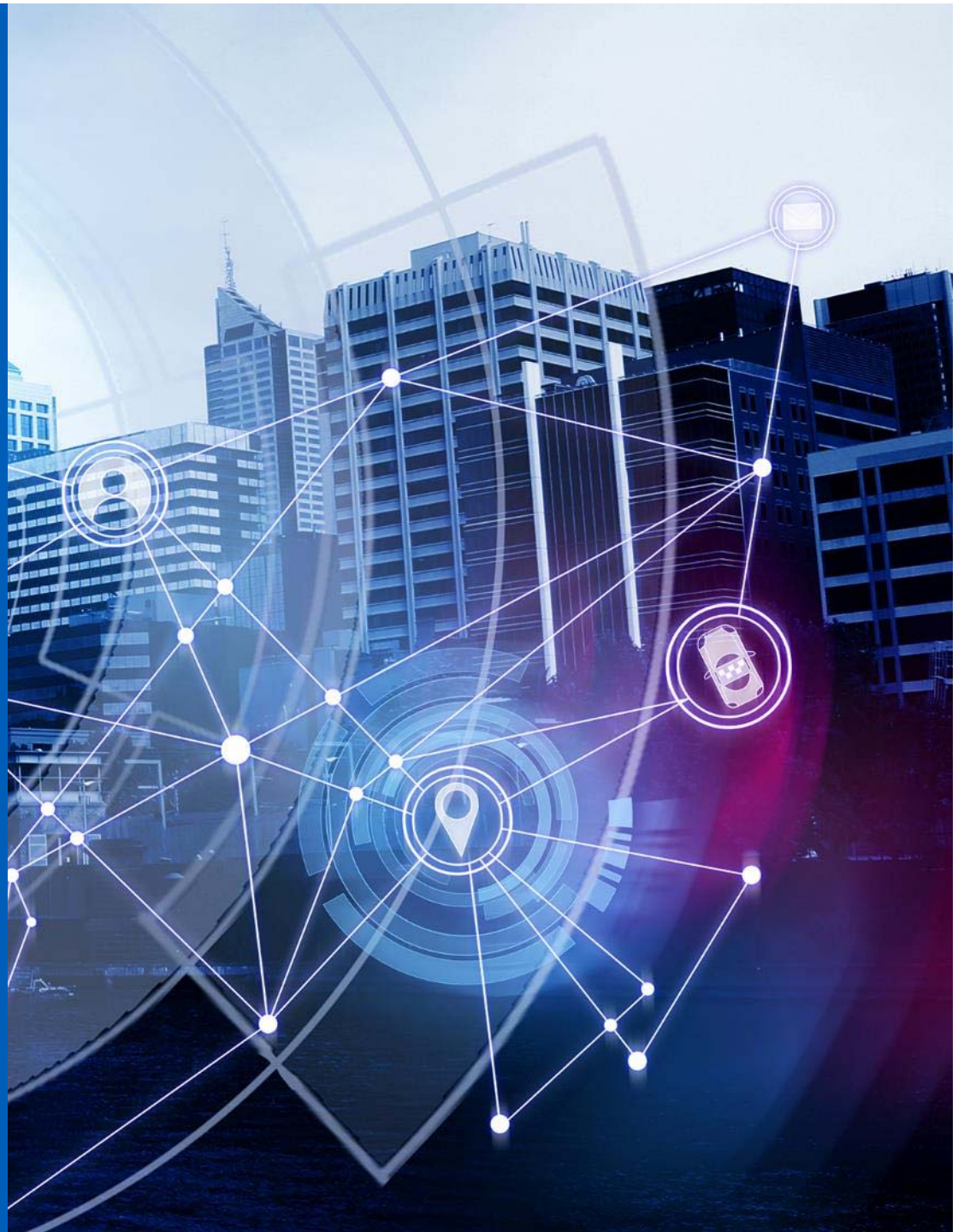


Table of contents

EXECUTIVE SUMMARY	1
GROUP AUDIT SCOPE	3
AUDIT RISKS	6
OTHER AUDIT MATTERS	10
MATERIALITY	11
THE AUDIT OF TODAY, TOMORROW & THE FUTURE	12
YOUR KPMG TEAM	16
KEY DELIVERABLES AND MILESTONES	17
PROPOSED FEES	18
CURRENT DEVELOPMENTS AND AUDIT TRENDS	19
APPENDICES	20
APPENDIX 1: AUDIT QUALITY AND RISK MANAGEMENT	21
APPENDIX 2: KPMG'S AUDIT APPROACH AND METHODOLOGY	22
APPENDIX 3: LEAN IN AUDIT™	23
APPENDIX 4: REQUIRED COMMUNICATIONS	24
APPENDIX 5: CURRENT DEVELOPMENTS	25
APPENDIX 6: FINANCIAL INDICATORS	26



The contacts at KPMG in connection with this report are:

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

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

Dania Nabhani
Audit Manager
Tel: 519-660-2120
dnabhani@kpmg.ca

Executive summary



Group audit scope

Our audit consists of 20 components over which we plan to perform:

- 17 full scope audits

See pages 3 – 4.



Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Completeness of accruals
- Capital projects and acquisitions
- Payroll and employee future benefits
- Taxation, user charges and transfer payments revenue

See pages 5 – 10.



Audit materiality

Materiality has been determined based on total expenses. We have determined group materiality to be \$17,200,000.

Materiality will be set at lower thresholds where necessary to meet standalone subsidiary financial statement audit requirements.

See page 11.





Executive summary



Independence and Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.



Proposal Fees

Proposed fees for the annual group audit are \$91,400.

See page 18.

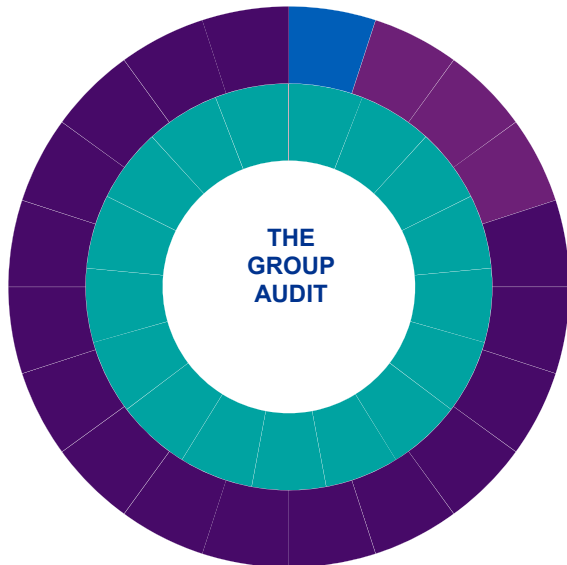


Current developments and Audit Trends

Please refer to page 19 and Appendix 5 for accounting and/or auditing changes relevant to The Corporation of the City of London (“the City”) and relevant audit trends.

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.

Group Audit Scope



Type of work performed	# of components	Legend
Individually financially significant	1	Blue
Significant due to risk	0	Light Blue
In-scope not significant*	16	Purple
Not significant – Untested	3	Dark Purple

*Components are not significant; however, separate statutory audits are required over these components on a stand-alone basis.

Procedures performed by	Legend
Group team – KPMG London	Teal

Group Audit Scope

The components over which we plan to perform audit procedures are as follows:

Component	Why	Our Audit Approach	Managers
City of London	Individually financially significant	Audit of component financial information	[1] Melissa Redden [2] Dania Nabhani
Boards & Commissions	Non-significant components; however, necessary to issue separate statutory audit opinion	Audit of financial statements	[1] Deanna Baldwin [2] Dania Nabhani



Audit risks

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 audit approach

KPMG will perform the following procedures:

- Obtain an understanding of management's process and calculations for each of these areas and assess the adequacy of management's process for identifying critical accounting estimates.
- Obtain corroborative evidence to support management's assumptions and review subsequent payments where possible.
- Send legal letters to internal and external legal counsel, review Council minutes, severance agreements etc. to identify any potential unrecorded liabilities.





Audit risks

Professional requirements

Fraud risk from revenue recognition.

There is no risk resulting from revenue recognition.

Why is it significant?

This is a presumed fraud risk. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performed is measured in terms of year-over-year growth or profit.

The risk of fraud from revenue recognition has been rebutted.

Our audit approach

The audit team has rebutted this presumed risk as it is not applicable to the City where performance is not based on earnings.



Audit risks

Professional requirements

Fraud risk from management override of controls.

Why is it significant?

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

Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.



Audit risks

Other areas of focus

Capital projects and acquisitions

Payroll and employee future benefits

Why are we focusing here?

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.

The City of London provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2018, the City of London had a liability for employee future benefits of \$160 million.

Our audit approach

KPMG will perform the following procedures over capital projects and acquisitions:

- Substantive testing over capital additions and disposals, including the determination of when capital expenditures are transferred from assets under construction and amortization begins.
- Review management's determination of the useful lives of capital assets and the related amortization rates, as well as recalculate amortization expense.
- Perform data and analytical procedures as outlined on page 13.

KPMG will perform the following procedures over payroll and employee future benefits:

- Obtain the year-end WSIB statement and agree to management's accrual.
- Test the reasonableness of assumptions provided by management to the actuaries that are used in preparing the valuation and calculating the liability.
- Take a combined approach to testing payroll expense, which will include both substantive and control testing.



Audit risks

Other areas 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 audit approach

KPMG will perform the following procedures over taxation, user charges and transfer payments revenue:

- Substantive procedures over these revenue streams, including substantive analytical procedures over taxation revenue and vouching of significant transfer payments.
- Perform cut-off procedures around year-end.



Other Audit Matters

Other areas of focus

Debt issuances

New Boards & Commissions

Why are we focusing here?

Individual debt issuances at the City have historically been for significant amounts.

New entities will require audited financial statements and consolidation into the City's financial statements.

Our audit approach

KPMG will perform the following procedures over debt issuances:

- Debentures totaling \$49.38 million were issued during 2019 with a 10 year term with an average all-in rate of 2.655%. KPMG will review the accounting for this transaction in detail during the audit.

KPMG will perform the following procedures over new Boards & Commissions:

- The Hamilton Road BIA is a new entity that was incorporated in fiscal 2018. In consideration of the limited activity in 2018, Management had decided that an audit would not be performed in the prior year. A 15 month audited financial statement will be prepared for the period ended December 31, 2019 and will be consolidated into the City's financial statements.

Materiality

Materiality determination	Comments	Group amount
Materiality	Determined 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. The corresponding amount for the prior year's audit was \$16,200,000.	\$17,200,000
Benchmark	Based on total prior year expenses. This benchmark is consistent with the prior year.	\$1,150,403,000
% of Benchmark	The corresponding percentage for the prior year's audit was 1.5%.	1.5%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$810,000.	\$860,000
	A higher threshold has been used for reclassification misstatements. The corresponding amount for the previous year's audit was \$4,050,000.	\$4,300,000

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to the Audit Committee:



Corrected audit misstatements



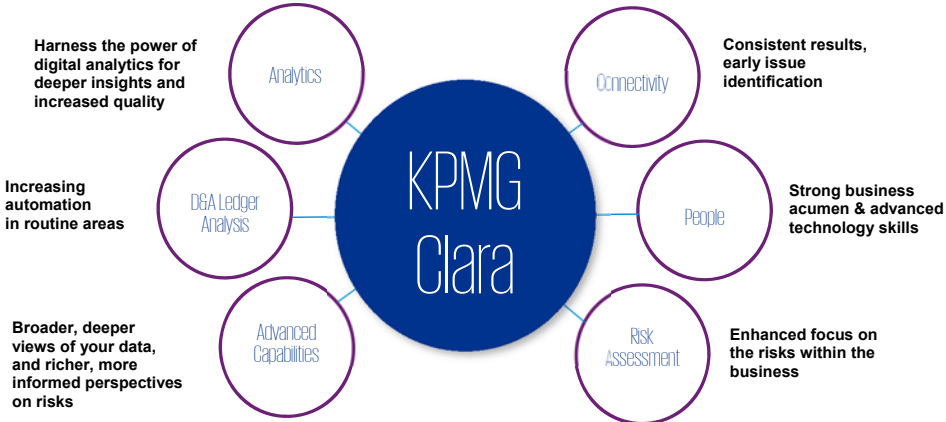
Uncorrected audit misstatements



The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today	
Tool	Benefit to audit
KPMG Clara Client Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts and journal entries.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.



Journal Entry Analysis

Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Data & Analytics Routines

We will be integrating Data & Analytics procedures into our planned audit approach as follows:

- Tangible Capital Assets – WIP: Utilize CAATs to compare the WIP detail in fiscal 2019 to the WIP detail in fiscal 2018, testing any projects that did not incur costs in fiscal 2019 and still remain in WIP. This routine will obtain audit evidence over the completeness of tangible capital assets and amortization expense.
 - Tangible Capital Assets – Disposals: Utilize CAATs to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. This routine will obtain audit evidence over existence of tangible capital assets.
 - Holdback accrual – Utilize 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 will obtain audit evidence over the completeness of holdback accruals.
-

Data Extraction & Analytics Tools

Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and our alliances with technology firms including Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit the City in the future. We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

Technology under development	
Tool	Benefit to audit
Advanced Analytics Asset Impairment Tool	The asset impairment tool delivers advanced analysis of goodwill impairment models (based on discounted cash flows) through the use of predictive analytics, enabling a more robust and independent challenge of managements assumptions. It has the ability to flex and vary assumptions in real time, bringing in external economic and peer group data, as well as the previous year's cash flow models. This will ensure we have timely and focused discussions on the most sensitive assumptions that form your estimates over long-lived assets and goodwill well in advance of yearend fieldwork. We are able to independently perform sensitivity analysis by changing assumptions and sharing these with management, reducing the time required by your team to run various scenarios for us.
Advanced Analytics Bad Debt Tool	The bad debt tool assists with our evaluation of management's estimate of the bad debt provision. This is accomplished through multiple features, including robust risk assessment and scenario analysis using different provisioning levels; comparing movements in total provision to macroeconomic data such as changes in CPI, GDP, private consumption growth, and employment rate; and providing insights on the accuracy of the bad debt provision rate by tracking amounts as it transitions between last aging buckets.
Business process mining (BPM)	BPM harnesses sub-ledger analytics and provides us with a deeper understanding of your processes. Our BPM tool is currently being piloted globally and will be coming soon to Canada. The tool provides immediate visualization of how 100% of your transactions are being processed to complement your process narratives and flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks and leveraging your team's resources efficiently. It also helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.
Artificial Intelligence Financial statement disclosure analysis Tool	Our artificial intelligence capability will compare the City's financial statement disclosures against existing, new, and modified accounting guidance and pronouncements, in addition to comparing them against peer companies. We'll be able to share with you not only how your disclosures compare to the requirements but also to your peer group.

The audit of today, tomorrow & the future

Technology under development	
Tool	Benefit to audit
Dynamic Risk Assessment	Dynamic Risk Assessment (DRA) gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk. Using network theory, DRA considers not just the traditional, two-dimensional view of severity and likelihood but also how interconnected the risks are, how fast they may emerge and how systemic they are. It will provide a holistic enterprise-wide assessment of your risks, ensuring we have identified the relevant risk exposures that need to be incorporated into our audit approach.
Optical Contract Reader & Analysis Tool	Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk.
Robotic Process Automation (RPA)	This application of cognitive computing technology allows our team to configure computer software—or a “robot”—to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems.

Your KPMG team

Team member	Background / Experience	Discussion of role
<p>Katie denBok Lead Audit Engagement Partner kdenbok@kpmg.ca 519-660-2115</p>	<p>Katie has over 14 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, and a number of local private company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.</p>	<ul style="list-style-type: none"> – Katie will lead our audit for the City and be responsible for the quality and timeliness of everything we do. – She will often be onsite with the team and will always be available and accessible to you.
<p>Diane Wood Tax Partner dianejwood@kpmg.ca 519-660-2123</p>	<p>Diane is a member of the Financial Planners Standards Council and the Society of Trust and Estate Practitioners. Her principal activities are in not-for-profit taxation planning and compliance, personal income tax planning and compliance, estate planning, international executive taxation and providing financial planning and taxation assistance to individuals facing early retirement or severance packages.</p>	<ul style="list-style-type: none"> – Diane will assist with any tax related matters that arise.
<p>Melissa Redden Audit Senior Manager mredde@kpmg.ca 519-660-2124</p>	<p>Melissa has over 9 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, as well as a number of local private and public company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.</p>	<ul style="list-style-type: none"> – Melissa will work very closely with Katie on all aspects of our audit for the City. – She will be on site and directly oversee and manage our audit field team and work closely with your management team.
<p>Dania Nabhani Audit Manager dnabhani@kpmg.ca 519-660-2120</p>	<p>Dania has over 5 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies.</p>	<ul style="list-style-type: none"> – Dania will work closely with Katie and Melissa and provide assistance to the main City audit. She will also manage select Boards and Commissions. – She will be on site and directly oversee and manage the audit field team for these entities, as well as work closely with the management teams.
<p>Deanna Baldwin Audit Senior Manager deannabaldwin@kpmg.ca 519-660-2156</p>	<p>Deanna has over 8 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies.</p>	<ul style="list-style-type: none"> – Deanna will work closely with Katie on select Boards and Commissions. – She will be on site and directly oversee and manage the audit field team for these entities, as well as work closely with the management teams.

Key deliverables and milestones



Proposed fees



In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above.

Our fee analysis has been reviewed with and agreed upon by management.

Our fees are estimated as follows:

	Current period (budget)	Prior period (actual)
Audit of the financial statements	\$91,400	\$97,500*



Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes in the nature or size of the operations of the Company beyond those contemplated in our planning processes
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof
- Changes in the timing of our work

*Includes \$7,500 for one-time fee relating to work over assumed asset valuations.

Current developments and audit trends

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications	Reference
None for fiscal 2019	There are no new standards effective for fiscal 2019; however, there are several standards upcoming over the next several years. A summary of these standards has been included in Appendix 5.	See Appendix 5.

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG audit trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
2018 Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report

Appendices



Appendix 1: Audit quality and risk management



Appendix 2: KPMG's audit approach and methodology



Appendix 3: Lean in Audit™



Appendix 4: Required Communications



Appendix 5: Current Developments



Appendix 6: Financial Indicators

Appendix 1: Audit quality and risk management



KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources page](#) for more information including access to our most recent [Audit Quality and Transparency Report](#).

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality. We do not offer services that would impair our independence.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching



We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Other controls include:

Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits

Technical department and specialist resources provide real-time support to audit teams in the field

Appendix 2: KPMG's audit approach and methodology



This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers



Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions



Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.



Appendix 4: 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:



Engagement letter

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 and any subsequent amendment letters as provided by management.



Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



Audit planning report

This report.



Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.



Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



Annual independence letter

At the completion of our audit, we will provide our independence letter to the Audit Committee.



[CPAB Audit Quality Insights Report \(October 2019\) \(formerly the "Big Four Firm Public Report"\)](#)
[CPAB Annual Inspections Results \(March 2019\)](#)



Appendix 5: Current Developments



Public Sector Accounting Standards

Overview of Current Changes to the Public Sector Accounting Standards - New Standards and Application Date

Topic	Effective Date years commencing on or after
Financial instruments (PS 3450)* Foreign Currency Translation (PS 2601)* Financial Statement Presentation (PS 1201)* Portfolio Investments (PS 3041)* (*must be adopted together)	April 1, 2021 For entities who previously applied Part V of CICA Handbook, Accounting - April 1, 2012
Asset Retirement Obligations (PS 3280)	April 1, 2021
Revenues (PS 3400)	April 1, 2022

Public Sector Accounting Standard Changes Financial Instruments / Foreign Currency / Financial Statement Presentation

- Financial Instruments / Foreign Currency Translation / Financial Statement Presentation
 - Must be applied at the same time
 - Financial Statement Presentation changes related to the statement of remeasurement gains and losses to be presented in a separate statement
- Effective Date
 - Effective for years commencing on or after April 1, 2021, extended from April 1, 2019 in March 2018, for all other organizations including municipal governments
 - PSAB is considering certain narrow scope amendments for PS3450, including : (1) accounting treatment of a bond repurchase; (2) scope exclusion of certain activities by the federal government; and (3) improvements to transitional provisions. A final pronouncement has not been issued approving these amendments.
 - Early adoption is permitted



Public Sector Accounting Standard Changes

Financial Instruments PS 3450 (1/5)

- **Measurement/Recognition Principles**
 - New Section PS 3450 Financial Instruments
 - Investments in equities that are traded in an active market are measured at fair value, with changes recognized in operations
 - All other financial instruments are carried at cost or amortized cost
 - Option to record any financial instrument at fair value – Irrevocable election on initial recognition
 - Any investments where managing and reporting performance for a group of financial assets, financial liabilities, or both on a fair value basis

Public Sector Accounting Standard Changes

Financial Instruments PS 3450 (2/5)

- **Measurement/Recognition Principles – derivatives**
 - Derivatives continue to be measured at fair value
 - Hedge accounting is not permitted
 - Contracts must be reviewed for embedded derivatives
 - Option to value full contract with embedded derivative at fair value rather than separately account for the derivative features

Public Sector Accounting Standard Changes

Financial Instruments PS 3450 (3/5)

- **Transaction costs**
 - Capitalize transaction costs for instruments carried at cost or amortized cost
 - Expense transaction costs for instruments carried at fair value
- **Effective Interest method**
 - Interest should be measured using the effective interest method
- **Timing of recognition**
 - Purchase and sale of investments should be recorded using the trade-date; not the settlement date

Public Sector Accounting Standard Changes

Financial Instruments PS 3450 (4/5)

- Disclosure

- Disclose information that enables users of the financial statements to evaluate the significance of financial instruments
- Disclose carrying amounts, either on the statement of financial position or notes for:
 - a) Financial assets / liabilities measured at amortized cost
 - b) Financial assets / liabilities measured at fair value
 - c) Investments in equities measured at cost less impairment

Public Sector Accounting Standard Changes

Financial Instruments PS 3450 (5/5)

- Disclosure (cont'd):
 - Items of income include:
 - a) Net gains or net losses recognized on financial instruments
 - b) Total interest income
 - c) Total interest expense
 - Risks and uncertainties: for each significant risk arising from financial instruments, disclose the exposures to risk, how they arise and any change in risk exposures from the previous period

Public Sector Accounting Standard Change Financial Statement Presentation PS 1201 (1/2)

- **Statement of Remeasurement Gains and Losses**
 - Exchange gains/losses yet to be settled
 - Fair value remeasurements on investments and derivatives

Public Sector Accounting Standard Change Financial Instruments - Financial Statement Presentation (2/2)

Statement of Remeasurement Gains and Losses

For the year ended December 31

	20X1	20X0
Accumulated remeasurement gains and losses at beginning of year	<u>\$ xx</u>	<u>\$ xx</u>
Unrealized gains (losses) attributable to:		
Derivatives	xx	xx
Portfolio investments	xx	xx
Foreign exchange	xx	xx
Amounts reclassified to the statement of operations:		
Derivatives	xx	xx
Portfolio investments	xx	xx
Foreign exchange	<u>xx</u>	<u>xx</u>
Net remeasurement gains and losses for the year	<u>xx</u>	<u>xx</u>
Accumulated remeasurement gains and losses at the end of the year	<u>\$ xx</u>	<u>\$ xx</u>



Public Sector Accounting Standard Changes Foreign Currency PS 2601

- PS 2601
 - Current rate would be used
 - Gains/losses yet to be settled (i.e. remeasurement gains and losses) presented in a separate statement

Asset Retirement Obligations ("ARO") (1/6)

- A formal standard on ARO's was approved by PSAB at its March 2018 session, covering:
 - Retirement obligations associated with tangible capital assets controlled by a public sector entity (assumption of responsibility not a requirement)
 - Legal obligations, including an obligation created by promissory estoppel
 - Includes solid waste landfill closure and post-closure liability (has resulted in the proposed amendment to withdraw Section PS 3270)
 - Asset retirement obligations associated with tangible capital assets that are in productive use and those that are no longer in productive use
 - Three transitional provision options: Prospective; Retroactive; Modified retroactive application
- Effective date April 1, 2021. Earlier adoption is permitted.
- Webcast available from KPMG and CPA Canada

ARO - Recognition/Allocation (2/6)

- A liability should be recognized when, as at the financial reporting date:
 - there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
 - the past transaction or event giving rise to the liability has occurred;
 - it is expected that future economic benefits will be given up; and
 - a reasonable estimate of the amount can be made.

- A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

ARO - Recognition/Allocation (3/6)

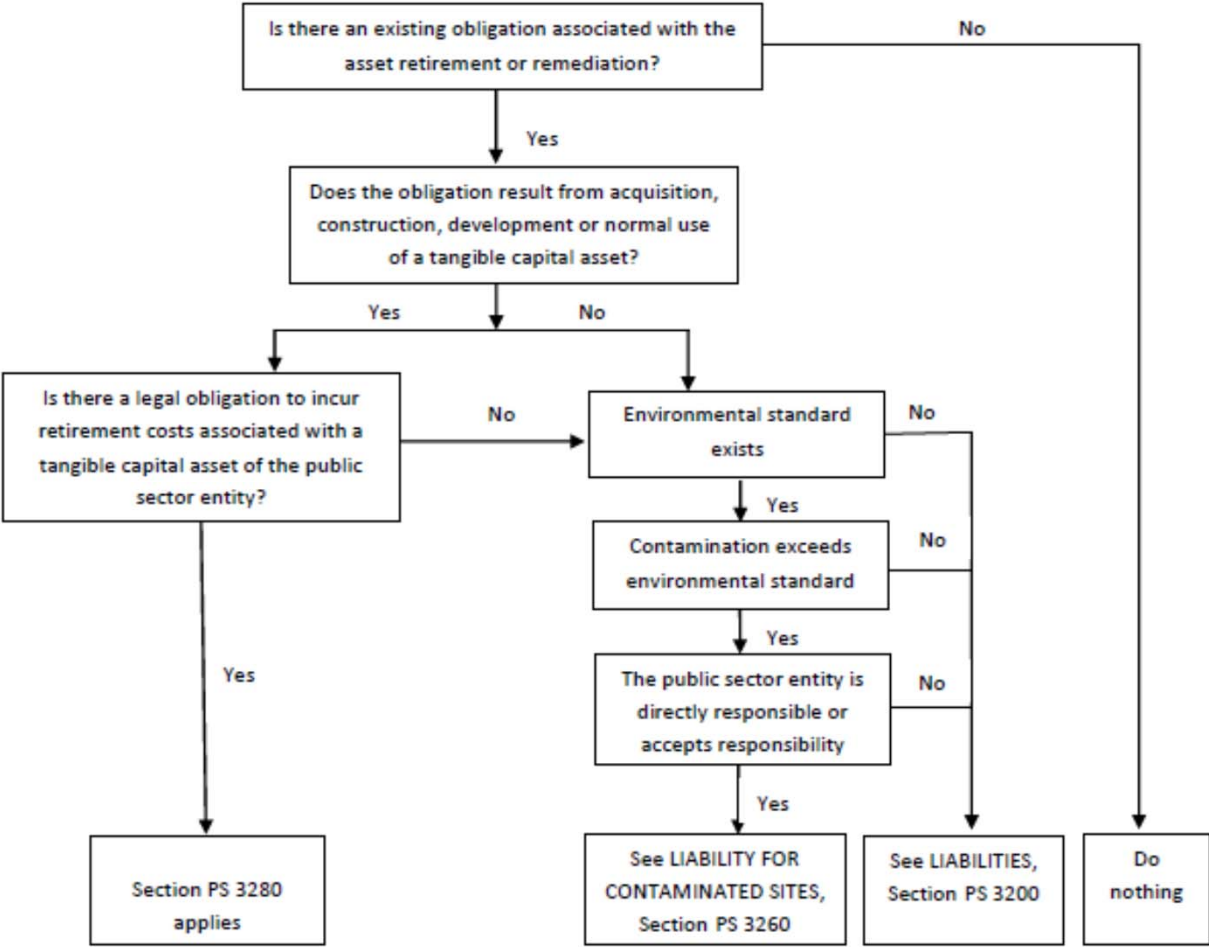
Recognition and allocation guidelines:

- Capitalize asset retirement obligation and allocate the cost in a rational and systematic manner.
- Capitalize vs. expense:
 - Capitalize asset retirement obligations associated with fully amortized tangible capital assets.
 - Expense asset retirement obligations associated with unrecognized tangible capital assets.
 - Expense asset retirement obligations associated with tangible capital assets no longer in productive use

ARO - Measurement (4/6)

- The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset. Includes costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use.

ARO - flow chart (5/6)



ARO's - Other (6/6)

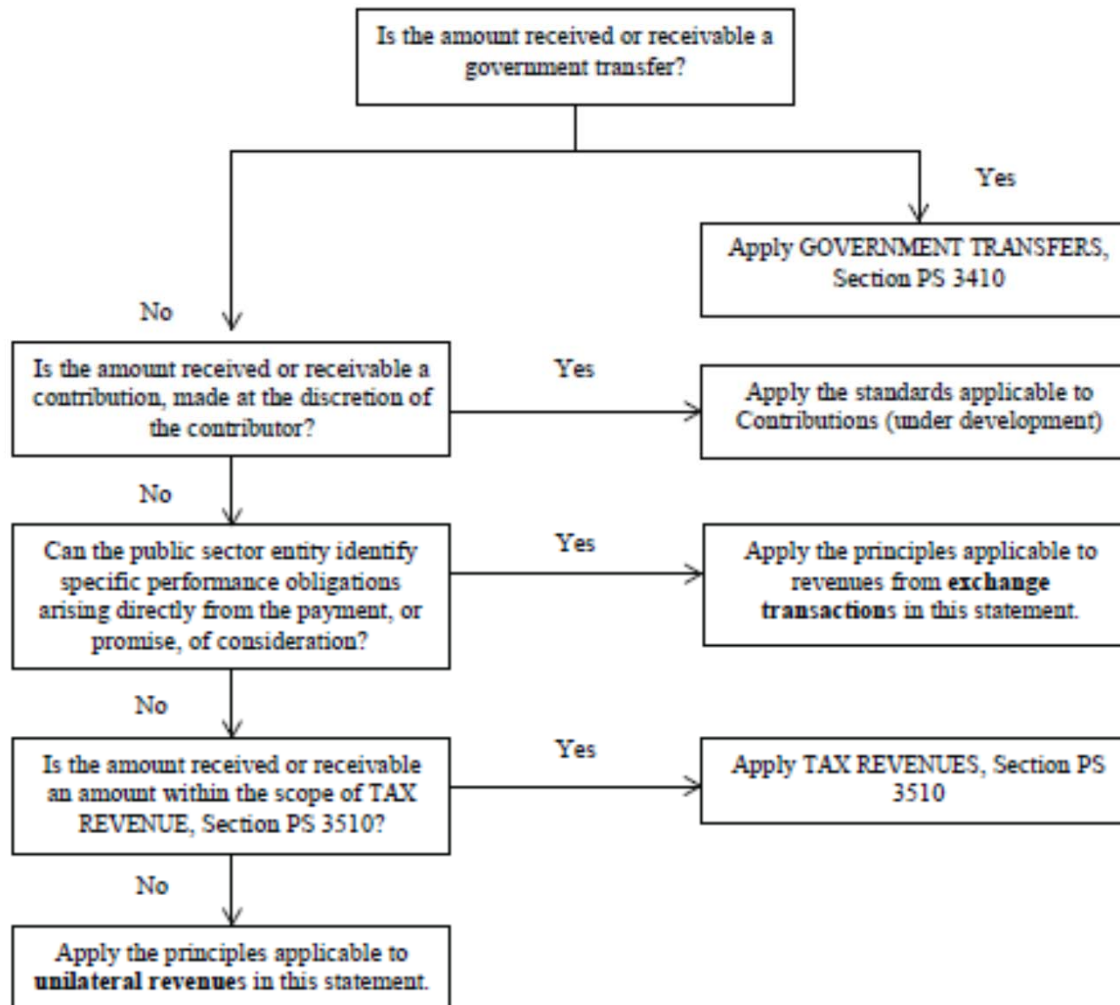
- PSAB has approved consequential amendments to paragraphs PS 3260.62-64, Contaminated Sites, with respect to recoveries. The consequential amendments note that a recovery should not be netted against the related contaminated site liability.
- The consequential amendment also notes that a contingent recovery should be disclosed in accordance with PS 3320, Contingent Assets,
- The consequential amendment has an effective date of April 1, 2021.

Revenues (1/2)

- PSAB approved the final Handbook Section PS 3400, *Revenue* in June 2018. This new Section will be effective for fiscal years beginning on or after April 1, 2022
- From the Exposure draft
 - Focused on two categories of revenues: exchange transactions; and unilateral (non-exchange) transactions
 - Excluded from this are:
 - a) Reporting of contributions and appropriations excluded from scope.
 - b) Accounting for government transfers, tax revenues, interest, dividends, and gains and restricted assets
 - Exchange transactions are distinguished based on the presence of performance obligations (enforceable promises to provide goods or services)
 - An exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation
 - Revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation
 - Unilateral revenues (such as fines and penalties imposed by a government) are recognized when there is the authority and a past event that gives rise to a claim of economic resources
 - Revenue is not reduced upon initial recognition if collectability is uncertain

Revenues from the Statement of Principles (2/2)

APPENDIX — DECISION TREE



PSAS Active Projects

Topic	Next steps
Employment benefits	<p>Third Invitation to Comment, “Employment Benefits: Non-traditional Pension Plans.” issued October 2018.</p> <p>PSAB expects to move directly to Exposure Draft.</p>
Public private partnerships	Exposure Draft expected to be approved by PSAB in September 2019.
Concepts Underlying Financial Performance	SoC and SoP released Q2 2018. Comments have been received and are under review by the Board.
PSAB’s Approach to International Public Sector Accounting Standards	Second consultation paper, “Reviewing PSAB’s Approach to International Public Sector Accounting Standards” issued for comment in May 2019.
Government Not for Profit Consultations	Consultation paper issued for comment in May 2019.



kpmg.ca



© 2019 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

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

Appendix 6: Financial Indicators



Indicators of Financial Performance



Financial Indicators

A. Reporting on financial condition

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

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

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

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

Financial Indicators

B. Selected financial indicators

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

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

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

Our analysis is based on Financial Information Return data. Given the timing of financial reporting for municipalities, the analysis is based on 2018 FIR data with comparative information provided based upon the 2014 – 2017 FIR data.

Financial Indicators

C. Selecting Comparator Municipalities

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

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

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

Municipality	Population (2018)	Households (2018)	Area (square km)
London	393,167	176,859	423.43
Ottawa	934,243	422,327	2790.0
Hamilton	572,575	234,655	1117.29
Windsor	224,134	99,325	146.38
Kingston	123,973	53,970	451.19
Guelph	131,790	56,636	87.22

Financial Indicators

FINANCIAL ASSETS TO FINANCIAL LIABILITIES

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

TYPE OF INDICATOR

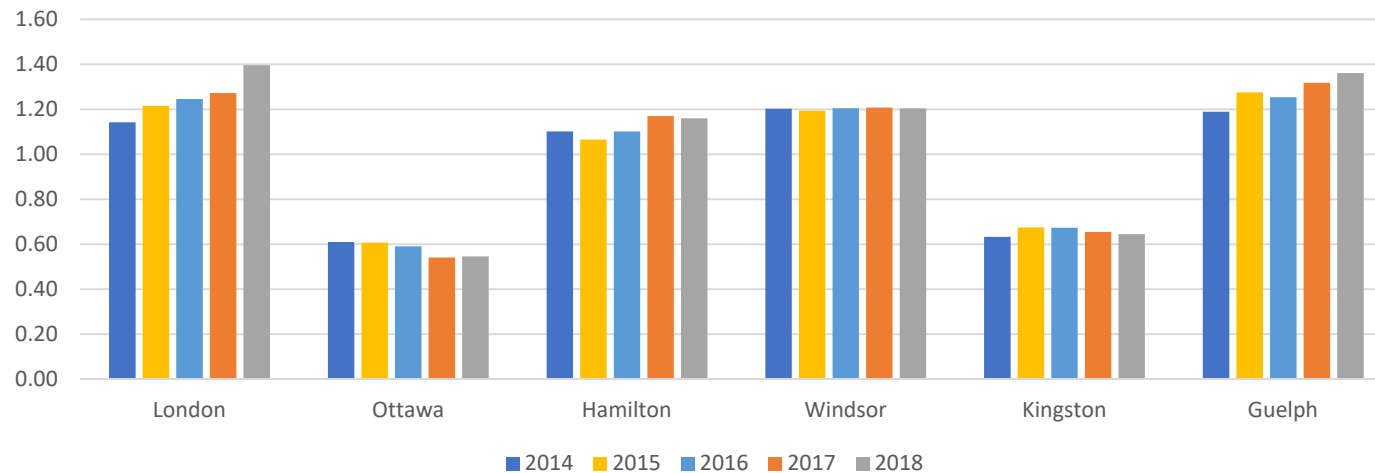
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

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

TYPE OF INDICATOR

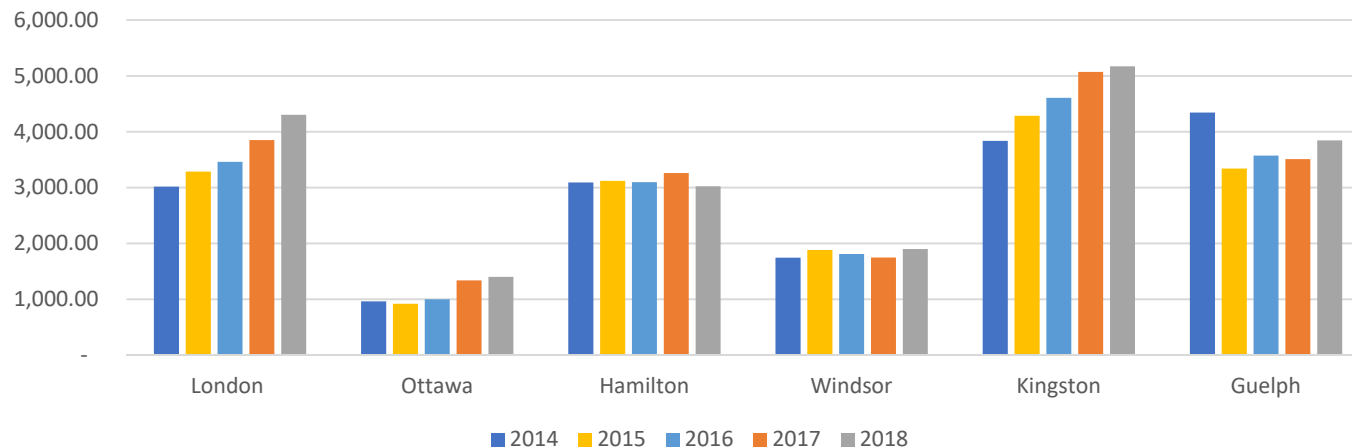
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

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

TYPE OF INDICATOR

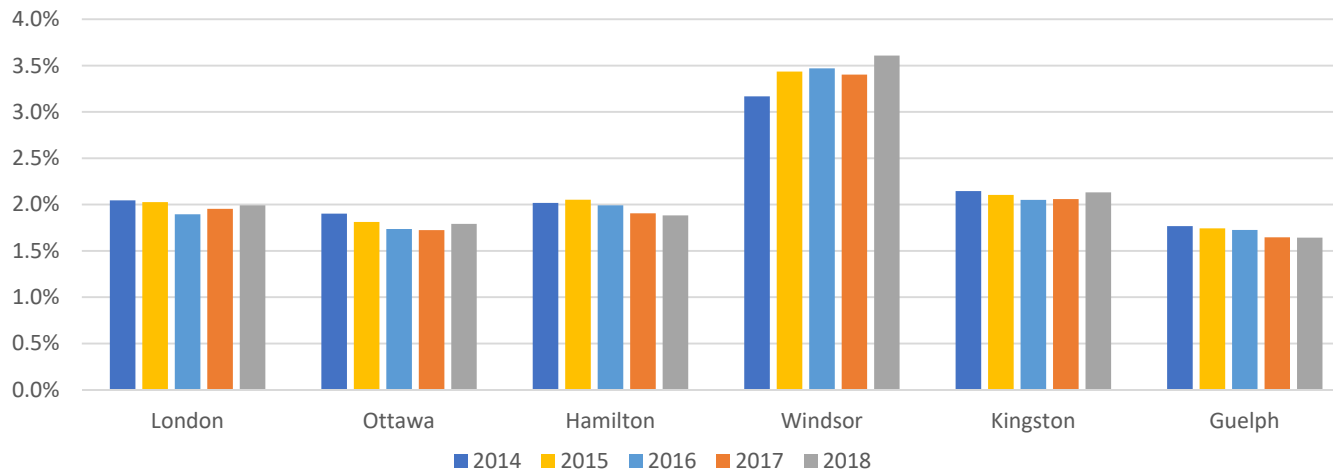
Sustainability ✓
 Flexibility
 Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

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

TYPE OF INDICATOR

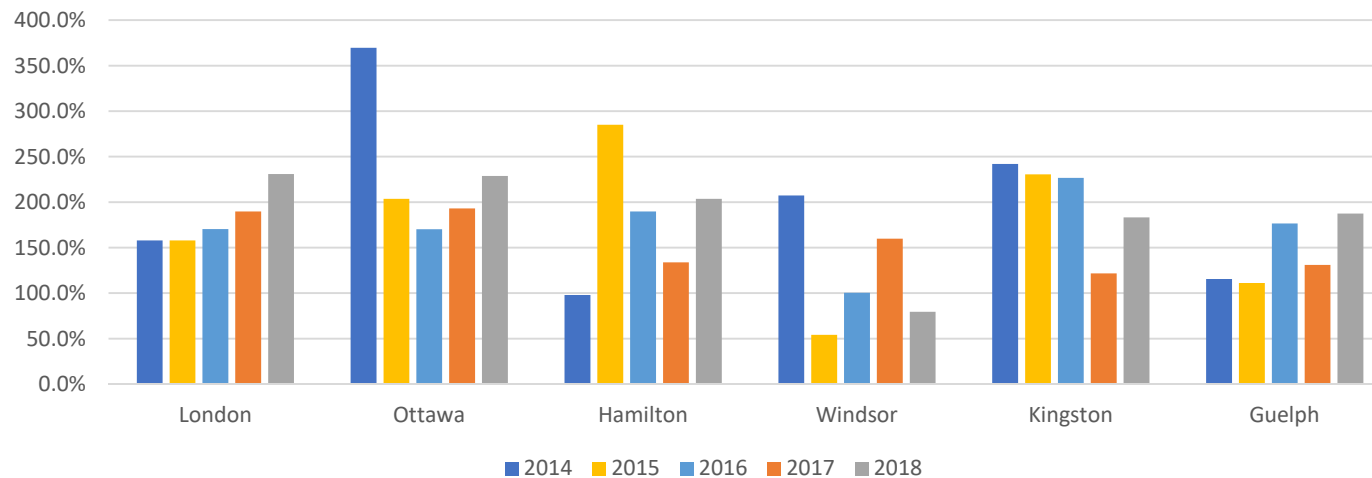
Sustainability ✓
Flexibility
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

RESIDENTIAL TAXES PER HOUSEHOLD

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

TYPE OF INDICATOR

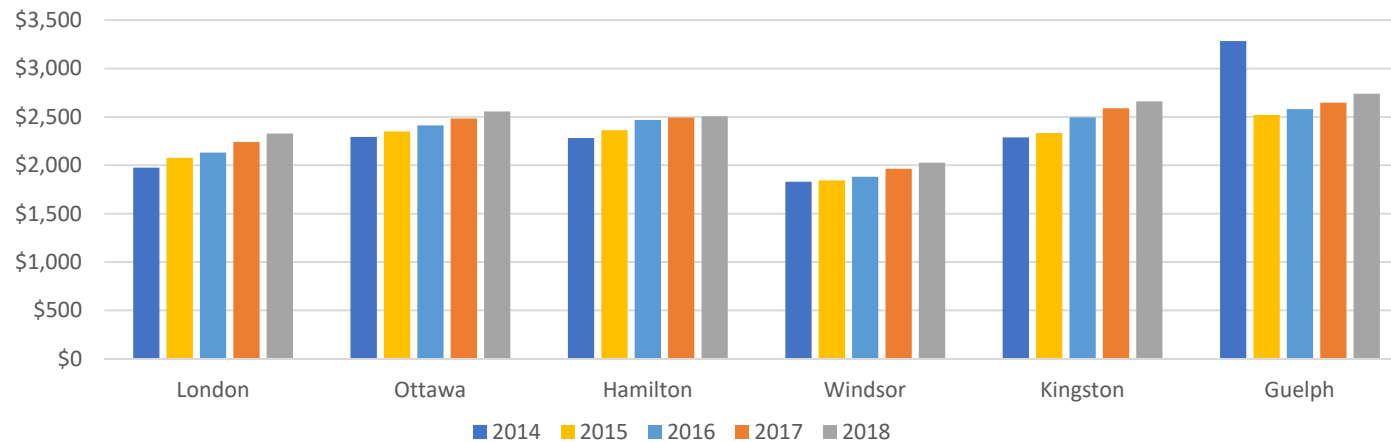
Sustainability
Flexibility ✓
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

TOTAL LONG-TERM DEBT PER HOUSEHOLD

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

TYPE OF INDICATOR

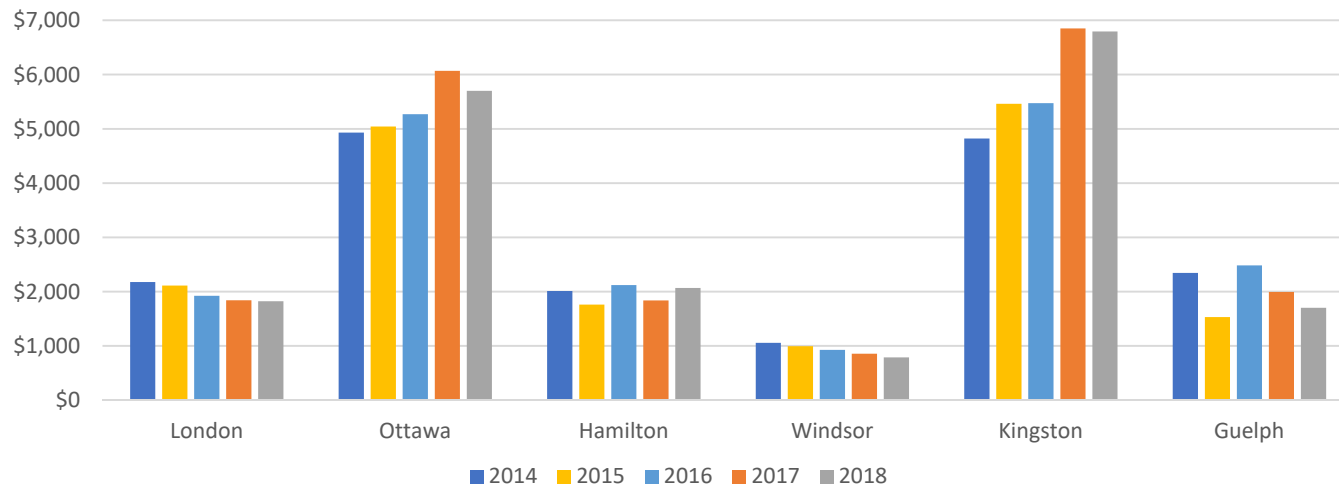
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 70, Line 2699,
Column 1 divided by FIR
Schedule 2, Line 0040, Column
1

POTENTIAL LIMITATIONS

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



Financial Indicators

RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

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

TYPE OF INDICATOR

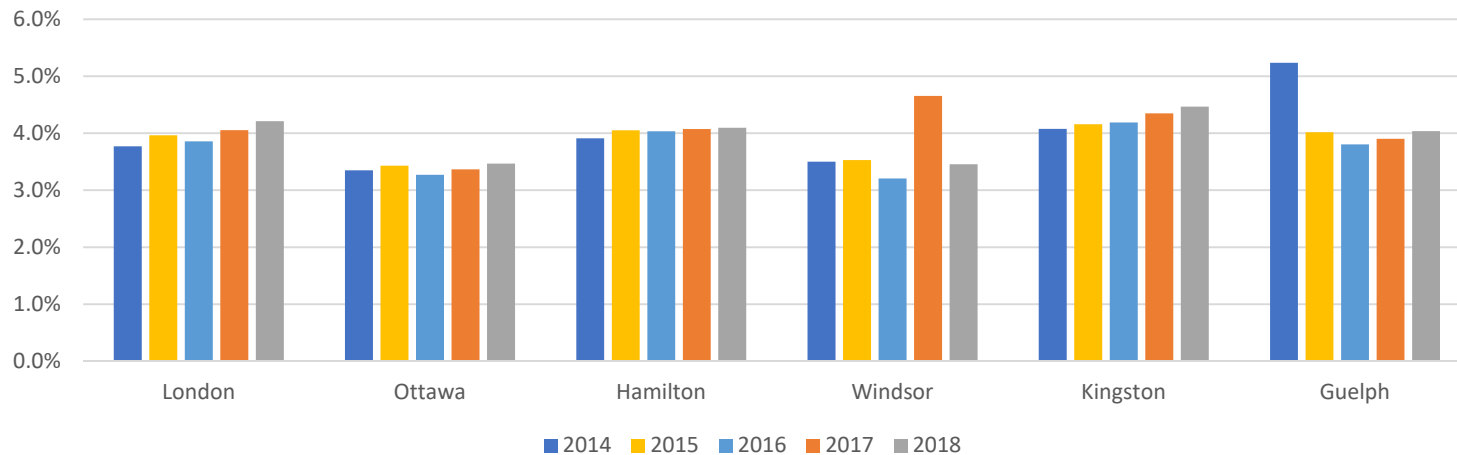
Sustainability
Flexibility ✓
Vulnerability

FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Median household income is derived from 2016 and 2011 census data.

POTENTIAL LIMITATIONS

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



Financial Indicators

TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

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

TYPE OF INDICATOR

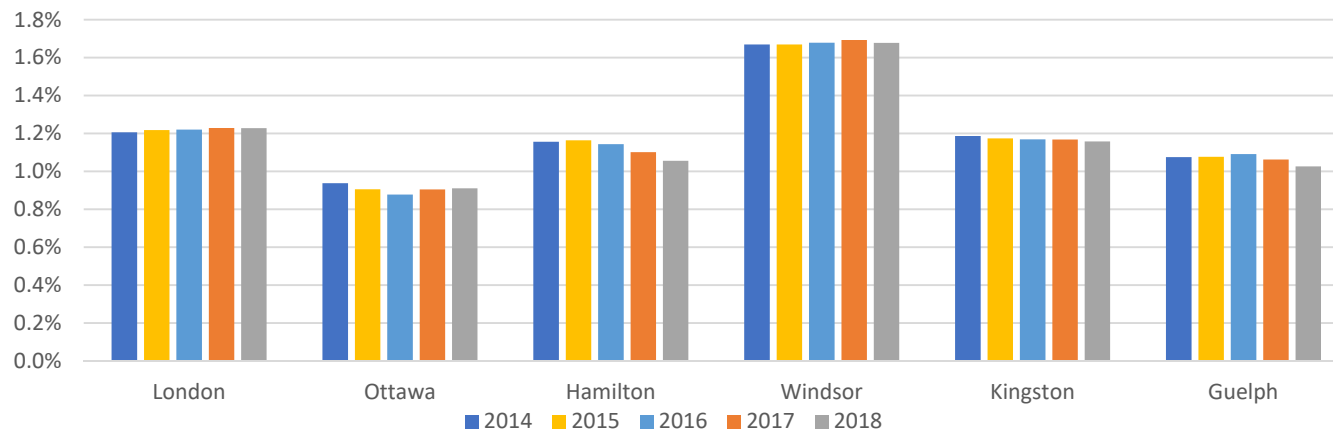
Sustainability
Flexibility ✓
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

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

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

TYPE OF INDICATOR

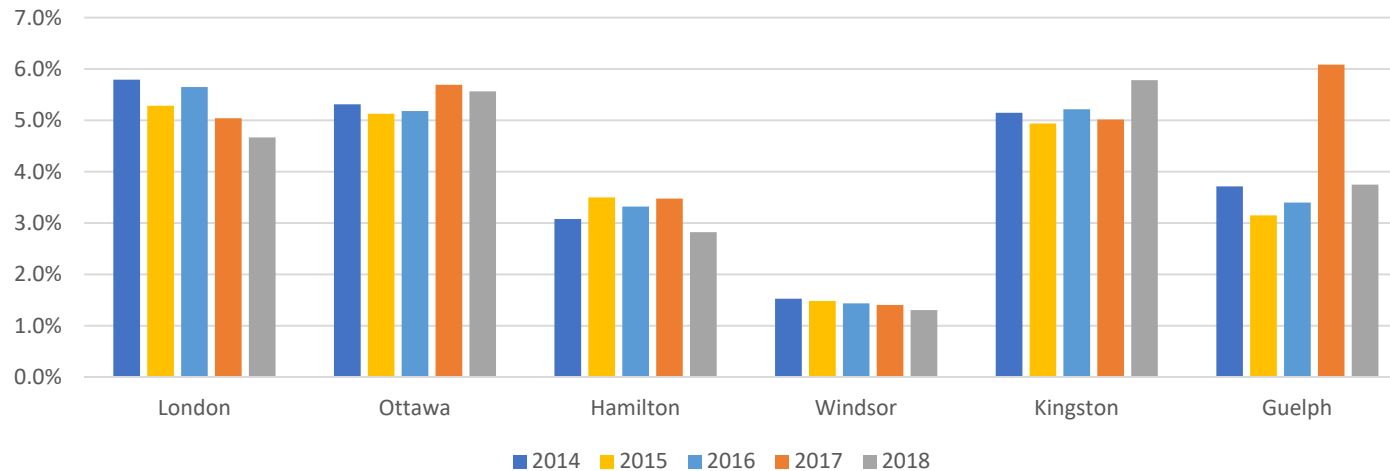
Sustainability
Flexibility ✓
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

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

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

TYPE OF INDICATOR

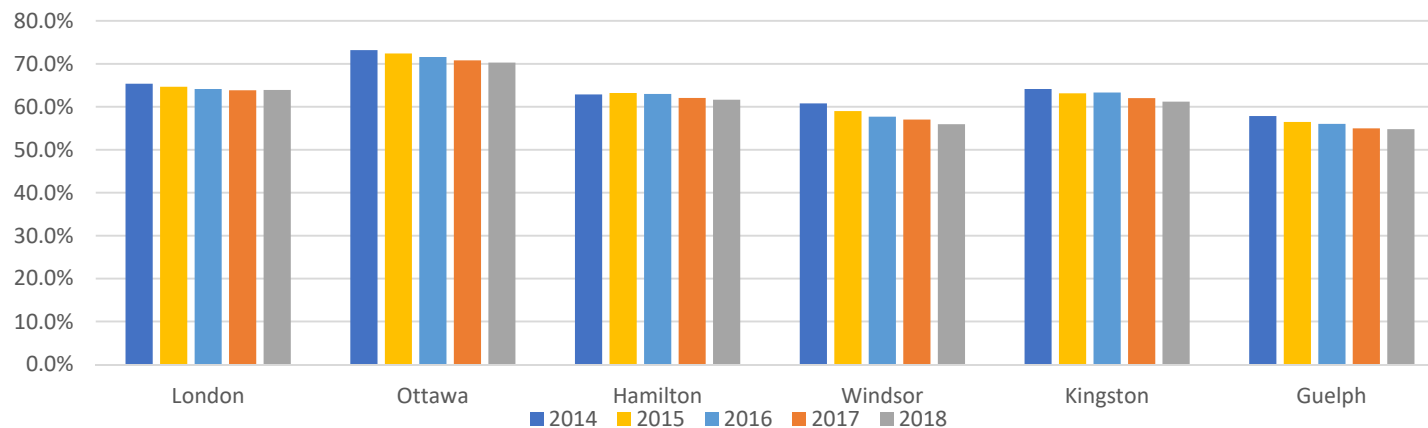
Sustainability
Flexibility ✓
Vulnerability

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

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

TYPE OF INDICATOR

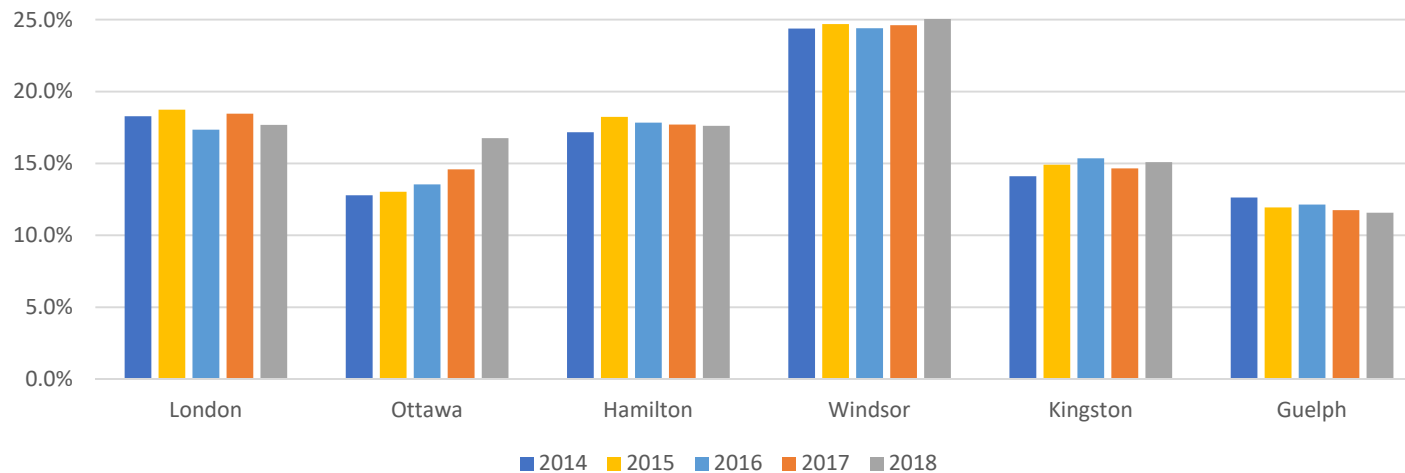
Sustainability
Flexibility
Vulnerability ✓

FORMULA

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

POTENTIAL LIMITATIONS

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



Financial Indicators

CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

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

TYPE OF INDICATOR

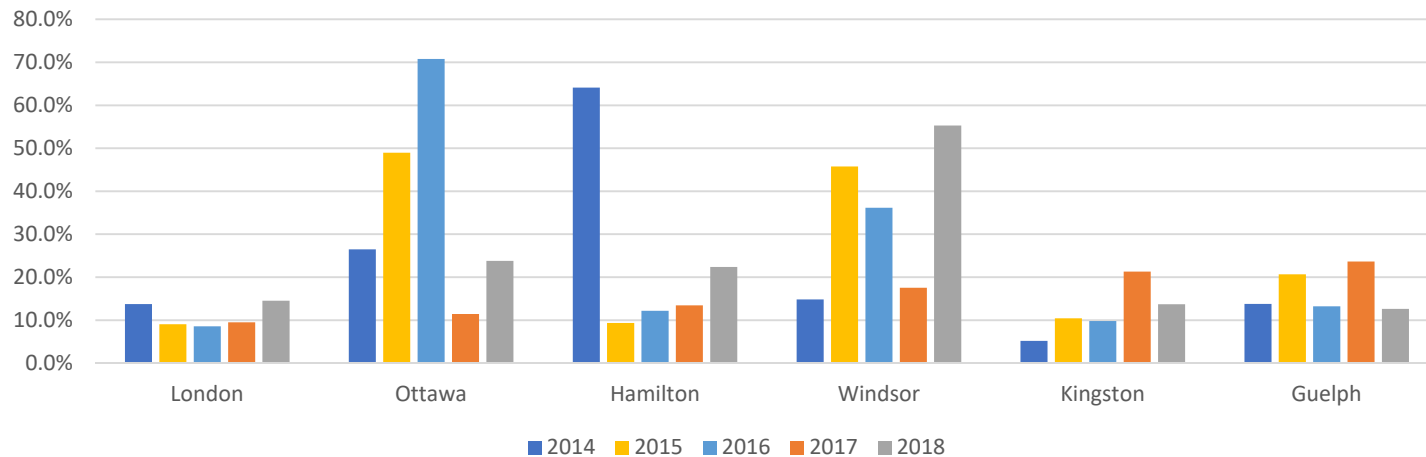
Sustainability
Flexibility
Vulnerability ✓

FORMULA

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

POTENTIAL LIMITATIONS

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





kpmg.ca



© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

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



kpmg.ca/audit



KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative ("KPMG International").

KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

© 2019 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

