The Corporation of the City of London

Audit Findings Report

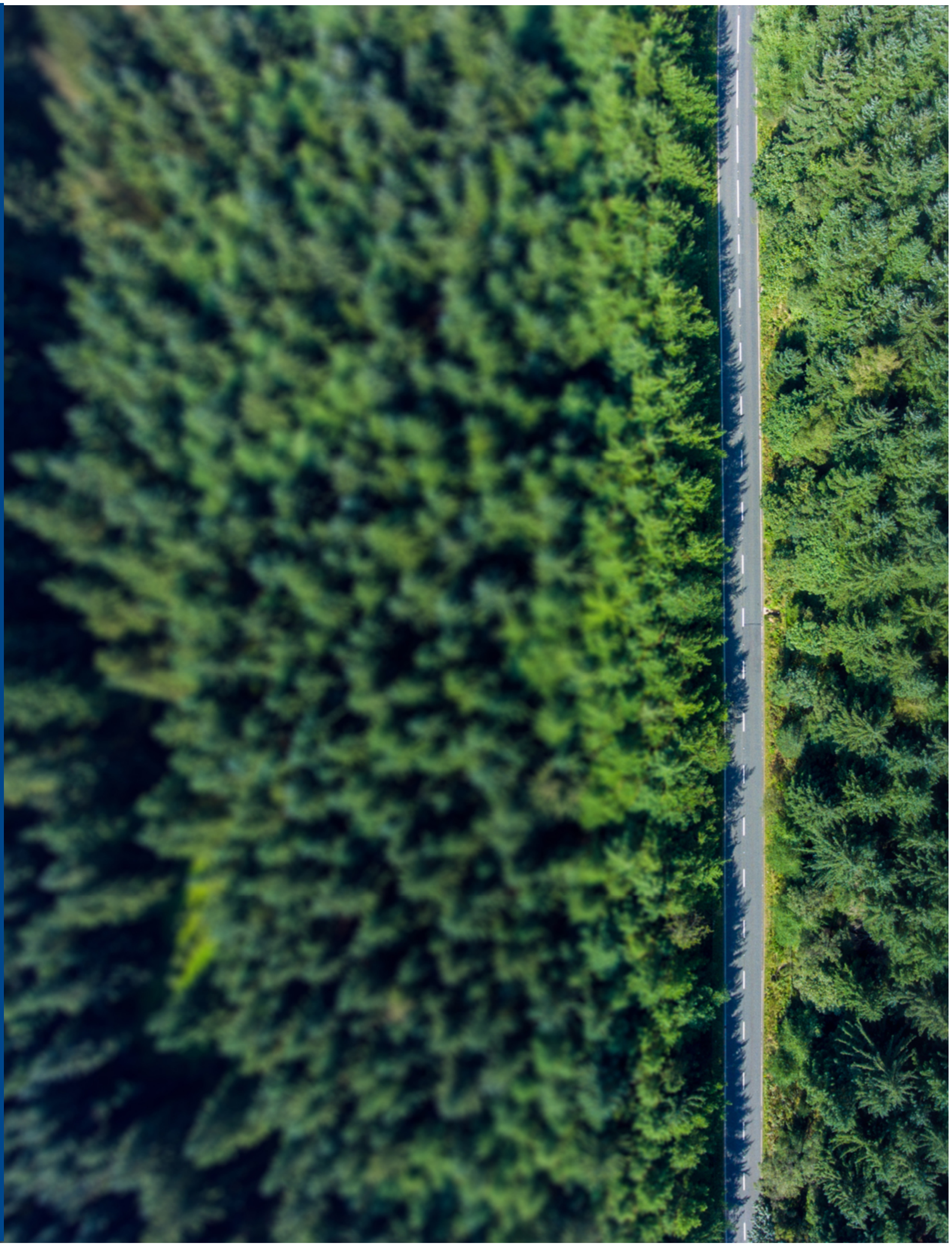
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

JUNE 7, 2021

kpmg.ca/audit



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Our refreshed Values

What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

Executive summary

Purpose of this report [1]

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 as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 10, 2021.

What's new in 2020

There have been significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – See pages 6-7
- New CAS auditing standards – See page 7

Changes from the audit plan

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

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

[1] This Audit Findings Report is intended solely for the information and use of Management and the Audit Committee and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (continued)

Finalizing the audit

As of June 7, 2021, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Receipt of supporting documentation and/or performance of audit procedures over the following:
  - Operating expenses
  - Salary and benefits expenses
- Response and review of legal letters from certain external law firms;
- Obtaining internal and external legal letter updates to the date of financial statement approval;
- Completion of audit procedures over Management's consolidation workbook;
- Tie-out of the consolidated financial statements, including note disclosures;
- Review of the financial report;
- Obtaining the signed management representation letter;
- Completing our discussions with the Audit Committee; and
- Obtaining evidence of Council's approval of the consolidated financial statements

We will update the Audit Committee, and not solely the Chair, 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 <u>any</u> remaining procedures.

Executive summary (continued)

Adjustments and differences

The impact of the uncorrected differences is as follows:

Annual surplus	(in $'000s)
As currently presented	$4,797,772
Uncorrected differences	($2,644)
As a % of the balance	0.06%

Independence

We have included a copy of our annual independence letter dated as of the date of this report, which notes that we are independent of The Corporation of the City of London (the "Corporation") in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada.

See Appendix 3.

Control deficiencies

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

What's new in 2020

COVID 19 pandemic

In our Audit Planning Report, we communicated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your operations, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
Corporation's financial reporting impacts	— We considered impacts to financial reporting due to COVID 19 pandemic and the increased disclosures needed in the consolidated financial statements as a result of the significant judgements. — In areas of the consolidated financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty. — The areas of the consolidated financial statements most affected included: Disclosures – See note 1(b)(vi) to the consolidated financial statements
Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the consolidated financial statements.
Risk Assessment	— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID 19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud). We did not identify additional risks of material misstatement as a result of COVID 19 which required a revision to our audit response compared to the prior year.
Working remotely	— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. — We used secure and innovative technologies to conduct walkthroughs and perform tests of controls

COVID 19 pandemic

In our Audit Planning Report, we communicated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your operations, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
	— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and Supervision of the audit	— The manager, partner and engagement quality control review were actively involved in determining the impact that the COVID 19 pandemic had on the audit (as discussed above), including the impact on the Corporation's financial reporting and changes in the Corporation's internal control over financial reporting.

New auditing standards

The following new auditing standards that are effective for the current year had an impact on our audit.

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	— The new standard was applied on all estimates within the consolidated financial statements that had a risk of material misstatement due to estimation uncertainty and not just "key estimates", "critical accounting estimates", or "estimates with significant risk". — The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team. — We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method. — We considered the potential for management bias. — We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed. — See pages 8-15 under Audit Risk and Results for estimates that related to significant risk or other areas of focus, which are a subset of all the estimates subject to the new standard.

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 financial reporting risks identified.

Significant financial reporting risk Professional requirements	New or changed?	Estimate?
Fraud risk from management override of controls This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	No	No

Our response

As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. KPMG performed procedures including testing of journal entries and other adjustments, performed a retrospective review of estimates and evaluated the business rationale of significant unusual transactions.

Significant findings

No significant findings were noted during our testing

Audit risks and results (continued)

Significant financial reporting risk	New or changed?	Estimate?
Completeness of legal accruals The consolidated financial statements include certain accruals related to the future settlement of legal claims which involve a significant amount of management judgment and assumptions in developing.	No	Yes

Our response

KPMG performed the procedures as indicated in our audit planning report and discussed further on pages 11-12.

Significant findings

As of the date of this report, our audit procedures over legal accruals are ongoing.

Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Landfill closure and post-closure liability Represents a significant account balance for the Corporation and certain accrued liabilities require judgment and estimation by management.	No	Yes

Our response

- 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, 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, multiplied by the percentage of the used capacity of the sites.
- At December 31, 2020, the landfill accrual amounted to $46.3 million (2019 - $41.0 million), $37.1 million of which related to the future closure of the active landfill and $9.2 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 consolidated financial statements.

Significant findings

No significant findings were noted during our testing. We believe Management's process for identifying significant accounting estimates is considered adequate.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Accounts payable and accrued liabilities Represents a significant account balance for the Corporation and is subject to estimation uncertainty.	No	Yes

Our response

- Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the consolidated financial statements.
- Included within this balance are estimates related to provisions for personnel and legal matters in the amount of $7.7 million (2019 - $9.3 million). The accrual for personnel matters amounted to $2.3 million (2019 - $1.8 million) and includes amounts for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to $5.4 million (2019 - $7.5 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 estimates related to liabilities for contaminated sites. As at December 31, 2020, a liability of $9.1 million (2019 - $0.9 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 for the contaminated property or comparable properties.
- With respect to accrued liabilities, we have:
  - 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 consolidated 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.
- Management has represented that these balances are fairly presented for financial reporting purposes.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Accounts payable and accrued liabilities (continued)	No	Yes

Significant findings
As at the date of this report, certain procedures over legal accruals are ongoing. No significant findings were noted during our testing performed over other areas. We believe Management’s process for identifying significant accounting estimates is adequate.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Capital projects and acquisitions The Corporation has a large balance of tangible capital assets and is continually spending on capital projects. There is judgement involved in determining the useful lives of capital assets and when the amortization period should begin.	No	Yes

Our response

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

Significant findings

- 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 page 16 for details on the data and analytics routines performed over tangible capital assets.

No significant findings were noted during our testing.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Payroll and employee future benefits The Corporation provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2020, the Corporation had a liability for employee future benefits of $181.7 million (2019 - $161.7 million).	No	Yes

Our response

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

Significant findings

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

- Post-employment and post-retirement benefits of $97.4 million (2019 - $95.0 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
- WSIB accrual of $64.9 million (2019 - $48.3 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
- Vacation liability of $18.2 million (2019 - $16.7 million) – relates to vacation credits earned but not taken by employees as at December 31; and
- Unused sick leave liability of $1.3 million (2019 - $1.7 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination or retirement.

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 through an actuarial valuation which was prepared by Mercer as of December 31, 2020. Vacation and unused sick leave liabilities are accrued in the consolidated financial statements when they are earned by employees. We performed attribute testing over the underlying data used by Mercer to prepare the valuation in the current year.

Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Taxation, user charges and transfer payments revenue For the year ended December 31, 2020, these revenue streams amounted to more than $1.3 billion for the Corporation (2019 - $1.2 billion).	No	No
Debt issuances Individual debt issuances at the Corporation have historically been for significant amounts	No	No

Our response

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

Significant findings

No significant findings were noted during our testing.

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
KPMG Clara Client Collaboration	Utilized secure client collaboration site to share documents over the course of the audit.
Journal Entry Analysis	Utilized computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing as a response to the fraud risk from management override of controls. No issues noted during the test.
Data & Analytics Routines – Tangible Capital assets – WIP	Utilized CAATs to compare the WIP detail in fiscal 2020 to the WIP detail in fiscal 2019, testing any projects that did not incur costs in fiscal 2020 and remain in work in progress (WIP) as at December 31, 2020. This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense. No issues noted during the test.
Data & Analytics Routines – 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.
Data & Analytics Routines – 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

Misstatements, including omissions, if any, related to financial statement presentation and disclosure items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the consolidated financial statements	Adequate
Significant qualitative aspects of financial statement presentation and disclosure	No issues noted related to the Corporation's selection of accounting policies, process for identifying significant estimates, accounting for significant unusual transactions and application of Canadian public sector accounting standards, including related disclosures See Appendix 7 for discussion regarding upcoming standard changes

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected differences considered to be other than clearly trivial, including the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the consolidated financial statements as a whole.

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences —individually and in the aggregate—are, in their judgment, not material to the consolidated financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the differences are not material to the consolidated financial statements. Accordingly, the differences have no effect on our auditors' report.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the consolidated financial statements.

Control deficiencies

In accordance with professional standards, we are required to communicate to the Audit Committee significant deficiencies in internal control over financial reporting (ICFR) that we identified during our audit.

The purpose of our audit is to express an opinion on the consolidated financial statements.

Our audit included consideration of ICFR in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICFR.

The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the Audit Committee and to meet professional standards.

Significant deficiencies

Description	Potential effect
No significant control deficiencies were noted.	

Appendices

Content

Appendix 1: Other Required Communications

Report	Engagement terms
Refer to the draft report attached.	A copy of the engagement letter and any subsequent amendments has been provided to management.
Reports to the Audit Committee	**Representations of management**
We have provided our audit planning report to the Audit Committee on February 10, 2021.	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 2*
Control deficiencies	**Matters pertaining to independence**
Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency have been, communicated to management.	We have attached our annual independence letter dated as of the date of this report. *See Appendix 3*

Appendix 2: Management Representation Letter

(Letterhead)

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

Date

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of The Corporation of the City of London (“the Entity”) as at and for the period ended December 31, 2020.

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 (“relevant information”), such as financial records, documentation and other matters, including:

        — the names of all related parties and information regarding all relationships and transactions with related parties;

        — 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 we, 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

— others

where 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 that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

11) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

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).

13) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Commitments & contingencies:

14) 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:

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

16) 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:

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

Estimates / Measurement Uncertainty:

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

19) 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:

20) 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.

21) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).

22) 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.

23) 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.

24) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.

25) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

Comparative Figures/Financial statements:

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

Receivables:

27) 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:

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

29) 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:

30) 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:

31) 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:

32) 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:

33) 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.

34) 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.

35) 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:

36) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

37) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.

38) 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.

39) The set of actuarial assumptions for each plan is individually consistent.

40) 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.

41) 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.

42) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.

43) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

44) 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.

45) 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.

46) 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:

47) 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.

48) 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, Financial Services

____

Ms. Anna Lisa Barbon, Deputy City Manager, Finance Supports

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.

Information is material if omitting, misstating or obscuring it 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 perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

c) dissimilar items, transactions or other events are inappropriately aggregated;

d) similar items, transactions or other events are inappropriately disaggregated; and

e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.]

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.

Attachment II – Summary of Audit Misstatements Schedules

Uncorrected misstatements F2020:

	Annual surplus effect	**Financial position**		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Overstatement of revenue that results from correcting the statement of financial position in the current year – recording CIP loans receivable	(2,643,902)	-	-	-
Total uncorrected misstatements	**(2,643,902)**	**-**	**-**	**-**

Uncorrected misstatements F2019 (Revised):

	Annual surplus effect	Financial position		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
Overstatement of planning and development expenses due to an out of period correction to a prior period error related to a SWM pond	1,547,183	-	-	-
Overstatement of benefit expenses due to an out of period correction to a prior period error related to amounts owing to Great West Life	2,751,001	-	-	-
Projected uncorrected overstatement of WSIB accrual	2,157,957	-	(2,157,957)	2,157,957
Understatement of CIP loans receivable	-	2,643,902		2,643,902
Total uncorrected misstatements	**6,456,141**	**2,643,902**	**(2,157,957)**	**4,801,859**

Appendix 3: Independence Letter

Audit Committee

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

June 7, 2021

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity 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 2020:

Description of Professional Services

Audit and audit related

- Audit of the consolidated financial statements of the Entity for the year ended December 31, 2020
- Audit of all individual Boards and Commissions and Trust Funds financial statements for the year ended December 31, 2020
- 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 the statement of operations of Ontario Works program administered by the Entity
- Audit of the schedule of monthly expenses and subsidy claims of the Homelessness Partnering Strategy
- Specified auditing procedures over the City of London Closed Circuit Television System for the year ended December 31, 2020

Tax

- 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

- Sustainability review for the London Convention Centre

Professional standards require that we communicate the actions that have been taken to eliminate identified threats to independence or to reduce them to an acceptable level. We have not provided any prohibited services. We have taken the following actions or 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 Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Chartered Professional Accountants, Licensed Public Accountants

Appendix 4: Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of London

Opinion

We have audited the consolidated financial statements of the Corporation of the City of London (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the "Financial Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the "Financial Report" as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements

represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

Date

Appendix 5: How do we deliver audit quality?

Transparency report

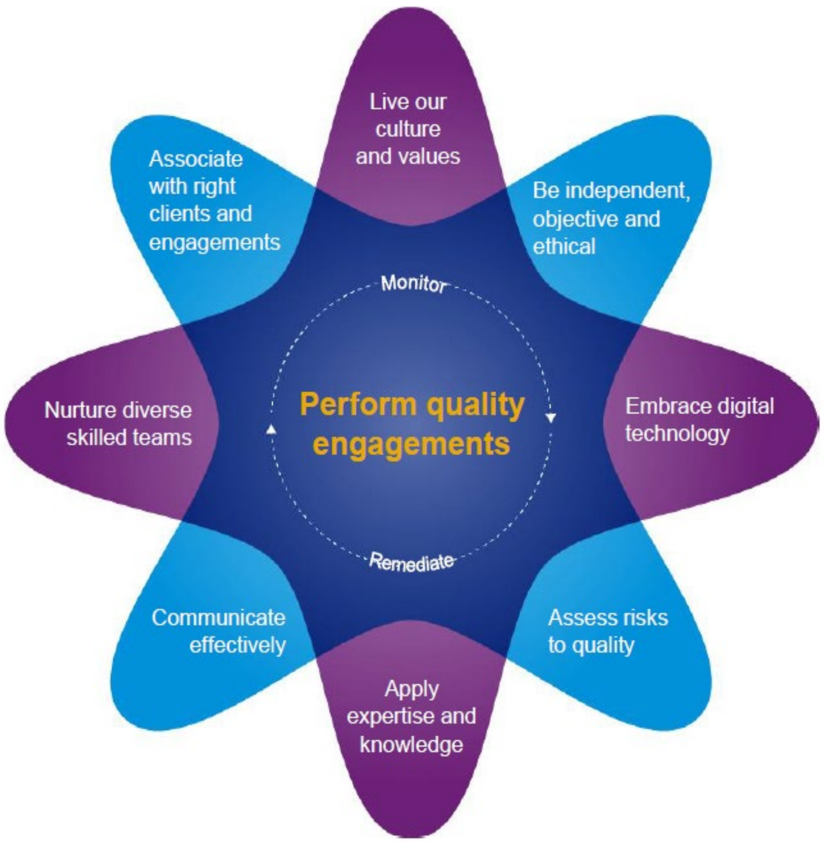
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

'**Perform quality engagements**' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define '**audit quality**' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity.**



Doing the right thing. Always.

Appendix 6: Lean in Municipalities

Municipalities share the same goal: to deliver services to its citizens in the best possible manner. As municipal budget challenges grow year after year, municipalities face a host of unavoidable pressures while also enduring an unprecedented pace of change. Accordingly, municipal leadership seeks to optimize service delivery through continuous improvement initiatives to maintain the cost of service delivery and tax rate while improving service levels to residents while also managing:

Beyond the fiscal challenges facing municipalities, municipalities also need to manage:

Increasing demands from residents and businesses for improved service delivery

Rising expectations for innovative technology solutions across municipal services

An organizational structure not aligned to effective and efficient service delivery or strategic priorities

An aging workforce exacerbated by the challenge of recruitment, retention, and development of young leaders

Leadership dealing with predominantly operational and service delivery troubleshooting and lacking progress on strategic priorities

Lean thinking is the belief that there is a simpler, better way through a continuous drive to identify and eliminate waste, inefficiencies, and errors in our day-to-day work. It is about making our work environments efficient and effective so we can provide higher quality of services to our stakeholders and residents. A quality improvement mindset improves safety, quality, costs, efficiencies, and service delivery helping create time for quality improvement to be part of everyday routine activity.

Do you want to enhance technology integration and utilization? Are you maximizing the benefits technology can provide?

Does your municipality struggle with outdated, misunderstood and complex processes, in addition to siloed functions and lacking technological integration that slow down and hinder potential improvements, resulting in fragmented and inconsistent processes impeding collaboration, data consistency, and inefficiencies resulting in project delays and increased costs?

The COVID-19 pandemic has forced many organizations to embrace new methods of work. Many previously paper-based processes have now been modernized as a result of a predominantly virtual work environment since March 2020. It should be noted that there is still work to be done to evaluate these processes and determine if they are still appropriate, if they add value, and if they can be streamlined to create additional efficiency and capacity for staff.

Using the skills and tools obtained through continuous improvement training, you will be able to:

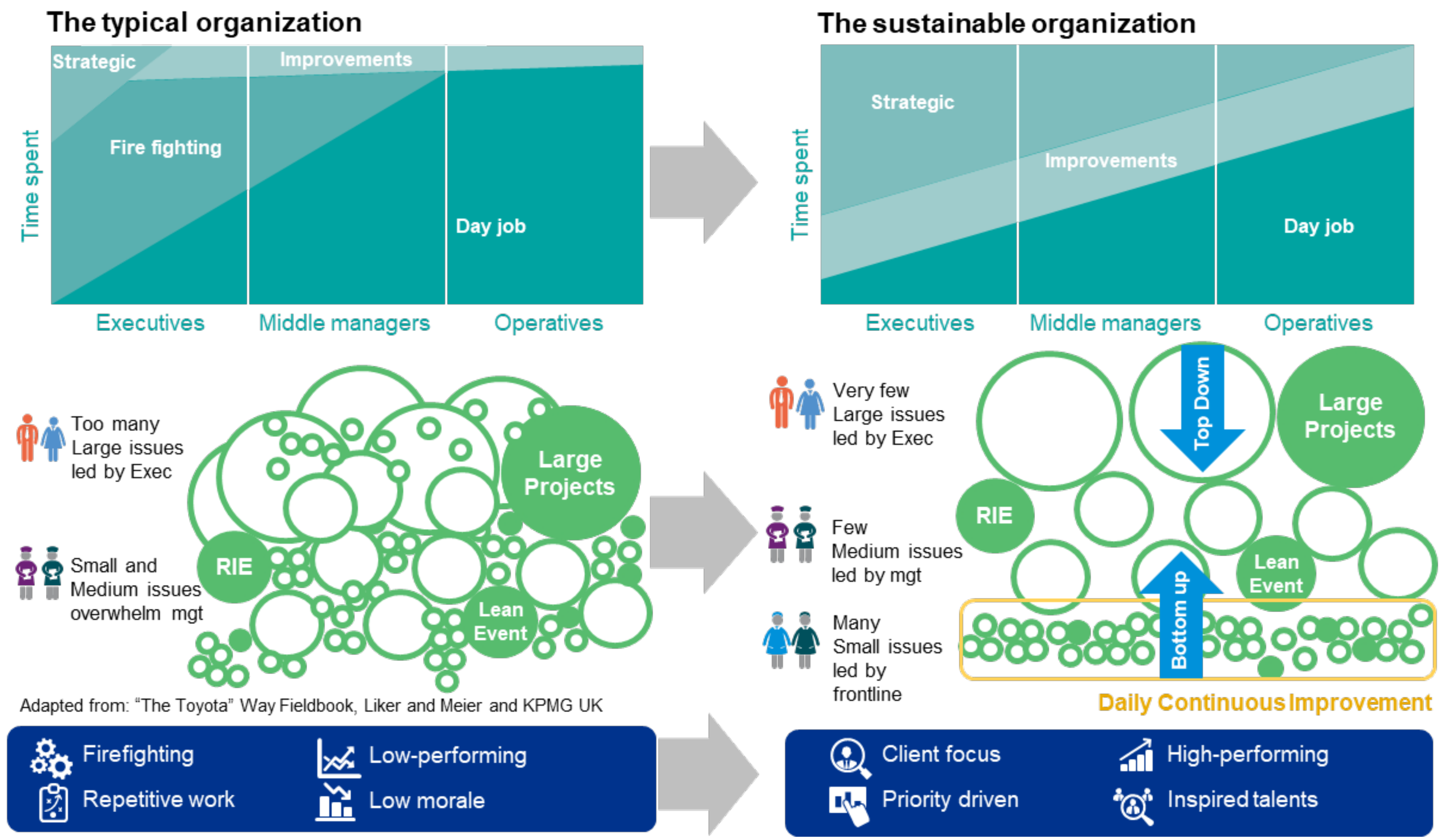
- Analyze existing processes to determine where further modernization and digitization is possible/feasible.
- Reveal where simple process improvements/ waste reduction will suffice, rather than digitization.
- Verify where the process is matured/efficient and does not require improvement or modernization.
- Identify where both improvement/ waste reduction and modernization are required.

For processes that cannot be automated, the application of Lean methodology will reveal opportunities for improvement in operating efficiency.
As the municipalities processes improve and efficiencies realized, staff can begin to focus on Value-Add activities. This new capacity provides municipalities with the ability to maximize existing human resources to accommodate the growth and more agile to respond to future needs. Lean is not a one-time event but rather a journey to continually improve your processes and always strive to supply the customer with value, from their perspective

The Sustainable Organization

Transforming an organization to operate in a culture of continuous improvement does not happen overnight. This transformation will require teams to change the way they do business and to do this, they will need to be supported in different ways than they are today. Leadership skills developed through the training programs delivered by KPMG include helping managers raise the capability of their teams to focus on process: stabilize it, standardize it, and innovatively improve it by exposing problems and eliminating them. The objective is to develop leaders who align and engage the organization around the delivery of core business goals, engage their teams to reveal and solve problems, ensure the standards for the way work is done are in place and in use, and ensure continuous improvement is part of their team’s daily work.

When leaders apply their learnings from our continuous improvement training programs it can fundamentally change how an organization operates and positions the organizations to begin functioning at a world class level, as illustrated in “The Sustainable Organization” diagram on the right below:



A fundamental culture transformation and adoption of continuous improvement principles within an organization creates capacity for senior leadership to focus on strategic pursuits and new initiatives and empowers the staff to address operational issues with a practical and innovative approach to problem-solving and improvement. Organizational focus can shift from firefighting and reactive service delivery response, to a proactive service delivery model centered on the resident, with a priority driven mandate and high-performance team members.

This alignment of these key management practices listed below will result in increased productivity of staff and improved quality of service delivery for residents:

KPMG uses Lean Six Sigma methodology to support our clients in their journey to continuous improvement. An organization can begin their journey at any one of these steps and KPMG will help you identify where you are

It is imperative to develop an approach that builds a solid foundational knowledge of continuous improvement across departments, leverages the capabilities of emerging leaders by training them in facilitating their own continuous improvement training programs, then provides a support system for staff upon completion of the training to sustain the organization's continuous improvement culture. When implemented together, these phases build capacity for Lean thinking at all levels and will take the municipality a big step towards becoming a beacon in Lean Management within the Canadian public sector.

A New Design for a Changing Environment

The evolution of service provision required to meet the needs of the municipality's residents today, as well as future growth, will require a proactive approach to organizational design. To optimize strategic capabilities and effective operations of the municipality, KPMG's ODP methodology applies Lean principles and tools to build the infrastructure to support this growth and embed Lean within your methodologies and daily work; resulting in a culture of performance and innovation, that ensures that the municipality delivers maximum value for residents in the most efficient manner possible.

	STATE IT	SHAPE IT	SEE IT	SUSTAIN IT
ODP Objective	— State the current business context and future aspirations, opportunities and ambitions, and the critical success factors for the future	— Shape the future design by analyzing the current design, identifying the root causes of performance, and developing the aspirational high level design	— Shape the future design by analyzing the current design, identifying the root causes of performance, and developing the aspirational high level design	— Sustain the integrity of the design through detailed transition execution, and monitoring and measurement
Lean Objective	— Define the problem and the idea in terms of the target to achieve	— Collect relevant process data and identify cause-effect relationships and root causes	— Determine optimum solution and implement to eliminate root causes	— Establish standards and controls to sustain improvements in the long run
ODP Outcomes	— Client Context and Issue Assessment — Value Chain Articulation — Organization Design Capability Assessment — Future State Vision — Critical Success Factors — Design Constraints — Project Governance Model; Project RACI and Critical Decision Path	— Current State Baseline — Design Principles — Future State Options and Evaluation — Change Risk & Impact Assessments — Organization Design KPIs — Macro Design Blueprint & Organization Design	— Work Activity and Sizing Analysis — Job Descriptions — RACI and Governance Model — Micro Organization Design — Micro Design Blueprint & Organization Design — Business Case (optional) — Workforce Transition Strategy — Role Impact Assessment — Workforce Transition Plan — Pilot Rollout Plan (optional)	— Revised KPIs For Future Evaluations — Continuous Improvement Recommendations — Development Plan — Mentoring Check-ins

We are Canada's leading municipal advisory firm with a proven record of training Lean methodology across the public sector.

Our experience serving local governments and implementing Lean methodology is unparalleled. We have a team of partners and professionals dedicated to providing advisory services to municipal governments, both small and large, rurual and urban, that have worked with municipalities from coast to coast. KPMG is your firm of choice to partner with you in achieving your continuous improvement goals.

Appendix 7: Current developments

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes some of the regulatory, operational and governance developments impacting public sector, charitable and not-for-profit organizations. We provide this summary to inform our clients of changes that they may impact their organization, and the trends we see in the industry based on our discussions with the management and Board members of our clients.

We attach this summary to our audit plans and audit findings reports that we provide to the Audit Committees and their equivalents of our public sector, not-for-profit and charity clients. Some of these developments may not impact your organization directly but we believe it is important for management and Committee members to understand what is happening in the broader public, not-for-profit and charity sector.

Annual Accounting, Tax and Risk Update for Not-for-Profit Organizations

KPMG held its Annual Accounting, Tax & Risk Update for Not-for-Profit Organizations remotely on **November 5, 2020**. The seminar covers current accounting, tax, technology and risk issues, including some of those discussed below, in greater detail providing not-for-profit organizations and charities with guidance on new standards, regulations and best practices.

Audit Committee members are also invited to virtually attend our next session. If you wish to have your name included on the invite list going forward, please e-mail Vicki Ng (vwng@kpmg.ca).

Fraud Risk Assessments

A proactive approach to help counter the risk of fraud

A reputation for integrity is critical to safeguarding public trust in your business. Unfortunately, fraud can seriously undermine these efforts after they occur. That's why regulators, insurers, Boards of Directors and experienced business leaders are focused on ensuring organizations have effective approaches to mitigating fraud risks.

In the wake of high-profile corporate failures and their devastating impacts, there is a renewed spotlight on fraud from regulators. Regulators know that a company's susceptibility to fraud is influenced by the strength of its fraud risk management programs. So, regulators are exploring what actions relevant stakeholders should be taking to better prevent and detect fraud.

Insurers, who may provide coverage for losses suffered due to fraud, are also inquiring about what efforts companies have taken to proactively assess and address fraud risks in the organization. Without such proactive measures in place, there may be a risk that insurers will deny such coverage if the company is found to have contributed to an environment that enabled the fraud to occur in the first place.

In coping with the current pandemic crisis, organizations must continue to manage future risks, especially the risk of fraud during uncertain times. For many organizations that are working to ride out these difficult times, the need to cut costs and continue to operate is painful and ever-present. There is usually increased pressure on organizations to conserve through the close management of costs. Whether a company reduces its headcount, rationalizes processes and controls, cuts back on internal audits and other risk management measures, or restructures some of its business, these decisions can have significant consequences for the organization and its people. At the same time, there are greater incentives for employees, suppliers, customers, agents, and others to commit fraud during uncertain times, economic downturns, pandemics, or other periods of economic distress. Experience suggests that an unintended downside of our focus on the present may be the neglect of risks and opportunities ahead.

So what can you do to help ensure that your organization can proactively mitigate fraud risks that it may face?

A good starting point is to first understand where you may be vulnerable to fraud risk. A Fraud Risk Assessment is a tool that organizations use to understand where these vulnerabilities may exist. The objective is to understand these vulnerabilities and then to ensure that adequate measures are in place to mitigate these fraud risks.

Return to the Office Assurance

Returning to the physical workplace is a complex yet integral part of organizations' recovery from the pandemic. Various considerations around health and safety will need to be taken into account when developing any return to work (RTW) strategy. However, the changing implications of COVID-19 make it challenging for organizations to navigate this landscape on their own.

Organizations have established several processes to help ensure that employees' health and safety risks are clearly understood and effectively managed. However, are these processes complete and do they continue to adapt to the evolving state of the pandemic? In this environment, there are still many questions left unanswered, but here is what we do know:

- Leaders will play an active role in managing mental health
- The municipalities guidelines for reopening will differ from other municipalities
- There will be frequent changes in requirements
- Best practices will evolve over a year or more, not in a matter of weeks
- There will be regional disparity in approaches
- There will be outbreaks of COVID-19 in the workplace
- The 9 to 5 workday will be challenged
- Technology will contribute to the solution and will permanently alter the workplace but will need time to evolve.

KPMG has developed a comprehensive people-centric *RTW Playbook*, which takes into account 23 different elements that need to be considered in order to bring staff and relevant stakeholders back to work, safely. The framework starts with a COVID-19 task force, and ends with case response procedure. Each of the 23 elements in the RTW Playbook has several action items tagged, providing a basis for a comprehensive RTW management system.

In order to help organizations navigate through this rapidly changing landscape, KPMG has developed the **Return to Work (RTW) Management Systems Framework**.

KPMG's RTW Management Systems Framework and related assurance will increase the Government of Canada's level of confidence over the comprehensiveness of it's RTW program, by alignment to industry leading practices. Ultimately our framework will focus on the following categories aligned to the RTW framework:

- Governance;
- Planning and program design;
- Workforce preparation;
- Implementation and operations; and,
- Monitoring, maintenance and improvement.

The RTW framework and assurance provides management and executives with the "playbook" to implement RTW and the framework to manage and monitor, with the level of dashboard reporting to allow for dynamic and agile management actions.

Our approach consists of performing a current state assessment, gap analysis and RTW implementation roadmap, in order to support the implementation of appropriate management activities, and ultimately monitor and track successes. Our approach also offers several tools, including the RTW Dashboard, which is used as a reporting tool to assess and track all or portions of the Government of Canada's return to work management system, and the KPMG Workforce Safeguard App. For more information on Return to Work Assurance, please contact your relevant KPMG professional.

Working from Anywhere

As we all strive to cope and adapt to the new reality and rapidly changing landscape, many organizations are being forced to quickly adopt remote ways of working. In some cases, employees are requesting to work from a different country than their employer, or employers are considering hiring remote workers who will work abroad. Working from Anywhere (WFA) offers a number of potential benefits, including increased employee flexibility and productivity, and the availability of a broader pool of talent to draw upon. Yet it's important to weigh the costs and benefits, and there are a number of potential risks and compliance obligations that employers must consider, such as:

- Tax planning and compliance: Understand where corporate tax obligations are triggered, and how payroll registration and indirect tax obligations are impacted depending on the country where the remote employee is performing the service.
- Employment and labour law considerations: Design workplace terms, conditions and agreements to navigate the interplay between local and foreign labour standards and overcome the human resources challenges of a remote workforce.
- Immigration implications: Assess the need for business visitor and work permit eligibility assessments, as well as a review of immigration compliance considerations related to changes in the work location.
- People and culture impacts: Identify the short and long-term effects of WFA on leadership and employee engagement, and take an active role in the employee experience and organizational reshaping.
- Cybersecurity and technology challenges: Secure systems and data against internal and external threats, and rapidly adapt to technological change, while considering the potentially different technological environment and standards in the remote work jurisdiction.

KPMG can assist your organization with understanding the information to collect, performing a risk assessment of potential remote work jurisdictions, creating terms and conditions to minimize the risks and amplify the benefits, developing a WFA compliance process and policies, and coaching you through stakeholder communications and WFA program implementation. For more information on WFA assistance, please contact your relevant KPMG professional.

Government Subsidy Programs

The Government of Canada offers various subsidy programs to organizations that meet various criteria and characteristics. Various programs continue to receive frequent and further information on eligibility, extensions to programs, and restrictions. As your trusted advisors, we are here to help. Because every organization is unique, our experienced professionals can assist you with establishing that the methodology you use to determine eligibility – which can often be subjective – is consistent with similar organizations in your sector and across Canada.

Auditing Accounting Estimates:

As acknowledged in on page 7, the new auditing standard over accounting estimates is in effect for audits of Organizations with year-ends on or after December 15, 2020. As a result of the revised methodology for auditing estimates, audit engagement teams globally will apply one methodology when auditing accounting estimates, including fair value accounting estimates, and related disclosures. Canadian Auditing Standards define an accounting estimate as a monetary amount for which the measurement in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty.

Accounting estimates vary widely across Organizations and are required to be made by management when the monetary amounts cannot be directly observed. The process of determining accounting estimates involves selecting and applying a method using assumptions and data, which requires judgment by management and can give rise to complexity in measurement. The effects of complexity, subjectivity or other inherent risk factors on the measurement of these monetary amounts affects their susceptibility to misstatement. Similar to the variation among different Organizations, the degree to which an accounting estimate is subject to estimation uncertainty will also vary significantly. Examples of accounting estimates consist of, but are not limited to:

- Inventory obsolescence;
- Amortization of property and equipment;
- Valuation of financial instruments;
- Outcome of pending litigation;
- Revenue recognized for long-term contracts;
- Impairment of long-lived assets or property of equipment held for disposal;

Key concepts in this revised standard focus on assessment of risks, and the goal of your KPMG team is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework.

With the new accounting standards, organizations will be required to perform self-assessments of all applicable accounting estimates relevant to your Organization and support the determination and methodology of the calculation of all accounting estimates. In auditing accounting estimates, your KPMG team will work with management to complete the following:

- Understand the Organization and its environment, including internal controls over financial reporting;
- Understand the process, including understand the process by which each accounting estimate is developed, understand the nature and extent to which management uses the work of specialists of third parties (other than specialists), understand how management understandings and addresses estimation uncertainty, and understand the elements of an estimate

Based on the understanding we have obtain from management, we will determine the components of the accounting estimate, perform a retrospective review and assess risk. The revision to our methodology includes as well the following considerations:

- Identification and addressing any management bias;
- Consideration of additional risk factors when assessing whether an estimate gives rise to a risk of material misstatement;
- Determination of components of an estimate and consideration of their differing risks;
- Identification and linkage of risk considerations of the methods, assumptions and data;
- Identification of individual items that contribute ti risks individually, or in combination, and determination of our audit response for each applicable element;
- Performance of a retrospective review for all significant accounts and applicable disclosure for identification of a relevant assertion for an accounting estimate in the current year;
- Performance of an aggregate risk assessment

Cyber Security – Adapting to the ‘new normal’

COVID-19 has forced us to transform the way we work — projects which might have taken a year have been driven through in weeks. Pragmatism has become the rule, and organizations have likely taken security risks that they might never have accepted in other circumstances. The dust is still settling, but some major themes are emerging: we’re already seeing rapid expansions of digital commerce channels as consumer behaviours shift, in addition to dealing with a workforce that has grown accustomed to a flexible and remote work environment.

At the same time, cyber criminals have shown themselves ruthless and entrepreneurial in exploiting fear, uncertainty and doubt over COVID-19 — repurposing phishing and attack infrastructure to build out COVID-19 fake websites and scams. With a larger attack surface due to the increased use of online tools, opportunity for malicious activity is abound.

Organizations need to demonstrate that they can protect the heart of the transformed business with an agility of thought and action that recognizes the pace and speed at which cyber criminals operate. These issues must be handled proactively and can no longer be an after-thought. Cyber security is now becoming the key business enabler.

Members of Audit Committees should be asking management fundamental questions such as:

- Are we doing enough to reduce our cyber risk to an acceptable level?
- Is our organization fully prepared to detect, respond and react to a cyber attack of any kind?
- As we shifted to remote interaction with employees and customers, have we done it securely without relaxing our security or increasing our exposure?

Lean:

Approach

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:

- Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity;
- Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding pf process and control quality and effectiveness;
- Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit

Current Environment Adaptation

In the current environment, Organizations are working entirely remotely and we have tailored our methodology on the delivery and facilitation of interactive workshops to accommodate for current in-person restrictions. We are happy to inform our clients that we offer Lean in Audit workshops facilitated remotely, through the use of Microsoft Teams or Skype for Business. In facilitating workshops remotely, we are able to obtain the same high quality level of process information, and document the process live with the help of your teams.

Please reach out to your KPMG professional on more information on remote-workshops and to schedule workshops for your audit processes.

Asset Retirement Obligations

Th new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.

The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligation to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life.

As a result of the new standard, the public sector entity will have to:

- Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;
- Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;
- Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Are You Ready Checklist	Potential Impact Areas
1. Have you formed a project team for ARO implementation? If so, who outside of Finance is on that team? 2. Have you developed a policy or guideline, with clear roles and responsibilities? 3. Have you identified asset types considered in scope? If so, what assumptions have you used? 4. Does your scoping consider both capital assets, and other asset type items? 5. What assessment has been done of active landfill sites – particularly those early in their lifespan? 6. Are you applying a risk-based approach to scoping and assessment? 7. How are you identifying legislation, regulations or contracts creating legal obligations? 8. Are you applying discounting to measure the retirement obligation? If so, what estimates are you applying for discount rate? 9. What data sources do you have for measurement? 10. Have you identified a transition method?	1. Facilities with asbestos or other contaminated substances. 2. Underground fuel storage tanks 3. Active landfill sites 4. Septic tanks 5. Drinking wells 6. Firewater holding tanks 7. Leases with end of lease retirement clauses. 8. Underground pipes with asbestos (where there is a requirement to remove) 9. Land leases 10. Wastewater treatment plants

Revenues

The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.

The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.

The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.

The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Are You Ready Checklist	Potential Impact Areas
1. Have you identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (ie: the entity is required to provide a good or service to earn that revenue)? 2. Did you review accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met? 3. Have you quantified the impact of any change in accounting policy, or determined that there is no impact?	1. User charges such as transit fees, utility charges, licencing fees and fees for programs or activities. 2. Revenues linked to the provision of a good or service. 3. Development charges

Financial instruments and foreign currency translation

The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.

Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. Hedge accounting is not permitted.

A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations

In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*.

Are You Ready Checklist	Potential Impact Areas
1. What process have you followed to determine if you have any embedded derivatives that might arise from existing contractual arrangements? Has a contract review been conducted? 2. Does the entity have other financial assets which it assesses performance based on fair value, and for which it might elect a fair value measure? 3. Where the entity holds equity or derivative instruments, does it have readily observable market data to inform a fair value measure? 4. Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section (particularly the required risk disclosures)? 5. Does the entity enter foreign exchange transactions? Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?	1. Equity instruments 2. Derivatives such as futures, forwards, interest rate swaps and currency swaps. 3. Contracts with embedded derivatives 4. Other financial instruments for which performance is assessed on a fair value basis

Employee Future Benefits

PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan.

PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.

Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

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