



AUDIT

# The Corporation of the City of London

**Audit Findings Report**

For the year ended December 31, 2012

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

[kpmg.ca](http://kpmg.ca)

# Contents

|   |           |
|---|-----------|
| <b>Executive summary .....</b>  | <b>2</b>  |
| <b>Significant audit, accounting and reporting matters .....</b>                  | <b>3</b>  |
| <b>Significant qualitative aspects of accounting policies and practices .....</b> | <b>11</b> |
| <b>Misstatements .....</b>  | <b>12</b> |
| <b>Control deficiencies.....</b>  | <b>14</b> |
| <b>Appendices.....</b>  | <b>15</b> |
| <b>Draft auditors' report .....</b>   | <b>16</b> |
| <b>Independence letter .....</b>  | <b>17</b> |
| <b>Draft management representation letter.....</b>                                | <b>18</b> |

# Executive summary

## Overview

The purpose<sup>1</sup> of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of London (the "Corporation") as at and for the period ended December 31, 2012.

## Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- obtaining a signed management representation letter
- completing our discussions with the audit committee
- obtaining evidence of the Council's approval of the financial statements
- completing our discussions with management regarding subsequent events

Please refer to the Appendices for our draft auditors' report. We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

---

<sup>1</sup> This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming audit committee meeting. We look forward to discussing these matters and our findings with you.

### **Changes from the Audit Plan**

There have been no changes from the Audit Planning Report previously presented to you.

### **Matters related to management's judgment and estimates**

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

## Valuation of provisions for tax registrations and appeals

- The valuation related to tax registered properties and tax appeals requires significant estimates to be made by management.

### Provision for Tax Registrations

- Total tax registrations and the provision for tax registrations at December 31, 2012 (with comparatives amounts presented) are as follows:

| Tax Registrations | Total ('000s) | Provision | Provision - % |
|-------------------|---------------|-----------|---------------|
| 12/31/12          | 13,227        | 10,077    | 76%           |
| 12/31/11          | 12,383        | 9,334     | 75%           |
| 12/31/10          | 12,290        | 8,947     | 73%           |
| 12/31/09          | 11,191        | 8,236     | 73%           |

- \$1.5M of the provision in 2012 relates to the allowance for specific property tax appeals that were paid in 2013 due to a change in status on two properties from taxable to tax exempt.
- Management does not typically record an allowance against unpaid property tax accounts because, by law, the Corporation has first right to recover the value of any unpaid taxes when the property is sold. Some collection risk, however, does exist with respect to commercial properties, as environmental problems are more likely to arise with these types of properties. Therefore, management establishes a provision against unpaid taxes and penalties for commercial properties.
- The total tax registrations are comprised of unpaid taxes, interest and penalties for residential and commercial properties. However, the provision above only relates to commercial properties.
- The final allowance for doubtful accounts estimate is reviewed and approved by the senior finance team.

### Provision for Tax Appeals

- The provision for tax appeals is recorded through accounts payable and accrued liabilities. It represents property taxes that were billed and collected from taxpayers; however, the assessed property values are being disputed. The history of the provision for tax appeals and write-offs are as follows:

| Provision for Tax Appeals | Total ('000s) | Write-Offs |
|---------------------------|---------------|------------|
| 12/31/12                  | 11,833        | 5,323      |
| 12/31/11                  | 11,427        | 3,777      |
| 12/31/10                  | 10,300        | 3,889      |
| 12/31/09                  | 11,084        | 2,523      |

- Management used a rate of 7% of the assessment at risk at the end of 2012 to determine the provision for the current period. This rate takes into consideration the history of the appeal settlements, as well as the new items impacting 2012 (i.e., more claims being made, higher value claims being made, and a slowdown to the arbitration process).

#### **KPMG comments regarding effect on the audit**

- With respect to the valuation of taxes receivable and accounts payable and accrued liabilities, we have:
  - Updated our understanding of the activities over the systems that record and age taxes receivable;
  - Reviewed the Corporation's taxes receivable aging reports; and
  - Reviewed management's analysis of the provision.
- Based on procedures performed, nothing has come to our attention that would cause us to believe that the provisions are materially misstated as at December 31, 2012.

#### **Employee benefits payable**

- The balance of employee future benefits is comprised of the following:
  - Post-employment and post-retirement benefits of \$68.7 million (2011 - \$63.7 million) – includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
  - WSIB accrual of \$38.1 million (2011 - \$32.0 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
  - Vacation liability of \$14.5 million (2011 - \$14.4 million) – relates to vacation credits earned but not taken by employees as at December 31; and
  - Unused sick leave liability of \$6.0 million (2011 - \$7.3 million) – represents the liability for accumulated vested sick days that can be taken in cash by an employee on termination.
- The calculation of employee benefits payable requires management to make certain estimates, including estimates of discount rate, salary escalation, retirement age, expected health care and dental costs, and estimated claim costs.
- The liability for the post-employment and post-retirement benefits is determined through an actuarial valuation prepared by Mercer. The most recent valuation report was prepared by Mercer as of December 31, 2012. The calculations were prepared based on employee data submitted by the City and a discount rate of 3.75% (lowered from the 5% rate used in the previous valuation).
- The liability for workplace safety and insurance costs is determined by WSIB.
- The vacation and unused sick leave liabilities are accrued in the financial statements when they are earned by employees.

#### **KPMG comments regarding effect on the audit**

- We obtained copies of the employee data submitted to Mercer and performed testing over a sample of items. We also obtained corroborative evidence to support the discount rate used within the valuation.
- We agreed the amount accrued for WSIB to the statement received from WSIB.
- We identified no other significant matters related to the balance of employee benefits payable and concur with management that these amounts are fairly stated at December 31, 2012.

### **Landfill closure and post-closure liability**

- The Corporation is required to accrue anticipated closure and post-closure costs for existing and closed landfill sites in accordance with the Ontario Environmental Protections Act and PS 3270.
- The liability is the estimated cost to date, based on a volumetric basis, of the expenditures relating to those activities required when the site stops accepting waste.
- Determination of this liability is dependent upon significant management estimates including expected and remaining capacity of the landfill, expected closing costs and estimated time needed for post-closure care.
- The estimated liability for the landfill sites is calculated as the present value of anticipated future cash flows associated with closure and post-closure costs.
- At December 31, 2012, the landfill accrual amounts to \$27.9 million (2011 - \$23.2 million), \$18.7 million of which related to the future closure of the active landfill and \$9.2 million relating to monitoring of closed landfills.

### **KPMG comments regarding effect on the audit**

- We obtained an understanding of the calculation through discussions with the City's engineer.
- We reviewed the analysis prepared by management and obtained corroborative evidence to support management's assumptions.
- The assumptions used by management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with the assumptions and estimates made in other sections of the financial statements.
- KPMG noted during this review that several of the factors used in management's calculation of the accrual were inconsistent with management's assumptions regarding the estimate. We have proposed an audit adjustment related to this which is included in the Misstatements section below.
- We have noted a performance improvement observation in this area which has been noted in the Control Deficiencies section below.

### **Accrued liabilities**

- Management accrues estimates for liabilities that have been incurred at year end, but not yet paid, within accounts payable and accrued liabilities in the financial statements.
- Included within this balance are significant estimates related to provisions for personnel and legal matters in the amount of \$18.1 million (2011 - \$14.3 million). The accrual for personnel matters amounted to \$14.4 million (2011 - \$10.6 million) and includes amount for matters which will be taken to arbitration and other internal grievances. The accrual for legal matters amounted to \$3.7 million (2011 - \$3.7 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.
- Management has represented that these balances are fairly presented for financial reporting purposes.

#### **KPMG comments regarding effect on the audit**

- With respect to accrued liabilities, we have:
  - Discussed with management the nature and rationale for the accrual;
  - Reviewed management's assessment of the likelihood of incurring the liability for each claim, range of possible outcomes, and ensuring that the lowest amount in the range has been accrued in the financial statements;
  - Compared the current period accruals to the amounts accrued at the prior year end for significant fluctuations;
  - Reviewed the Corporation's in-house legal letter for any potentially unrecorded accruals at year end;
  - Reviewed legal letters obtained from external legal counsel to ensure all claims have been accrued at year end and that likelihood of outcome for each claim is consistent with management's assessment; and
  - Where possible, reviewed subsequent payments to determine whether the liability at year end is reasonably stated.
- We identified no significant matters related to this balance and concur with management that it is fairly stated at December 31, 2012.



## Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

|   |
|---|
| <b>Correction of prior period error in the current period (WIP within tangible capital assets and expenses)</b>   |
| <ul style="list-style-type: none"><li>• During the F2011 audit, we identified items relating to Urban Works projects that were incorrectly included in WIP, resulting in an understatement of amortization expense and an overstatement of tangible capital assets for 2011.</li><li>• Management reviewed the impact of this error and determined that it wasn't material to the 2011 financial statements from an income statement perspective. As such, rather than flow this adjustment through the various versions of schedules, statements, and financial information returns in 2011, management decided to make the changes in 2012.</li></ul>   |
| <b>KPMG comments regarding effect on the audit</b>  |
| <ul style="list-style-type: none"><li>• The adjustment in 2012 is an out of period adjustment which corrects an error in relation to the overstatement of tangible capital assets; this, however, results in the expense being recorded in the incorrect period. This results in an overstatement to expenses of \$2.7 million in 2012 in order to correctly state the balance sheet accounts at December 31, 2012.</li><li>• KPMG concurs with management's assessment that this is not a material error to the financial statements from a user's prospective and from a quantitative perspective.</li><li>• When an entity decides to make a correction in the current period for immaterial prior period errors in previously issued financial statements, the disclosures required by the financial reporting framework for corrections of error are not required as such disclosures relate to the correction of material errors.</li></ul> |
| <b>Misstatements</b>  |
| <ul style="list-style-type: none"><li>• See the summary of uncorrected misstatements for details of the identified audit misstatement.</li></ul>  |

### **Fair-City joint venture adjustment**

- On September 1, 2000, the Corporation entered into a joint venture with Western Fair Association, which is referred to as Fair-City Joint Venture (FCJV), to construct and operate a four-pad arena complex.
- In prior years, FCJV was accounted for in accordance with the joint venture agreement, rather than in accordance with a set of generally accepted accounting principles. The FCJV adopted NPO accounting standards for their financial reporting on July 1, 2011. This has led to a reduction in the net assets of the FCJV due to adjustments relating to recording amortization expense, removing principal debt repayments recorded as expenses, and amortizing the non-refundable grant from the Corporation over 40 years. The Corporation had not previously adjusted for the items that were not in accordance with PSAB, resulting in an overstatement of the net assets of the FCJV over the past several years.
- This adjustment was identified during F2012 when the investment in the FCJV was being recorded based on the financial statements of the FCJV at June 30, 2012.
- Management has reviewed the impact of this adjustment and has determined that it is not material to previously issued financial statements from an income statement perspective or a qualitative perspective. As such, management has corrected it in the current period.
- The resulting impact is the reduction of investments in government business enterprises and other income of \$4.4 million (partially offset by income from the FCJV of \$0.2 million in F2012).

### **KPMG comments regarding effect on the audit**

- We have reviewed management's calculation of the revised value of the FCJV investment and examined the FCJV statements, which support the write-down amount noted by management.
- The adjustment in 2012 is an out of period adjustment which corrects the overstatement of investments in government business enterprises; this, however, results in the write-down of the investment being recording in the incorrect period. This results in an understatement to revenue of \$4.4 million in 2012, in order to correctly state the balance sheet accounts at December 31, 2012.
- KPMG concurs with management's assessment that this is not material to the current period financial statements from a user's perspective and from a quantitative perspective.
- When an entity decides to make a correction in the current period for immaterial prior period errors in previously issued financial statements, the disclosures required by the financial reporting framework for corrections of error are not required as such disclosures relate to the correction of material errors.

### **Misstatements**

- See the summary of uncorrected misstatements for details of the identified audit misstatement.

### **Issuance of debentures**

- During the year, the Corporation issued new debentures as follows:
  - \$70 million through CDS Clearing and Depository Services Inc., with interest ranging from 1.5% to 3.2%, annual principal repayment, and a maturity date of September 2022.
  - \$2 million through the Federal of Canadian Municipalities, with interest of 2%, semi-annual repayments of principal and interest, and a maturity date of May 2032.
- Management has recorded the liabilities associated with the new debentures and has included disclosure in the financial statements with respect to the debentures.

### **KPMG comments regarding effect on the audit**

- We have agreed the approval of the debentures to Council meeting minutes.
- We have agreed the amount of issuance, the interest rates, and the maturity dates to the respective debt agreements.
- We reviewed management's disclosure of the long-term debt and agree that it is appropriate and in accordance with the required financial reporting framework.

## Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

|  |   |
|--|---|
| <b>Significant accounting policies</b>                           | Significant accounting policies or practices are disclosed in Note 1 to the consolidated financial statements.<br>There were no new accounting policies adopted, and there were no changes made to existing accounting policies during the year.<br>KPMG reviewed accounting policies adopted by management, including management's assessment of all accounting policies adopted by the Corporation, and all are considered to be appropriate. |
| <b>Critical accounting estimates</b>                             | There are no critical accounting estimates.   |
| <b>Critical disclosures and financial statement presentation</b> | The financial statements include disclosures and presentation requirements under the relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.  |

# Misstatements

## Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements over \$462,000, including disclosures
- uncorrected misstatements over \$462,000, including disclosures.

## Corrected misstatements

The representation letter in the Appendices includes all corrected misstatements communicated to management identified as a result of the audit procedures performed.

## Uncorrected misstatements

Refer to Management's representation letter and the Summary of Uncorrected Audit Misstatements in the Appendices for all uncorrected audit misstatements. We highlight, however, the following uncorrected misstatements:

| (\$'000)   |       | Annual surplus effect | Financial position         |                                 |   |
|--|-------|-----------------------|----------------------------|---------------------------------|---|
| Description  | F/J/P | Decrease (Increase)   | Assets (Decrease) Increase | Liabilities (Decrease) Increase | Accumulated surplus (Decrease) Increase |
| To record the impact of prior period errors which were identified in prior years and have not been corrected in fiscal 2012. | F     |                       | (1,589)                    |                                 | (1,589)                                 |
| Overstatement of expenses due to prior period TCA correction ( <b>note 1</b> ).  | F     | (2,677)               | -                          | -                               | 2,677                                   |
| Understatement of revenue due to prior period FCJV correction ( <b>note 1</b> ).   | F     | (4,366)               | -                          | -                               | 4,366                                   |
| Overstatement of the landfill liability provision.   | J     | (770)                 |                            | (770)                           |   |
| <b>Total misstatements</b>   |       | <b>(7,813)</b>        | <b>(1,589)</b>             | <b>(770)</b>                    | <b>5,454</b>                            |

Professional standards require that we request of management and the audit committee that all uncorrected misstatements be corrected. We have already made this request of management. However, based on both quantitative and qualitative considerations, management has decided not to correct certain misstatements and represented to us that the uncorrected misstatements—individually and in the aggregate—are, in their judgment, not material to the financial statements.

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

**Note 1**

Amounts which were corrected in the current year but relate to adjustments that should have been made in prior years. The net adjustment only impacts the annual surplus in the current year, as all balance sheet accounts are correctly stated as at December 31, 2012.

# Control deficiencies

## Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

## Identification

No significant control deficiencies have been identified.

## Performance improvement observations

- As discussed above, during our audit of the landfill liability accrual it was noted that certain inputs being used in the calculation were inconsistent with the assumptions being used by management. This resulted in an audit misstatement in the amount that has been accrued at year end. We recommend that the calculation of this accrual be reviewed in detail by management.
- The schedule of uncorrected audit misstatements contains a proposed adjustment of \$1.589m that relates to errors that were identified in prior years and were to have been corrected in the current year. These amounts remained uncorrected simply because communication was not made to the person responsible for making the correcting entry. We recommend that management put a more formal process in place for communicating the future treatment of any uncorrected audit misstatements so that these amounts do not carry forward as uncorrected indefinitely. We understand from speaking with management that these amounts will be corrected in F2013.

# Appendices

**Draft auditors' report**

**Independence letter**

**Draft management representation letter**



# Draft auditors' report

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of London, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of London as at December 31, 2012, and its consolidated results of operations, its consolidated changes in net debt, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

# Independence letter



**KPMG LLP**  
140 Fullarton Street  
Suite 1400  
London, ON  
N6A 5P2

Telephone (519) 672-4880  
Fax (519) 672-5684  
www.kpmg.ca

**Audit Committee**

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

June 27, 2013

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that 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 the professional services rendered by us to the Entity (and its related entities) from January 1, 2012 up to the date of this letter:

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**KPMG Confidential**



| <b>Description of Professional Services</b>  |
|--|
| <p><b>Audit and audit related</b></p> <ul style="list-style-type: none"><li>- Audit of the consolidated financial statements of the Corporation for the year ended December 31, 2012</li><li>- Audit of all individual Boards and Commissions, Trust Funds, and PUC financial statements for the year ended December 31, 2012, as outlined in our engagement letter</li><li>- Audit of the financial statements of the City of London Immigration Portal</li><li>- Review of the City of London Transfer Payment Agency financial statements</li><li>- Audit of the Dearnness Program Report and Dearnness Long-Term Care Report</li><li>- Compliance audit with agreement on Transfer of Federal Gas Tax Revenue and Annual Expenditure Report</li><li>- Audit of Water Financial Statements and specified auditing procedures over Water projects, as required by Ministry agreements</li><li>- Review of Childcare Program Envelopes</li><li>- Review of Homelessness Program Envelopes</li><li>- Federal audit of Homelessness Partnering Strategy</li></ul> |
| <p><b>Tax</b></p> <ul style="list-style-type: none"><li>- Preparation of corporate tax return for London Middlesex Housing Corporation</li></ul>   |

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**KPMG Confidential**



- 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 (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2012 up to the date of this letter.

#### **CONFIRMATION OF INDEPENDENCE**

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2012 up to the date of this letter.

#### **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 Accountants, Licensed Public Accountants

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**KPMG Confidential**

# Draft management representation letter

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, 2012.

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 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:

**GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 1, 2010, 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 relevant information, such as all financial records and related data and 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, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

**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 management is 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 and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's 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

**COMMITMENTS & CONTINGENCIES:**

- 4) There are no:
- a) 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
  - b) other environmental matters that may have an impact on the financial statements

**SUBSEQUENT EVENTS:**

- 5) 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:**

- 6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.



**ESTIMATES:**

- 7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 8) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**MISSTATEMENTS:**

- 9) 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.

**ACCOUNTING POLICIES:**

- 10) The accounting policies selected and applied are appropriate in the circumstances.
- 11) 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:**

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

**ESTIMATES / MEASUREMENT UNCERTAINTY:**

- 13) We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 14) 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:**

- 15) 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.
- 16) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
- 17) 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.
- 18) 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.
- 19) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
- 20) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

**COMPARATIVE FIGURES/FINANCIAL STATEMENTS:**

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

**RECEIVABLES:**

- 22) 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:**

- 23) The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
- 24) 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:**

- 25) 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:**

- 26) 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:**

- 27) 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:**

- 28) 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.
- 29) 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.
- 30) 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:**

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

- 32) There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
- 33) 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.
- 34) The set of actuarial assumptions for each plan is individually consistent.
- 35) 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.
- 36) 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.
- 37) In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 38) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 39) 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.
- 40) 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.
- 41) 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:**

- 42) We agree with the findings of Wes Abbott, City of London Engineer, 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.

Yours very truly,

---

Mr. Martin Hayward, City Treasurer, Chief Financial Officer

---

Mr. Mike Turner, Deputy City Treasurer

cc: Audit Committee

## **Attachment I – Definitions**

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian generally accepted accounting principles a *related party* is defined as:

- A situation when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

In accordance with Canadian generally accepted accounting principles a *related party transaction* is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

**Attachment II – Summary of Audit Misstatements Schedule(s)**

**The Corporation of the City of London  
December 31, 2012  
Summary of Uncorrected Audit Misstatements**

| (\$'000)  |       | Annual surplus effect | Financial position         |                                 |   |
|---|-------|-----------------------|----------------------------|---------------------------------|---|
| Description   | F/J/P | Decrease (Increase)   | Assets (Decrease) Increase | Liabilities (Decrease) Increase | Accumulated surplus (Decrease) Increase |
| To record the impact of prior period errors which have not been corrected.        | F     | -                     | (1,589)                    | -                               | (1,589)                                 |
| Overstatement of expenses due to prior period TCA correction in the current year. | F     | (2,677)               | -                          | -                               | 2,677                                   |
| Understatement of revenue due to prior period FCJV correction.                    | F     | (4,366)               | -                          | -                               | 4,366                                   |
| Overstatement of the landfill liability provision.                                | J     | (770)                 | -                          | (770)                           | -                                       |
| <b>Total misstatements</b>  |       | <b>(7,813)</b>        | <b>(1,589)</b>             | <b>(770)</b>                    | <b>5,454</b>                            |



**The Corporation of the City of London**  
**December 31, 2012**  
**Summary of Corrected Audit Misstatements**

| (\$'000)                       |       | Annual<br>surplus effect | Financial position               |                                       |  |
|--------------------------------|-------|--------------------------|----------------------------------|---------------------------------------|--|
| Description                    | F/J/P | Decrease<br>(Increase)   | Assets<br>(Decrease)<br>Increase | Liabilities<br>(Decrease)<br>Increase | Accumulated<br>surplus<br>(Decrease)<br>Increase |
| None noted.                    |       | -                        | -                                | -                                     | -  |
| <b>Total<br/>misstatements</b> |       | -                        | -                                | -                                     | -  |

[www.kpmg.ca](http://www.kpmg.ca)

KPMG LLP, an Audit, Tax and Advisory firm ([kpmg.ca](http://kpmg.ca)) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”). KPMG member firms around the world have 145,000 professionals, in 152 countries.

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

© 2012 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.