

The Corporation of the City of London

Audit Findings Report
for the year ended December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared on June 3, 2022
for presentation on June 15,
2022

kpmg.ca/audit

The KPMG logo consists of the letters 'KPMG' in a bold, sans-serif font. Above the letters 'K', 'P', and 'M' are three small, white-outlined squares arranged horizontally.



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KPMG contacts

The contacts at KPMG in connection with this report are:



Katie denBok

Lead Audit Engagement Partner

Tel: 519-660-2115
kdenbok@kpmg.ca



Melissa Redden

Audit Senior Manager

Tel: 519-660-2124
mredde@kpmg.ca

Our refreshed Values

What we believe



We do what is right.



We never stop learning
and improving.



We think and act boldly.



We respect each other
and draw strength from
our differences.



We do what matters.



Audit Quality: How do we deliver audit quality?

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**.



Visit our [Resources](#) page for more information.

Doing the right thing. Always.

Audit highlights

Purpose of this report¹

The purpose of this 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 (the “financial statements”) of the Corporation of the City of London (the “City”) as at and for the year ended December 31, 2021. This report builds on the Audit Plan we presented to you on February 9, 2022.

Status of the audit

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:

- Receipt of supporting documentation and/or performance of audit procedures over the following:
 - Grant revenue
 - Legal accruals
 - Journal entry testing
 - Supporting memos for various sections of the file
- Response and review of legal letters from 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;
- Review and tie-out of the consolidated financial statements, including note disclosures;
- Review of the financial report;

- Completion of final quality control review;
- Final manager and partner review;
- Completing our discussions with the Audit Committee;
- Completing subsequent events procedures, up to the date of approval of the financial statements;
- Receipt of the signed management representation letter (dated upon City Council approval of the financial statements); and
- Obtaining evidence of City 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 any remaining procedures.

Significant changes from the audit plan

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

¹ This report to the Audit Committee is intended solely for the information and use of Management, the Audit Committee, and City Council 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 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.

Going concern

No matters to report.

Significant risks and other significant matters

There are no significant findings to communicate related to significant risks or other significant matters.

Refer to page 6 for additional information.

Uncorrected audit misstatements

The impact of the uncorrected differences is as follows:

Annual surplus	(in \$'000s)
As currently presented	\$279,099
Uncorrected differences	(\$5,017)
As a % of the balance	1.80%

Refer to pages 13 – 14 for additional information.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We did identify a control observation to bring to your attention.

Refer to pages 15 - 16 for additional information.

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.

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: Independence Letter.

Audit risks and results

We highlight our significant findings in respect of **significant risks** as identified in our discussion with you in the Audit Plan.

Fraud Risk from Management Override of Controls	New or changed?	Estimate?
Management override of controls is a presumed significant risk as prescribed by professional auditing standards.	No change from the Audit Plan.	No significant estimates noted.

Our response

- The risk resides with management’s ability to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- As this risk is non-rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. KPMG performed procedures as noted in our audit planning report, 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 have been noted during our testing to date.

Other areas of focus

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

Payroll and Employee Future Benefits	New or changed?	Estimate?
The Corporation provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2021, the Corporation had a liability for employee future benefits of \$196.0 million (2020 - \$181.7 million).	No change from the Audit Plan.	Yes, there is estimation uncertainty due to assumptions and estimates used by the actuary in calculating the liability for the City's post-retirement non-pension benefits and WSIB.

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 \$107.4 million (2020 - \$97.4 million) - includes health, dental, life insurance and long-term disability, which are provided to retirees until they reach 65 years;
- WSIB accrual of \$68.4 million (2020 - \$64.9 million) – as a Schedule 2 Employer, the Corporation must finance its own costs related to WSIB;
- Vacation liability of \$19.0 million (2020 - \$18.2 million) – relates to vacation credits earned but not taken by employees as at December 31; and
- Unused sick leave liability of \$1.2 million (2020 - \$1.3 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, 2021. We performed attribute testing over the underlying data used by Mercer to prepare the valuation in the current year.

The liability for workplace safety and insurance costs is determined through an actuarial valuation which was prepared by Mercer as of December 31, 2020 and extrapolated for the current year. Vacation and unused sick leave liabilities are accrued in the consolidated financial statements when they are earned by employees.

Other areas of focus

Landfill Closure and Post-closure Liability	New or changed?	Estimate?
This represents a significant account balance for the Corporation and certain accrued liabilities require judgment and estimation by management.	No change from the prior year.	Yes, there is estimation uncertainty due to assumptions and estimates used by Management in calculating the liability.

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, 2021, the landfill accrual amounted to \$51.7 million (2020 - \$46.3 million), \$42.2 million of which related to the future closure of the active landfill and \$9.5 million relating to monitoring of closed landfills.
- We obtained an understanding of the calculation through discussions with the Corporation's Solid Waste Management Division Manager. We reviewed the analysis prepared by Management and obtained corroborative evidence to support Management's assumptions. The assumptions used by Management in the calculation are considered reasonable based on the audit evidence obtained and are consistent with the assumptions and estimates made in other sections of the 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.

Other areas of focus

Accounts Payable and Accrued Liabilities	New or changed?	Estimate?
<p>This represents a significant account balance for the Corporation and includes contingent liabilities.</p> <p>PSAS 3300 <i>Contingent Liabilities</i> requires that the City recognize a liability when “it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.”</p> <p>At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, etc.</p>	<p>No change from the prior year.</p>	<p>Estimation uncertainty exists related to the likelihood and/or measurement of the liabilities.</p> <p>However, this estimation uncertainty does not result in a risk of material misstatement.</p>

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 liabilities for contaminated sites. As disclosed in note 23 to the financial statements, as at December 31, 2021, a liability of \$8.9 million (2020 - \$9.1 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 legal 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.

Significant findings

No significant findings were noted during our testing performed up to the date of this report. As at the date of this report, certain procedures over legal accruals are ongoing.

Other areas of focus

Capital Projects and Acquisitions	New or changed?	Estimate?
<p>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.</p>	<p>No change from the Audit Plan.</p>	<p>Estimation uncertainty exists related to the useful lives of the assets.</p> <p>However, this estimation uncertainty does not result in a risk of material misstatement.</p>

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 Appendix: Technology in the Audit for details on the data and analytics routines performed over tangible capital assets. Certain findings were noted as a result of performance of these procedures. Refer to page 20 for details.

Other areas of focus

Areas of Focus	New or changed?	Estimate?
<u>Taxation, user charges and transfer payments revenue</u> For the year ended December 31, 2021, these revenue streams amounted to more than \$1.3 billion for the Corporation (2020 - \$1.3 billion).	No change from the Audit Plan.	No significant estimates noted.
<u>Debt issuances</u> Individual debt issuances at the Corporation have historically been for significant amounts	No change from the Audit Plan.	No significant estimates noted.

Our response

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

Significant findings

No significant findings were noted during our testing.

Other matters

Professional standards require us to communicate to the Committee other matters. We highlight the following that we would like to bring to your attention:

Matter	Comments
Vacation accrual	<p>Disclosed in the financial statements is vacation entitlements liability (see note 12), which is \$19.0 million in 2021 (2020 - \$18.2 million). The City's various collective agreements, Management bylaw and other HR policies permit certain maximum days to be carried over if unused. We note that there is an upward trend in this accrual over the past several years and we understand that this increase is due to factors such as the increased number of unused days carried over, partially due to the implications that the COVID-19 pandemic had on the ability to take vacation time.</p> <p>We note that there are several risks associated with maintaining high levels of vacation accruals, for example, the cost of those vacation entitlements become increasingly more expensive as compensation levels increase, it can be potentially disruptive to the City's operations in the case where employees are granted extended leaves, and the financial impact to the City's financial position becomes less favourable as more reliance is placed on reserves or future funding in order to fund this liability.</p> <p>In line with leading practices, we recommend that management carefully assess vacation entitlements, enforce any plans in place to draw down on entitlements in order to better manage this liability and avoid servicing it at a higher cost than necessary. We note that in 2022, this liability may continue to rise if employees continue to defer vacation plans.</p> <p>Additionally, as another leading practice and as a fraud prevention measure, we note that management should ensure that staff take annual vacations and that another employee perform their work in their absence. This cost-efficient control is one of the most effective methods of identifying any potential irregularities in performance. It also provides cross training for succession planning purposes.</p> <p>Management's response:</p> <p>Management is aware of the increasing trend in vacation credits. This has primarily been influenced by the impact of COVID-19 and managing the operations of the City, as certain staff were required to cancel/defer vacation plans to provide the appropriate coverage as a result of 14-day self isolation periods.</p>

Management is currently considering the best way to manage vacation going forward, within the current procedures and/or collective agreement parameters, and considers this topic a priority for the near future.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

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 audit misstatements

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

Significant uncorrected audit misstatements summary

Significant uncorrected audit misstatements - in thousands

As at and year ended December 31, 2021	Annual surplus effect	Financial position		
Description of misstatements greater than \$900,000 individually	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Overstatement of revenue as a result of childcare adjustment made in 2021 relating to 2020 funding	(2,183)	–	–	–
Understatement of protection service expenses as a result of prepaid benefits adjustment made in 2021 relating to prior periods	(2,834)	–	–	–
Total misstatements	(5,017)	–	–	–

Control deficiencies

Consideration of internal control over financial reporting

A significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

In planning and performing our audit, we considered ICFR relevant to the City’s preparation 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 consolidated financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

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. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

Significant deficiencies in internal control over financial reporting

Description	Potential effect
No significant control deficiencies were noted.	

Other control observations

Description	Potential effect
Lack of detailed secondary review over holdbacks	<p>During our work over Tangible Capital Assets - Holdback Accruals (refer to Appendix: Technology in the Audit), we identified a holdback that was no longer considered payable as at December 31, 2021 and should have been removed from Accounts payable and accrued liabilities, resulting in an overstatement of this account and expenses. This was a long-standing holdback and was overlooked when this account was reviewed in preparation of the year end financial statements.</p> <p>KPMG recommends that management carefully review this account, especially those items that have been on the listing for a number of years, to ensure they remain appropriate year over year.</p>

Financial statement presentation and disclosure

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

We also highlight the following:

Financial statement presentation - form, arrangement, and content	The form, arrangement and content of the financial statements is adequate.
Significant qualitative aspects of financial statement presentation and disclosure	We did not note any material disclosure omissions in the financial statements.
Concerns regarding application of new accounting pronouncements	<p>There were no new public sector accounting standards or amendments to standards effective for the year; however, there are several significant upcoming changes, including financial instruments and asset retirement obligations. See Appendix: Current developments for additional information on these upcoming standard changes.</p> <p>Management has created working groups to begin the process of determining the impact of these changes, as well as determining the appropriate measurement. We have no concerns at this time relating to their implementation.</p>

Appendices

Content

Appendix: Other required communications

Appendix: Management representation letter

Appendix: Independence letter

Appendix: Draft Auditors' Report

Appendix: Technology in the audit

Appendix: Current developments

Appendix: Upcoming changes to auditing standards

Appendix: Audit and assurance insights

**Appendix: Why audit committees should know about
asset retirement obligations**

Appendix: Other required communications

Report

The conclusion of our audit is set out in our auditors' report.
Refer to the draft report in Appendix: Draft Auditors' Report.

Representations of management

We will obtain from management certain representations upon the completion of the audit.

Refer to the draft letter in Appendix: Management representation letter.

Audit Quality in Canada

The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Interim Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2020 Annual Inspections Results](#)

Engagement terms

A copy of the engagement letter and any subsequent amendments have been provided to the Audit Committee.

Appendix: Management representation letter

(Letterhead)

KPMG LLP
1400-140 Fullarton Street
London, Ontario
N6A 5P2
July 5, 2022

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, 2021.

- 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 and amended on December 9, 2021, 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:
 - 1 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:
 1. 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:
 1. 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:
 - 1 We have disclosed to you the identity of the Entity's related parties.
 - 2 We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
 - 3 All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.
- Estimates:
 - 1 The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- Going concern:

- 1 We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
 - 2 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:
 - 1 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.
 - 2 We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).
 - Non-SEC registrants or non-reporting issuers:
 - 1 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).
 - 2 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:

- 1 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

- Accounting Policies:

- 1 The accounting policies selected and applied are appropriate in the circumstances.
- 2 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:

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

- Estimates / Measurement Uncertainty:

- 1 We are responsible for making any fair value measurements and disclosures included in the financial statements.
- 2 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:
 - 1 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.
 - 2 We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).
 - 3 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.
 - 4 We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.
 - 5 We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

- Comparative Figures/Financial statements:
 - 1 We have no knowledge of any significant matters that may have arisen that would require a restatement of the comparative figures/financial statements.
- Receivables:
 - 1 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:
 - 1 The Entity has appropriately grouped long-lived assets together for purposes of assessing impairment.
 - 2 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:
 - 1 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.
- Revenues:
 - 1 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:
 - 1 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.
 - 2 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.

- 3 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:
 - 1 The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
 - 2 There are no arrangements (contractual or otherwise) by which programs have been established to provide employee future benefits.
 - 3 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.
 - 4 The set of actuarial assumptions for each plan is individually consistent.

- 5 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.
- 6 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.
- 7 In arriving at these assumptions, management has obtained the advice of Mercer, but has retained the final responsibility for them.
- 8 The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 9 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.
- 10 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.
- 11 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:

- 1 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.
- 2 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.
 - Approval of financial statements:
 - 1 Ian Collins has the recognized authority to take, and has taken, responsibility for the financial statements.

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

Corrected misstatements F2021:

	Annual surplus effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Reclassification of deposits on hand from investments to cash and cash equivalents.	-	(200,000,000) 200,000,000	-	-
Overstatement of holdback payable.	1,660,780	-	(1,660,780)	1,660,780
Total corrected misstatements	1,660,780	-	(1,660,780)	1,660,780

Uncorrected misstatements F2021:

	Annual surplus effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
Overstatement of revenue as a result of childcare adjustment made in 2021 relating to 2020 funding.	(2,183,165)	-	-	-
Understatement of protection service expenses as a result of prepaid benefits adjustment made in 2021 relating to prior periods.	(2,834,395)	-	-	-
Total uncorrected misstatements	(5,017,560)	-	-	-

Uncorrected misstatements F2020 (Revised):

	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)	-	-	-
Understatement of childcare revenues in the year	2,183,165	-	(2,183,165)	2,183,165
Understatement of prepaid expenses in the current and prior years in relation to protection services	753,199	2,834,395	-	753,199 2,081,196
Total uncorrected misstatements	292,462	2,834,395	(2,183,165)	5,017,560

Appendix: Independence letter



KPMG LLP
1400-140 Fullarton Street
London, ON N6A 5P2
Canada
Telephone (519) 672-4880
Fax (519) 672-5684

Audit Committee

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

June 3, 2022

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 2021:

Description of Professional Services
<p>Audit and audit related</p> <ul style="list-style-type: none"> • Audit of the consolidated financial statements of the Entity for the year ended December 31, 2021 • Audit of all individual Boards and Commissions and Trust Funds financial statements for the year ended December 31, 2021 • 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, 2021
<p>Tax</p> <ul style="list-style-type: none"> • Preparation of corporate tax return for London & Middlesex Community Housing Inc. • Preparation of corporate tax return for Eldon House • Preparation of corporate tax return for Housing Development Corporation, London • Preparation of corporate tax return for Argyle Business Improvement Association Board of Management • Preparation of corporate tax return for Hyde Park Business Improvement Association Board of Management

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,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Appendix: 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, 2021
- 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, 2021, 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

July 5, 2022

Appendix: 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.

Technology	Areas of the audit where Advance Technology routines were used	Insights
KPMG Clara for Clients	Utilized secure client collaboration site to share documents over the course of the audit.	This site enabled us to securely transfer documents throughout the engagement.
Journal Entry Analysis	We utilized Computer Assisted Audit Techniques (“CAATs”) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.	<p>We developed a set of high-risk criteria and applied the criteria to the entire population of journal entries. Journal entries containing high risk conditions were tested to ensure they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place.</p> <p>We did not find any exceptions in our testing over journal entries.</p>
Tangible Capital Assets - WIP	We utilized CAATs to compare the WIP detail in fiscal 2021 to the WIP detail in fiscal 2020, testing any projects that did not incur costs in fiscal 2021 and remain in work in progress (WIP) as at December 31, 2021.	This routine obtained audit evidence over the completeness of tangible capital assets and amortization expense. No issues noted during the test.
Tangible Capital Assets - Disposals	We 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.

**Tangible Capital
Assets - Holdback
Accruals**

We utilized CAATs to compare the tangible capital asset WIP listing to the holdbacks accrual listing, testing any significant WIP projects that did not have a corresponding holdback accrual and vice versa.

This routine obtained audit evidence over the completeness of holdback accruals.

Through our testing, we noted one misstatement with respect to a holdback accrual that should have been removed during the year. Management has chosen to correct this misstatement in the current year. This has been included in the management representation letter.

Appendix: Technology in the audit



We have included a summary of journal entries at various thresholds for the Unconsolidated City level.

Thresholds for Individual Journal Entries	Total Number of Journal Entries	Percentage of Total Number of Journal Entries	Total Value of Journal Entries (in 000's)	Percentage of Total Value of Journal Entries
Less than \$100	5,445	14.1%	244	0.0%
\$100 - \$500	8,231	21.2%	2,083	0.0%
\$500 - \$10,000	12,911	33.3%	37,566	0.2%
\$10,000 - \$100,000	7,243	18.7%	259,761	1.4%
<i>Subtotal - Journal entries less than \$100,000</i>	33,830	87.3%	299,654	1.6%
\$100,000 - \$1,000,000	3,163	8.2%	1,042,175	5.6%
\$1,000,000 - \$10,000,000	1,411	3.6%	4,966,236	26.6%
\$10,000,000 +	333	0.9%	12,334,156	66.2%
<i>Subtotal - Journal entries greater than \$100,000</i>	4,907	12.7%	18,342,567	98.4%
Total	38,737	100.0%	18,642,221	100.0%

Appendix: Current developments

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

The following are upcoming changes that will be effective in future periods as they pertain to Public Sector Accounting Standards. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standards	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. – 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. PSAS 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 obligations 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: <ul style="list-style-type: none"> ○ 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.

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.
- 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*. The exposure drafts were released in summer 2020.

Revenue

- The new standard is effective for fiscal years beginning on or after April 1, 2023.
- 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.

Public Private Partnerships (“P3”)

- PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023 and may be applied retroactively or prospectively.
 - The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
 - The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.
-

-
- The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.

Purchased Intangibles

- In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.
 - PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized.
 - The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
-

Appendix: Upcoming changes to auditing standards

The following changes to auditing standards applicable to our 2022 audit are listed below.

Standard	Key observations
Revised CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i>	<p>Revised CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i> has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021.</p> <p>The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include:</p> <ul style="list-style-type: none">– Enhanced requirements relating to exercising professional skepticism– Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls– Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls– Introduction of scalability– Incorporation of considerations for using automated tools and techniques– New and revised concepts and definitions related to identification and assessment of risk– Strengthened documentation requirements <p>CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.</p>

Appendix: Audit and assurance insights

Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary	Reference
Accelerate 2022	The key issues driving the audit committee agenda in 2022.	Learn more
Audit Committee Guide – Canadian Edition	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.	Learn more
Unleashing the positive in net zero	Real solutions for a sustainable and responsible future.	Learn more
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards.	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more
KPMG Climate Change Financial Reporting Resource Centre	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	Learn more
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	Learn more
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	Sign-up now

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Appendix: Why audit committees should know about asset retirement obligations



Why Audit Committees should know about Asset Retirement Obligations

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Municipalities have evolved significantly over the last two decades and this evolution has escalated over the last two years due to the huge push towards digital transformation. Municipalities have come to a refreshed realization about the dynamic change it needs from their citizens resulting in a push towards a citizen-centric approach to defining their goals and objectives.

With all this change, the citizens are looking for new and improved ways to obtain information from the municipalities and public sector entities generally. They are looking for information that is timely, accurate and accessible. For instance, more and more municipalities are moving towards quarterly financial reporting to provide more timely information to stakeholders.

The finance function within municipalities tend to focus a large portion of their resources on their budget-setting process each year, relative to financial reporting. This budget sets out the municipality's operating and capital spending plan for the next year, leading to the determination of the necessary tax levy to support the planned spend. It is necessarily a cash-based document, which leads to difficulty in comparing it to a municipality's financial results, which are prepared on a basis prescribed by the Chartered Professional Accountants Canada. The annual financial statements are presented on an accrual basis in accordance with Public Sector Accounting Standards (PSAS). This disconnect between the cash basis and accrual basis often makes it difficult for 'Those Charged With Governance' (TCWG) to fully understand the actual financial results since relatively more resources are deployed towards the creation of the budget than the presentation of the financial results. While there are quite a few intersections between the budget-based reporting and PSAS reporting, there are many differences that can come in the way of effective municipal financial management and oversight.

Please note that the discussion in this paper is relevant for all public sector entities that report their financial results in accordance with PSAS. While the specific examples in this paper focus on municipalities, the same implications can be applied to other entities with slight modification to incorporate the differences in operations in the various types of public sector entities.

With that in mind, let's talk about a new reporting standard which is required to be implemented by public sector entities for years ending on or after April 1, 2022 and why it is important for TCWG to understand the implications of this new standard. This standard pertains to Asset Retirement Obligations (ARO) and requires public sector entities to set up a liability related to the legal obligation for retiring a tangible capital asset. The assets that fall into this standard are the ones that are controlled by the public sector entity and includes leased assets. This standard has far-reaching impacts for municipalities and requires proper attention from TCWG, in order to exercise appropriate oversight over the financial reporting process. We have highlighted some key items here:

- (a) Completeness of liabilities
- (b) Legal obligations
- (c) Completeness of assets
- (d) Technical expertise
- (e) Financing repercussions
- (f) Environmental Social Governance (ESG) implications

Let's talk about these one by one!

a. Completeness of liabilities

In many cases, the liability associated with AROs has not been recorded within the financial records of the public sector entities which means that these entities are underreporting their obligations. It is possible that certain public sector entities might have some of these obligations included within their legal obligations however it is unclear how these are being tracked and whether the process used to determine the magnitude of these legal obligations is accurate.

Not only is it important to have accurate and complete information for the measurement and recognition of these liabilities for financial reporting purposes, but the same information is also equally important for financial planning and for effective financial management of the municipalities.

One of the tools used by municipalities in order to perform long term financial planning is through reserves and reserve funds to ensure they have sufficient funds set aside for future needs. If a municipality does not have a clear understanding of their ARO liability, it would hinder their ability to assess the adequacy of their reserve funds. Cash flow management would also be impacted due to the potential unplanned outflow in any given year.





b. Legal obligations

Next, let's talk about legal obligations. It is important to understand that the obligation related to the ARO is a legal obligation. However, unlike some of the traditional legal obligations, where there might be uncertainty around the outcome of the legal item, there is no uncertainty related to the existence of the future obligation related to an ARO. This means that the future settlement is guaranteed for an ARO and the uncertainty in this situation is limited to the quantification or the amount of the future settlement.

Not getting a good handle on the ARO liability also increases the risk of negative legal implications for the municipality in the future. As an example, if there is a contaminated site that requires a municipality to perform clean up to ensure the safety of the residents, but this contamination is not rectified in a timely and reasonable manner as required by environmental regulations. This could result in severe legal implications for the municipality due to the hazardous nature of these materials and potential negative health impact on the residents.

The new ARO reporting standard also includes the concept of promissory estoppel as part of the legal liability assessment. For your convenience, we have included the definition of promissory estoppel in the glossary at the end of this document.

The key point that is important to emphasize is that it would be important to engage a legal expert as part of the ARO implementation team as this assessment might be outside the expertise of the core finance team members.

c. Completeness of assets

When Canadian municipalities first began reporting their tangible capital assets as a component of their balance sheets back in 1999, it was apparent that many municipalities did not have good historical data on the assets that they owned at that time and consequently many still do not have a complete listing of owned assets. A comprehensive approach to asset management brings numerous benefits to local and regional governments and assists them in being able to demonstrate that taxpayers get good value from each capital asset they fund, in part or in whole.

This is a contributing factor as to why there are regulatory requirements for good asset management practices. For example, the Federal Gas Tax Agreement requires municipalities to demonstrate a strong asset management system. In absence of a well-thought-out asset management plan, local municipalities could put at risk the operational effectiveness of their assets, public health and safety and overall public confidence in the local government. A solid asset management approach helps to ensure reliability of the services offered by a local government and thus instill more confidence from the public.

Asset management itself is quite a broad topic of discussion for municipalities, perhaps the above description provides an understanding of why there is so much emphasis placed on good asset management. As important as it already was to have a complete listing of tangible capital assets in order to develop a reasonable asset management plan, it has become even more so with the implementation of financial reporting standards for AROs. This due to the fact that AROs are based on identifiable

tangible capital assets controlled by the Entity. If the asset listing is not complete or not up to date, any obligations relating to assets not being reported would also not be captured. If items are missed in the scoping and measurement of AROs, this results in a significant risk for the municipalities where the corresponding liabilities will be incomplete. There might be other consequences of missing these liabilities for municipalities depending on the nature and extent of error such as cash-flow management, environmental and social implications.

The ARO standard does not require entities to assess their overall asset management approach for reasonableness. The ARO standard also does not require entities to undertake an asset management exercise to make sure they have a complete inventory of all of their assets. However, it is quite clear that the entities who have an accurate and complete listing of their assets through a well-thought-out asset management plan are the ones who will be in the best position to ensure completeness of their AROs.





d. Technical expertise

Another matter to consider and assess is the quality of the information that the entity has regarding their assets. How well does the entity understand its assets including the nature and components of its assets? For the finance team to scope and measure the ARO associated with different assets, they would need clear guidance from subject matter experts that understand the technical aspect of this determination.

Finance teams would likely have the requisite expertise relating to the cost and fair value of these assets but may not be as aware of the legal, environmental, and / or other obligations attached to these assets. The knowledge of subject matter experts will be to assist the finance team in this area.

In addition to legal experts, other experts on which the exercise may depend upon include individuals from the operations team, mechanical and engineering teams, etc.

It would be important to have a discussion with the finance team to identify which subject matter experts are considered necessary based on their initial assessment in order to make optimal resource allocations. It would also be important to note that these needs could change as the implementation project matures.

e. Financing repercussions

Even though not directly related to ARO, financing repercussions should also be front of mind with overall asset management, particularly when planning for asset replacement / remediation / maintenance. In different provinces in Canada, there are restrictions on the amount of borrowing for local municipalities. In Ontario, for instance, long-term borrowing is restricted to capital investments and is also subject to a prescribed maximum level based on a preset formula.

Local municipalities use debt to help finance large capital projects. Local municipalities conduct long-term financial planning through the adoption of a multi-year capital plan and a long-term fiscal plan that would typically consider the amount and timing of debt necessary to support the planned expenditures over the term of Council. It also becomes important to understand the useful life of the asset in order to match the cost to the period over which the benefits are received. This provides more affordable financing by matching the repayment term to the economic useful life of the project, instead of funding the entire cost from current revenues.

In recent years, we have noted the trend of the issuance of green bonds, with the province of Ontario reaching a whopping \$10.75 billion in green bonds in 2021. Other local municipalities are following suit and this move is expected to continue. It would be important to have a good grasp on the asset management plans before these green bonds are attached to environmentally friendly infrastructure capital projects. Talking about green bonds, let's move into other ESG considerations.



f. ESG Implications

It is quite interesting that the concept of ARO touches all three aspects of the ESG spectrum i.e., environmental, social and governance. Physical contamination caused by hazardous materials such as asbestos or the toxins and leachate from landfills are all contributors towards damaging the environment.

Inappropriate or sub-optimal treatment of these hazardous materials can have significant health detriments which becomes a social responsibility issue whereby the expectation is that public sector entities, especially municipalities would ensure appropriate level of remediation for these hazardous items. The heightened fiduciary responsibility in the public sector environment especially with the elected officials with the municipalities creates a huge need for an appropriate level of governance in place.

The ESG implications for ARO have gained a lot of traction in recent years. These discussions have become more important now as public sector entities work towards the implementation of this new standard. While it is important to embrace ESG into our strategic planning, it will be critical to ensure that this planning is comprehensive and well thought out. As daunting as this task can seem, the key is to have a structured approach to map out what is relevant for the organization and to design a plan to tackle these implications.

In conclusion, while the ARO standard implementation may seem like any other accounting standard implementation, it has far reaching implications from a municipal operational and governance perspective requiring consideration and input from the organization as a whole, not just its finance team. It is therefore critical to take the time to understand these implications and design a plan to address them in a meaningful manner.

We would be more than happy to continue this discussion with you. We are currently running customized sessions for different entities to help them understand these various implications of AROs and how to best address them.

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Contact us

Maria Khoushnood
Partner, KPMG Enterprise

KPMG in Canada

416-228-7082

mkhoushnood@kpmg.ca

Kevin Travers
Partner, KPMG Enterprise

KPMG in Canada

416-228-7004

ktravers@kpmg.ca

home.kpmg/ca

Be social with [@KPMGCanada](https://twitter.com/KPMGCanada)



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Glossary

Public Sector

Public sector refers to governments, government components, government organizations and partnerships. Each of these entities is a “public sector entity”. A government component is an integral part of government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued. A government organization is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued. Public sector organizations have a higher accountability to the taxpayer – above and beyond the traditional fiduciary duty.

Promissory estoppel

The elements of a promissory estoppel claim are “(1) a promise clear and unambiguous in its terms; (2) reliance by the party to whom the promise is made; (3) [the] reliance must be both reasonable and foreseeable; and (4) the party asserting the estoppel must be injured by his reliance.”



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