# The Corporation of the City of London

**Audit Planning Report**
**for the year ended December 31, 2022**

KPMG LLP

**Licenced Public Accountants**

February 15, 2023

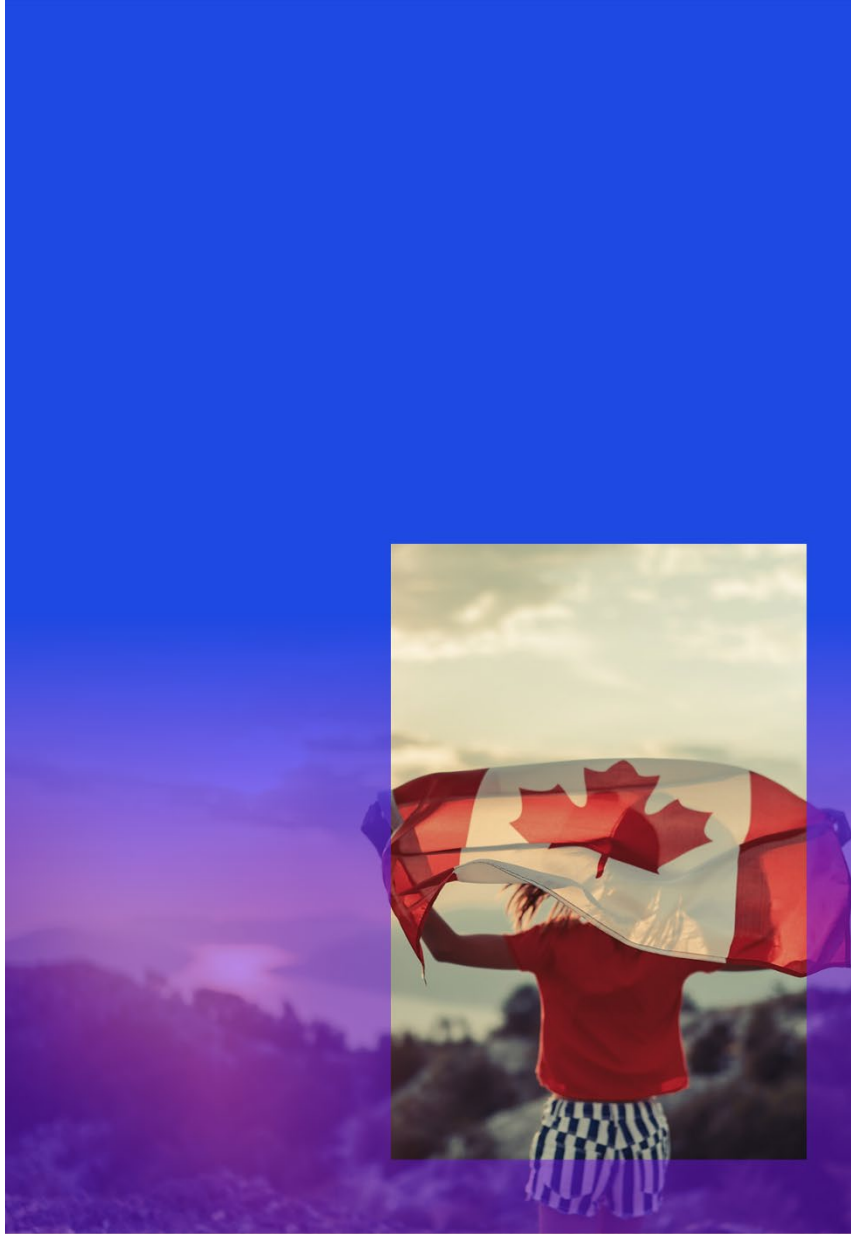
# KPMG contacts

**Key contacts in connection with this engagement**

**Katie denBok**
Lead Audit Engagement Partner
519-660-2115
kdenbok@kpmg.ca

**Bailey Church**
PSAS and ARO Resource Partner
613-212-3698
bchurch@kpmg.ca

**Melissa Redden**
Audit Senior Manager
519-660-2124
mredden@kpmg.ca

# Table of contents


4 Audit quality

6 KPMG Clara

7 Highlights

8 Audit plan

11 Group audit plan

12 Audit risks

23 Key milestones and deliverables

24 Appendices


This report to the Audit Committee is intended solely for the information and use of management, the Audit Committee, and the 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 to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

## Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.

Click on any item in the table of contents to navigate to that section.

# Audit Quality: How do we deliver audit quality?

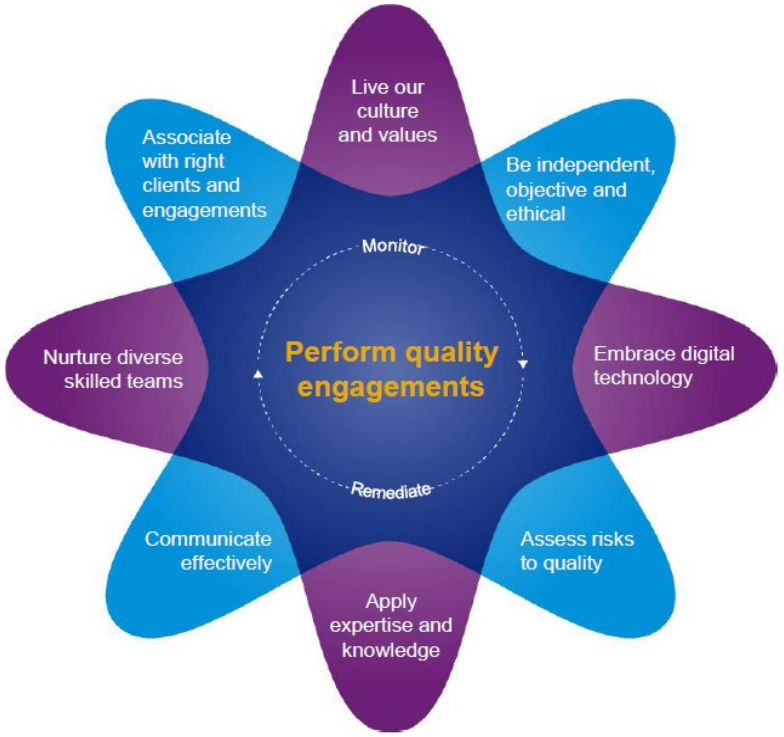
**Quality** essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute to its delivery.

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

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

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

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




**Doing the right thing. Always.**

# Audit Quality: Indicators (AQIs)

The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we have agreed with management are relevant for the audit. We would like to obtain agreement of the Audit Committee that these are the relevant AQIs.

**We will communicate the status of the below AQIs on an annual basis.**

## Team composition

**Experience of the team**

- Role – number of years experience in the industry, number of years on this engagement

## Technology in the audit

**Implementation of technology in the audit**

- Increase in use of technology in the audit year over year

## Engagement hours

**Hours spent by level and phase of the audit**

- Number and percentage of hours incurred by EQCR, Partner, Senior Manager and audit staff by significant risk

## Timing of prepared by client (PBC) items

**Timeliness of PBC items**

- Number of timely and overdue items received by the audit team.

## Management and Audit Committee responsibilities

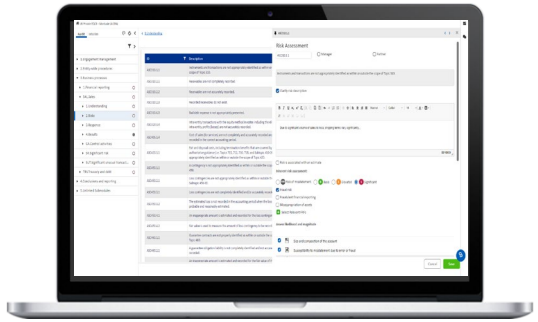
**Results of internal and external reviews**

- Number and nature of findings specific to the audit engagement

# Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

## KPMG Clara workflow

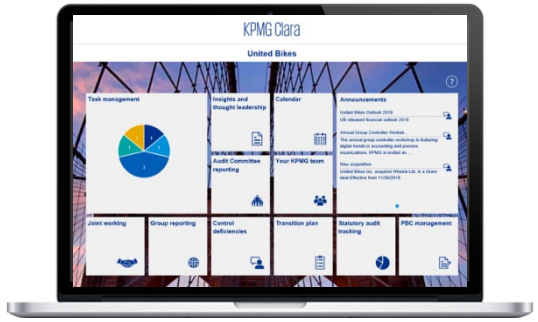


### Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

Learn more

## KPMG Clara for clients




### Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

Learn more

## KPMG Clara analytics

### Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

Learn more

# Highlights

## Scope of the audit

Our audit of the consolidated financial statements ("financial statements") of The Corporation of the City of London and its subsidiaries ("the Corporation") as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

### Significant risks

We have identified significant risks of material misstatement for the audit. See significant risks section for details.

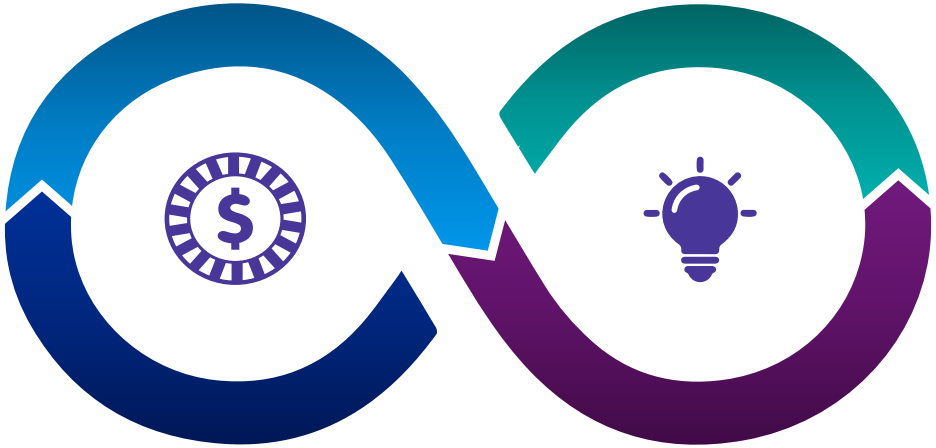
### Rebuttable significant risks

The presumed fraud risk involving improper revenue recognition has been rebutted by us.

### Required communications

See Appendix: Engagement letter and Appendix: Other required communications

# Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

## Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

## Evaluate the effect of misstatements

We also use materiality to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

# Materiality

**Materiality**

$20,000,000

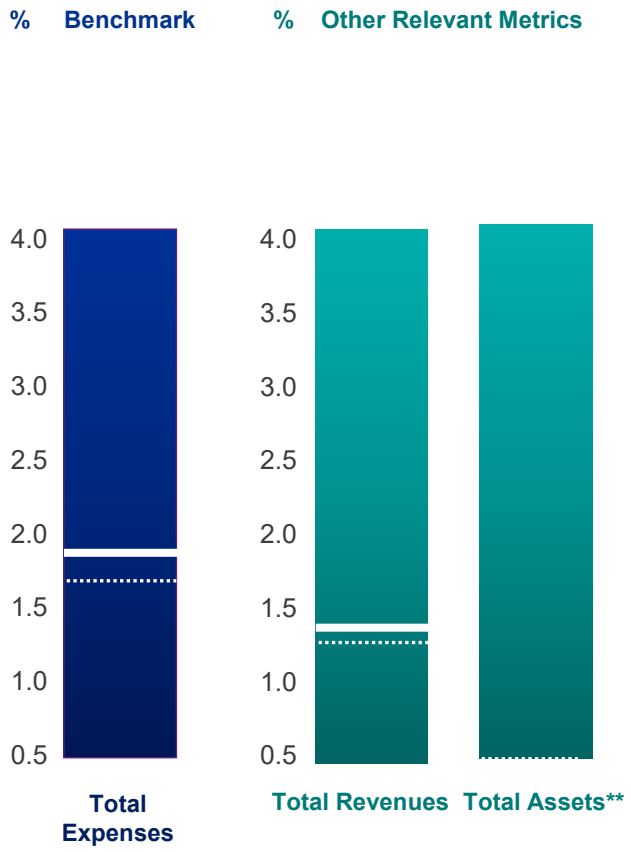
(2021: $18,000,000)

Prior year
Current year

**Audit Misstatement Posting Threshold**

$1,000,000

(2021: $900,000)




## Prior Year Total Consolidated Expenses

$1,198,095,000

(2020: $1,161,379,000)

## Prior Year Total Consolidated Revenues

$1,477,197,000

(2020: $1,420,239,000)

## Prior Year Total Consolidated Assets

$6,300,727,000

(2020: $4,797,772,000 Consolidated 2020 Accumulated Surplus)

Change in metric from net assets in prior year to total assets in current year as a result of a change in audit methodology.

**Materiality represents 0.32% of total assets, however, this is expected given the magnitude of assets compared to the other relevant metrics.

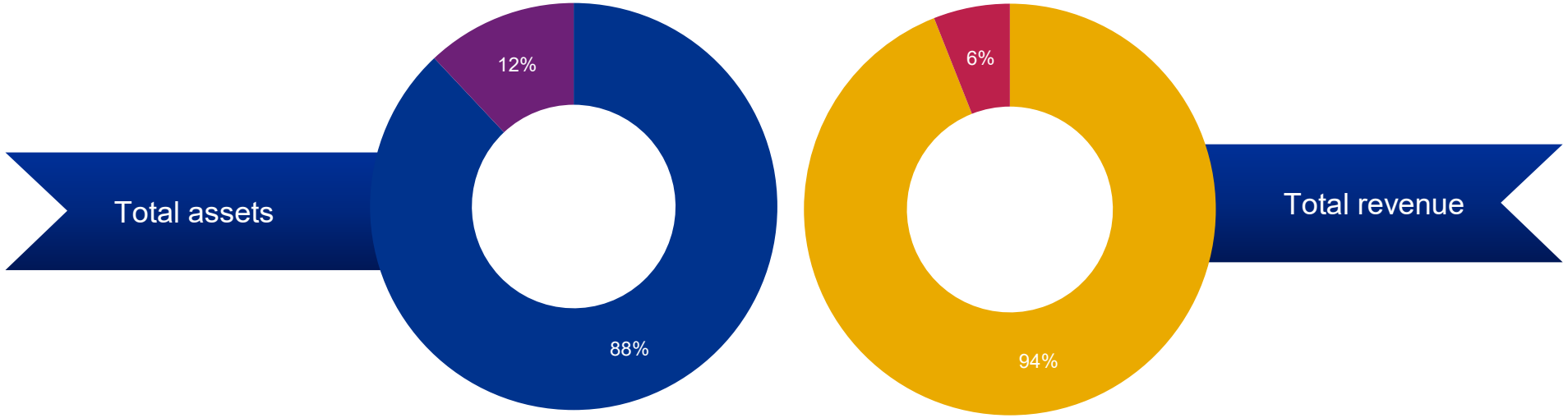
# Involvement of others

| Involved party | Nature and extent of planned involvement | Involvement In |
|---|---|---|
| Mercer, engaged by the Corporation | Mercer provides the actuarial valuation for the employee future benefits obligation as well as the WSIB accrual. | Audit of financial statements |

# Group audit - Scoping

| Type of work performed | Total assets | Total revenue |
|---|---|---|
| Total full-scope audits | 88% | 94% |
| Excluded from direct testing | 12% | 6% |
| Total consolidated | 100% | 100% |

*The threshold for individually financially significant component is 15% of total assets or total revenue. The Boards and Commissions that have not met the threshold for significant components but are audited for statutory requirements are not included in this assessment. These Boards and Commissions include Argyle Business Improvement Association Board of Management; Covent Garden Market Corporation; Eldon House Corporation; Elgin Area Primary Water Supply System; Hamilton Road Business Improvement Area Board of Management; Housing Development Corporation, London; Hyde Park Business Improvement Association Board of Management; Lake Huron Area Primary Water Supply System; London & Middlesex Community Housing Inc.; The London Convention Centre Corporation; London Downtown Business Association; London Hydro Inc.; The London Public Library Board; London Transit Commission; Middlesex-London Health Unit; Museum London; and Old East Village Business Improvement Area Board of Management.*



# Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the Corporation and its environment (e.g. the industry, the wider economic environment in which the organization operates, etc.), our understanding of the Corporation's components of its system of internal control, including our business process understanding.

| | | Risk of fraud | Risk of error | PY risk rating |
|---|---|---|---|---|
| ● | Improper revenue recognition | ✓ | | Presumed - Rebutted |
| ● | Management override of controls | ✓ | | Presumed - Significant |
| ● | Cash and investments | | ✓ | Base |
| ● | Investment in Government Business Enterprises (GBEs) | | ✓ | Base |
| ● | Tangible capital assets | | ✓ | Base |
| ● | Revenue and accounts receivable | | ✓ | Base |
| ● | Deferred revenue – general and obligatory reserve funds | | ✓ | Base |

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER AREA OF FOCUS

*Risk assessment has been completed based on preliminary audit planning and is subject to change during the course of the audit as new information arises. Significant changes, if any, from the audit approach noted here will be communicated in the audit findings report.

# Risk assessment summary (continued)

| | | Risk of fraud | Risk of error | PY risk rating |
|---|---|---|---|---|
| ● | Gross long-term liabilities and debt recoverable from local municipalities | | ✓ | Base |
| ● | Employee benefits and other liabilities | | ✓ | Base |
| ● | Expenses – salaries and benefits | | ✓ | Base |
| ● | Accounts payable, accrued liabilities and expenses | | ✓ | Base |
| ● | Contingencies | | ✓ | Base |
| ● | Consolidation | | ✓ | Base |

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER AREA OF FOCUS

# Significant risks

## Risk of material misstatement due to fraud resulting from fraudulent revenue recognition

RISK OF FRAUD

| Estimate? | Significant risk | New or changed? |
|---|---|---|
| No | There is a presumed fraud risk related to revenue recognition through improper shifting of revenues. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year revenue growth or profit.<br><br>We have not identified any risk of material misstatement resulting from fraudulent revenue recognition. | No |

### Our audit approach

We have rebutted the presumption of this fraud risk as it is not applicable to the Corporation where performance is not measured based on earnings and a significant portion of the revenue is derived from levying of taxation dollars and user charges with little judgement over timing of revenue recognition. In addition, a significant portion of revenue can be tied directly to government funding.

# Significant risks

## Management Override of Controls

RISK OF FRAUD

**Presumption of the risk of fraud resulting from management override of controls**

### Why is it significant?

Management is in a unique position 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. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

### Audit approach

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

## Technologies

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

**Click to learn more**

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Cash and investments**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Assess if there is a loss in value of the portfolio investments and if such a decline is other than temporary. Perform audit procedures to assess whether a write-down is necessary.<br>• Obtain year-end bank and investment reconciliations and perform substantive testing over significant reconciling items.<br>• Perform substantive tests of details over additions and disposals of investments.<br>• Obtain confirmations from third party financial institutions.<br>• Review of financial statement note disclosures in accordance with Public Sector Accounting Standards (PSAS). |
| **Investments in Government Business Enterprises (GBEs)**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Obtain a listing and assessment of the GBEs as prepared by management of the Corporation, including any changes from prior year and impairment assessment.<br>• Obtain support for adjustments made to the investments in GBEs including income from operations, dividends received, distributions to the Corporation and any other adjustments.<br>• Review financial statement disclosures in accordance with PSAS. |

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Tangible capital assets**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Perform substantive tests of details over additions (including contributed tangible capital assets) and disposals.<br>• Obtain the amortization policy, verify the mathematical accuracy of amortization through recalculations, and assess reasonableness of the estimated useful lives.<br>• Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.<br>• Perform procedures over the fair value of contributed assets.<br>• Review of financial statement note disclosures in accordance with PSAS.<br>• Perform required procedures to assess the potential risks with respect to impairment of assets. Based on the nature of the Corporation's operations, it is not expected that this will be a significant risk during the audit. |

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Revenue and accounts receivable (including taxation revenue, user charges and other revenue sources, and government transfers)**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Perform substantive audit procedures to recalculate taxation revenue using approved tax rates and assessment data.<br>• Obtain a listing of user charges and other revenue balances and perform tests of details using a combination of substantive analytical and sampling approaches.<br>• Obtain a listing of government transfer revenue reported by the Corporation and perform tests of details using representative sampling methods. Obtain supporting documentation for the eligibility criteria for the sample selected to determine if the government transfers reported in the financial statements meet the criteria outlined in the PSAS.<br>• Obtain a listing of accounts receivable balances and select significant balances to vouch to supporting documentation and assess analytical trends.<br>• Review financial statement disclosures in line with PSAS. |

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Deferred revenue – general and obligatory reserve funds**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Obtain the management prepared calculation for the development charges balance and vouch receipts and expenditures on a sample basis. Verify recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.<br>• Perform a recalculation of interest allocated to assess reasonableness of management's calculation.<br>• Perform substantive audit procedures over a sample of deferred capital grants, security deposits and other deferred revenue by vouching to supporting documents. |

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Gross long-term liabilities and debt recoverable from local municipalities**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Obtain and review any new or amended agreements for long-term debt issued by the Corporation, including review of by-laws issued by City Council.<br>• Select a sample of long-term liability additions and principal repayments and vouch supporting documentation<br>• Review disclosures in accordance with PSAS. |
| **Employee benefits and other liabilities**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuary engaged by the Corporation (preparer of the estimate), and the historical accuracy of the estimates.<br>• Assess method, data, and assumptions used by the actuary and management in the calculation of the employee benefits and other liabilities for reasonableness.<br>• Perform audit procedures in accordance with the relevant auditing standards and related disclosure requirements related to the estimates involved.<br>• Perform inquiries with management to determine if this is the year of full valuation whereby new participant/member data is provided to the actuaries. If applicable, we will communicate with actuaries and test employment data provided to the actuaries.<br>• Review financial statement disclosures in accordance with PSAS. |

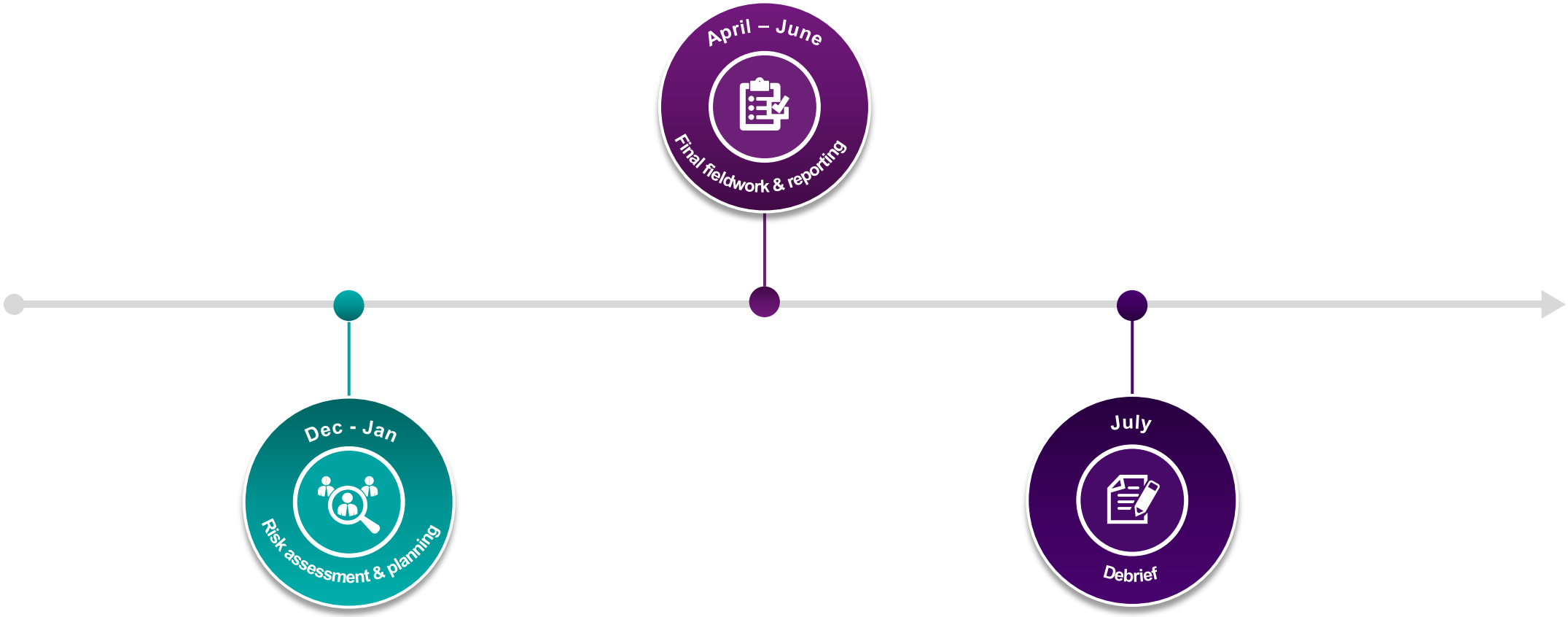
# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Expenses – salaries and benefits**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Perform testing over selected manual controls related to the payroll process.<br>• Perform substantive analytical procedures over salaries expense by department using employee headcount, pay raises per collective agreements, etc.<br>• Perform substantive analytical procedures over benefits expense as a percentage of total salaries.<br>• Substantive verification and recalculation of payroll-related accruals.<br>• Obtain new or amended collective bargaining agreements. Assess if management has evaluated these agreements for implications of retroactive application. Such retroactive application can result in additional financial obligations for the Corporation that are required to be reported in the financial statements. |
| **Accounts payable, accrued liabilities and expenses**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Update our understanding of the activities over the initiation, authorization, processing, recording and reporting.<br>• Perform search for unrecorded liabilities.<br>• Examine significant accrued liabilities for existence, accuracy and completeness.<br>• Perform substantive tests of details on selected non-payroll expenditures. |

# Other areas of focus

| Areas | Risk due to error | Audit approach |
|---|---|---|
| **Contingencies**<br><br>**Applicable Components:** The Corporation of the City of London, unconsolidated | Base | • Perform a detailed review of Council meeting minutes for potential contingencies.<br>• Direct communication with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded.<br>• Significant findings review with management during planning and completion stages of the audit. |
| **Consolidation**<br><br>**Applicable Components:** All | Base | • Update our understanding of the consolidation process.<br>• Obtain management's consolidation of the reporting entity and vouch to selected audited statutory financial statements for the respective entities.<br>• Test the significant eliminating entries as prepared by management for accuracy and completeness. |

# Key milestones and deliverables



# Appendices

- A Engagement letter
- A Other required communications
- A Newly effective auditing standards
- A Changes in accounting standards
- A Financial performance indicators
- A Insights to enhance your business
- A Audit and assurance insights
- A Environmental, social and governance
- A Cyber security

# Appendix: Engagement letter

Annual engagement letter will be provided to management.

# Appendix: Other required communications

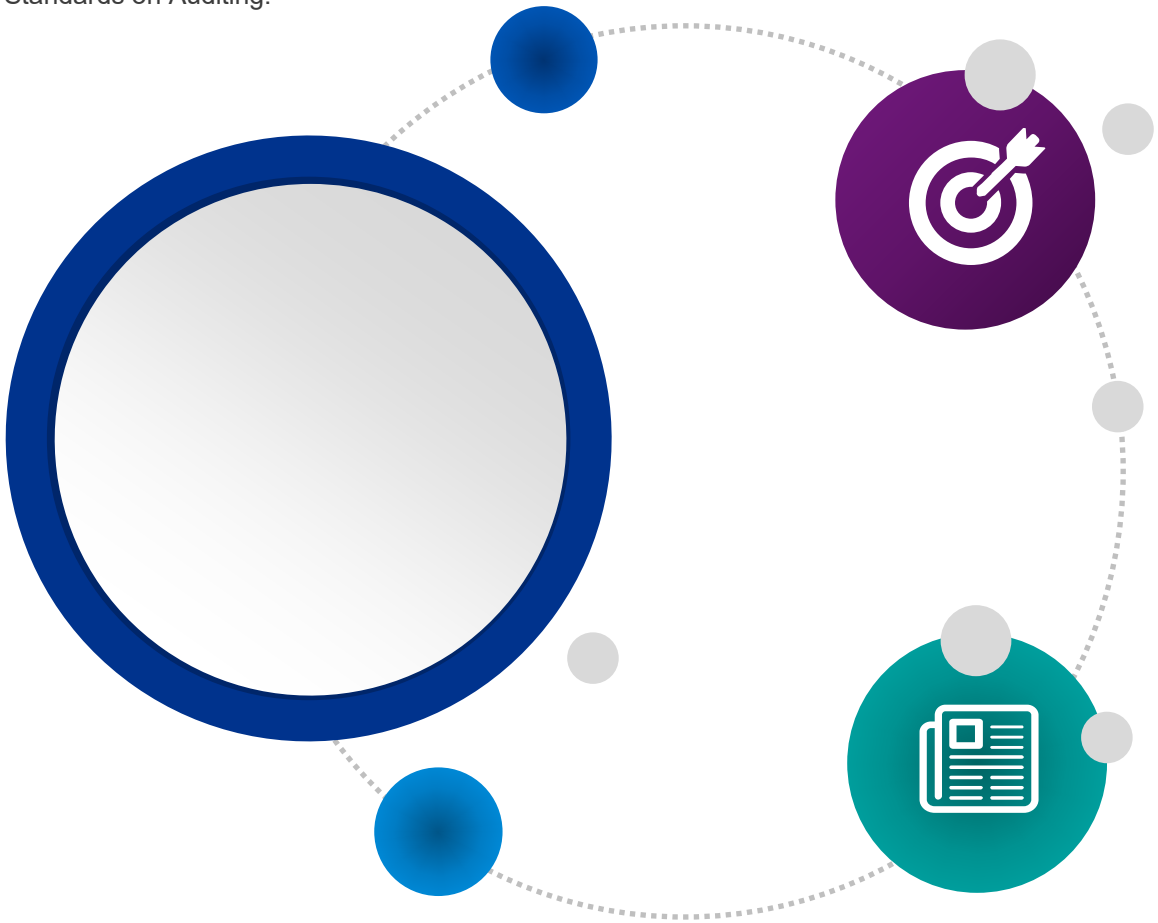
## CPAB communication protocol

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 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- The 2022 Annual Inspection Results will be available in March 2023

# Appendix: Newly effective auditing standards

***CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement*** has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



**Affects both preparers of financial statements and auditors**

**Applies to audits of financial statements for periods beginning on or after 15 December 2021**

**See here for more information from CPA Canada**

**We design and perform risk assessment procedures to obtain an understanding of the:**

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

**The audit evidence obtained from this understanding provides a basis for:**

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

# Appendix: Newly effective auditing standards

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Overall, a more robust risk identification and assessment process, including:**<br>• New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement<br>• New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement<br>• New requirement to separately assess inherent risk and control risk for each risk of material misstatement<br>• Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk | When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement.<br>We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement<br>The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement.<br>If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk. | If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk.<br>We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement. |

# Appendix: Newly effective auditing standards

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement** | When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. | In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation. |
| **Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process** | We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate. | In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks. |

# Appendix: Newly effective auditing standards

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Modernized to recognize the evolving environment, including in relation to IT** | New requirement to understand the extent to which the business model integrates the use of IT.<br><br>When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.<br><br>Based on the identified controls we plan to evaluate, we are required to identify the:<br>• IT applications and other aspects of the IT environment relevant to those controls<br>• related risks arising from the use of IT and the entity's general IT controls that address them.<br><br>Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks. | We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.<br><br>Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.<br><br>Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications. |
| **Enhanced requirements relating to exercising professional skepticism** | New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism. | We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect. |

# Appendix: Newly effective auditing standards

| Key change | Impact on the audit team | Impact on management |
|---|---|---|
| **Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control** | We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows:<br>• Controls that address a significant risk.<br>• Controls over journal entries, including non-standard journal entries.<br>• Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures | We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them.<br><br>We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists. |

# Appendix: Changes in accounting standards

| Standard | Summary and implications |
|---|---|
| **Asset retirement obligations** | • The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022.<br>• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.<br>• The asset retirement obligations (“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 if the asset is in productive use.<br>• As a result of the new standard, the public sector entity will:<br>  • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>  • 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;<br>  • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.<br>• We have varying levels of support to assist the City, led by Bailey Church who leads our ARO standard implementation services. |

# Appendix: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Financial instruments and foreign currency translation** | • The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* are effective for fiscal years beginning on or after April 1, 2022.<br>• 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.<br>• Hedge accounting is not permitted.<br>• 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.<br>• PS 3450 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments. |
| **Revenue** | • The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023.<br>• The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.<br>• The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.<br>• The standard notes that unilateral revenue arises 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. |

# Appendix: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Purchased Intangibles** | • The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted.<br>• The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.<br>• Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized.<br>• The guideline can be applied retroactively or prospectively. |
| **Public Private Partnerships** | • The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023.<br>• The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.<br>• 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 public private partnership ends.<br>• 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.<br>• 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.<br>• The standard can be applied retroactively or prospectively. |

# Appendix: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Concepts Underlying Financial Performance** | • The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted.<br>• The framework provides the core concepts and objectives underlying Canadian public sector accounting standards.<br>• The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced. |
| **Financial Statement Presentation** | • The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.<br>• The proposed section includes the following:<br>  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.<br>  • Separating liabilities into financial liabilities and non-financial liabilities.<br>  • Restructuring the statement of financial position to present total assets followed by total liabilities.<br>  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).<br>  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.<br>  • A new provision whereby an entity can use an amended budget in certain circumstances.<br>  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.<br>• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model. |

# Appendix: Changes in accounting standards (continued)

| Standard | Summary and implications |
|---|---|
| **Employee benefits** | • The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*.<br>• The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard.<br>• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.<br>• The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.<br>• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.<br>• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft. |

# Appendix: Indicators of financial performance

KPMG

# Indicators of Financial Performance

# Financial Indicators

## A. Reporting on financial condition

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

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

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

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

KPMG

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## B. Selected financial indicators

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

| Financial Condition Category | Financial Indicators |
|---|---|
| Sustainability | 1. Financial assets to financial liabilities*<br>2. Total reserves and reserve funds per household<br>3. Total operating expenses as a percentage of taxable assessment*<br>4. Capital additions as a percentage of amortization expense |
| Flexibility | 5. Residential taxes per household<br>6. Total long-term debt per household<br>7. Residential taxation as a percentage of median household income<br>8. Total taxation as a percentage of total assessment*<br>9. Debt servicing costs (interest and principal) as a percentage of total revenues*<br>10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets* |
| Vulnerability | 11. Operating grants as a percentage of total revenues*<br>12. Capital grants as a percentage of total capital expenditures* |

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

Our analysis is based on Financial Information Return (FIR) data. Given the timing of financial reporting for municipalities, the analysis is based on 2021 FIR data with comparative information provided based upon the 2017 – 2020 FIR data.

KPMG

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## C. Selecting Comparator Municipalities

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

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

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

| Municipality | Population (2021) | Households (2021) | Area (square km) |
|---|---|---|---|
| London | 422,324 | 183,358 | 420.6 |
| Ottawa | 1,046,443 | 447,210 | 2,790 |
| Hamilton | 584,000 | 242,185 | 1,118 |
| Windsor | 229,660 | 100,084 | 146.3 |
| Kingston | 132,485 | 57,836 | 451.2 |
| Guelph | 143,740 | 58,254 | 87.4 |

KPMG

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## FINANCIAL ASSETS TO FINANCIAL LIABILITIES

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

## TYPE OF INDICATOR

Sustainability ✓

Flexibility

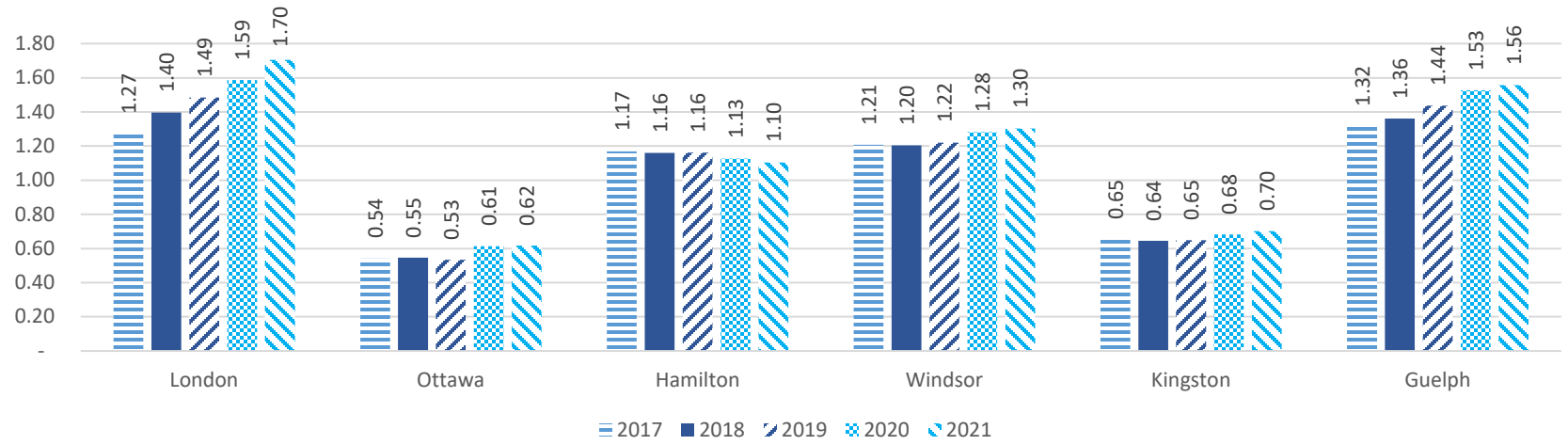
Vulnerability

## FORMULA

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

## POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

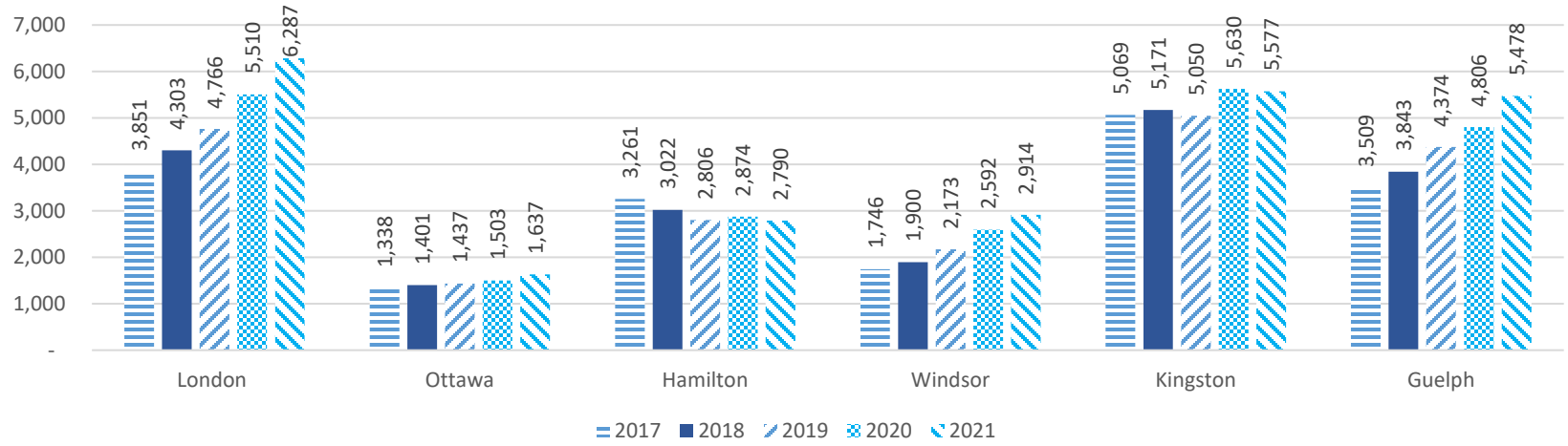
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

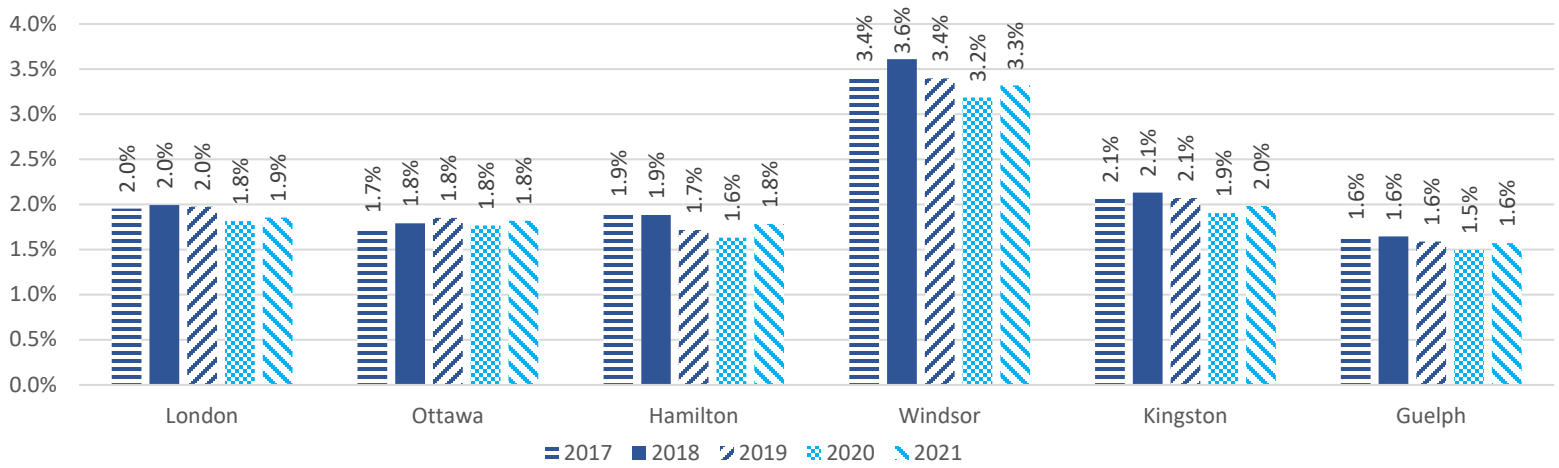
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

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

### TYPE OF INDICATOR

Sustainability ✓

Flexibility

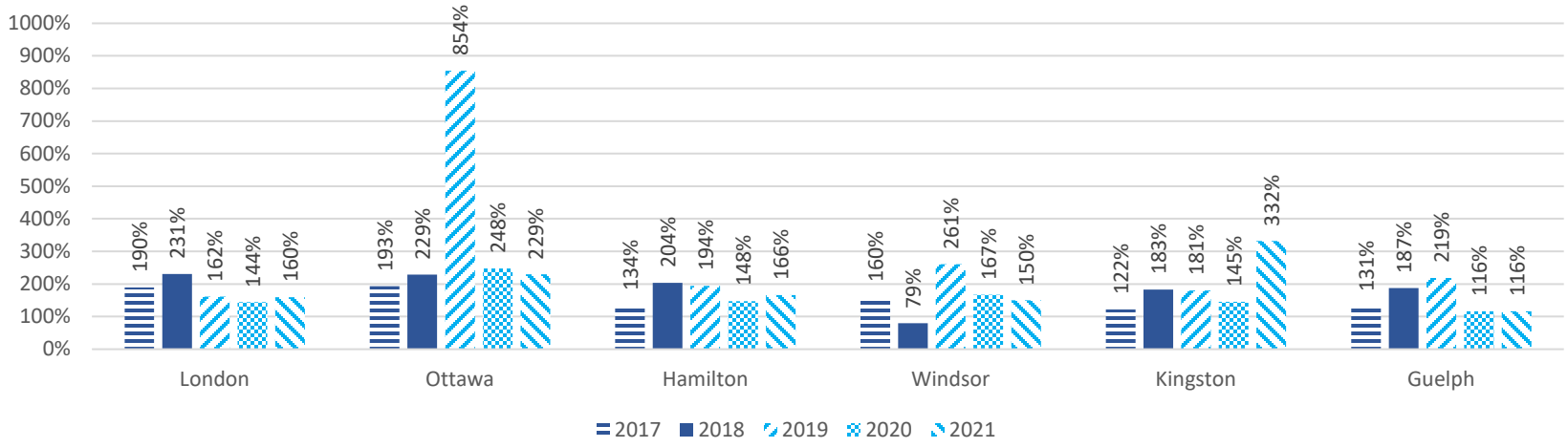
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## RESIDENTIAL TAXES PER HOUSEHOLD

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

## TYPE OF INDICATOR

Sustainability

Flexibility ✓

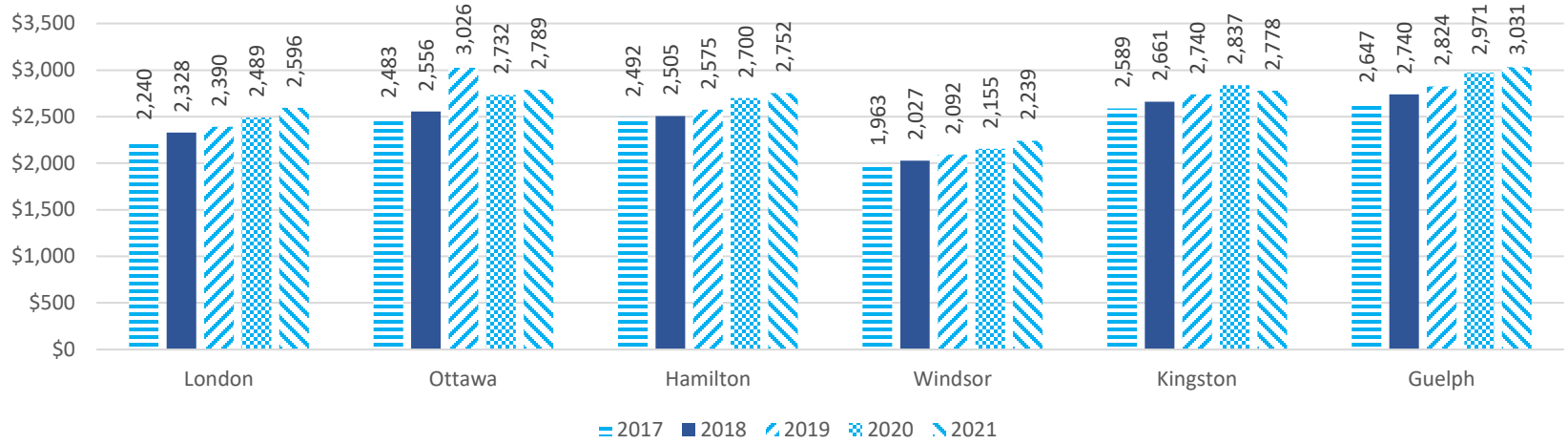
Vulnerability

## FORMULA

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

## POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## TOTAL LONG-TERM DEBT PER HOUSEHOLD

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

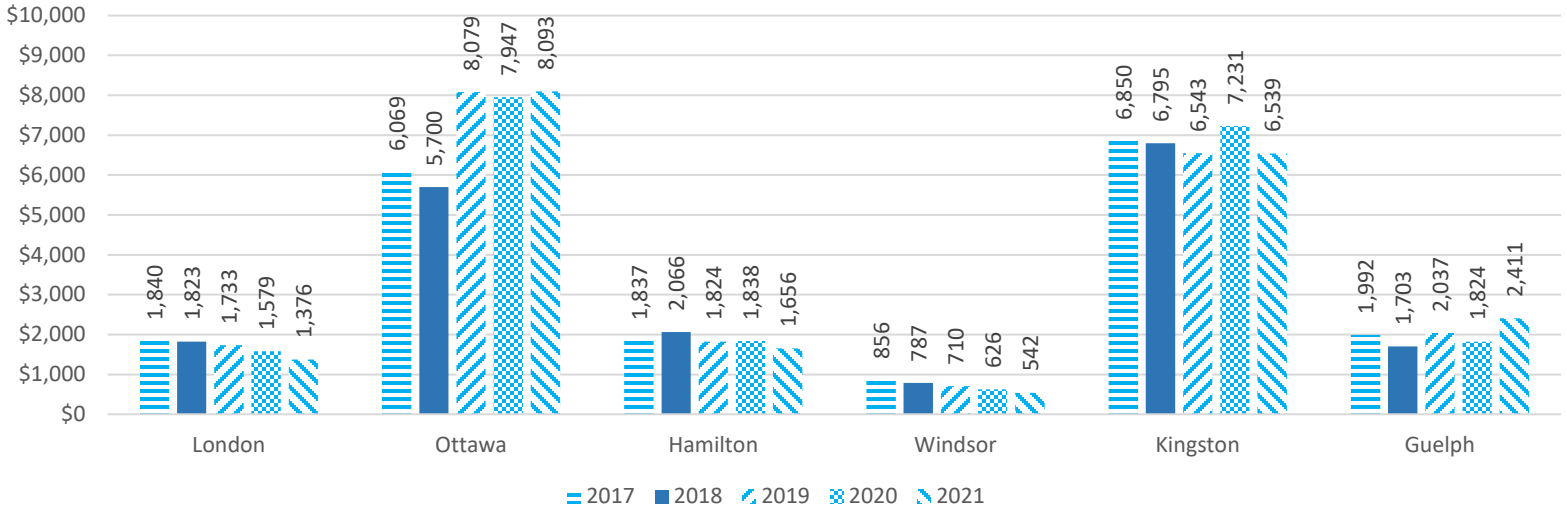
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

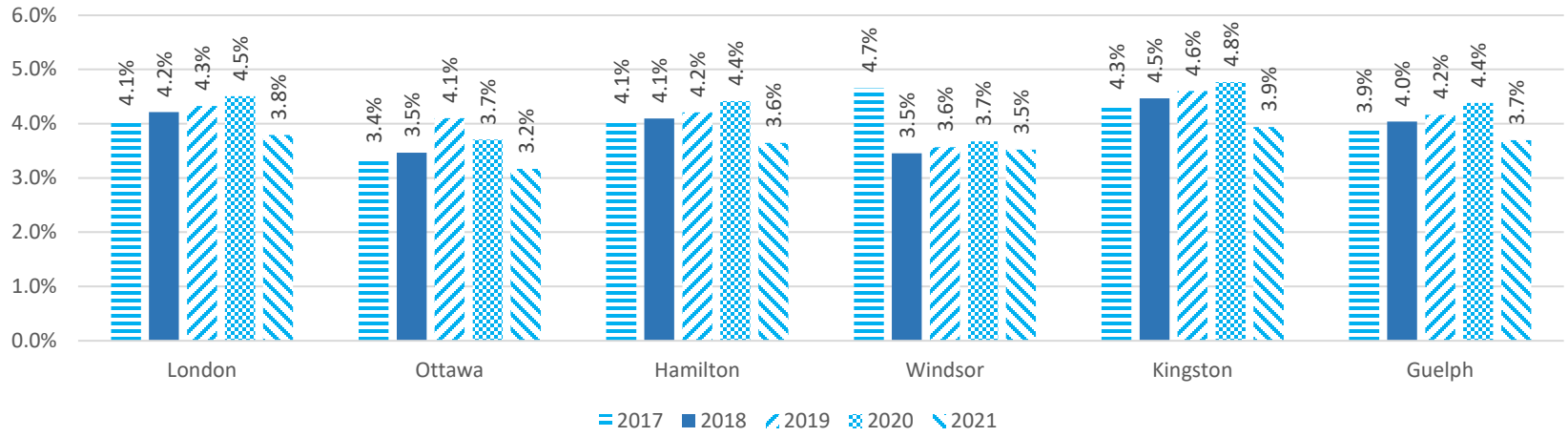
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

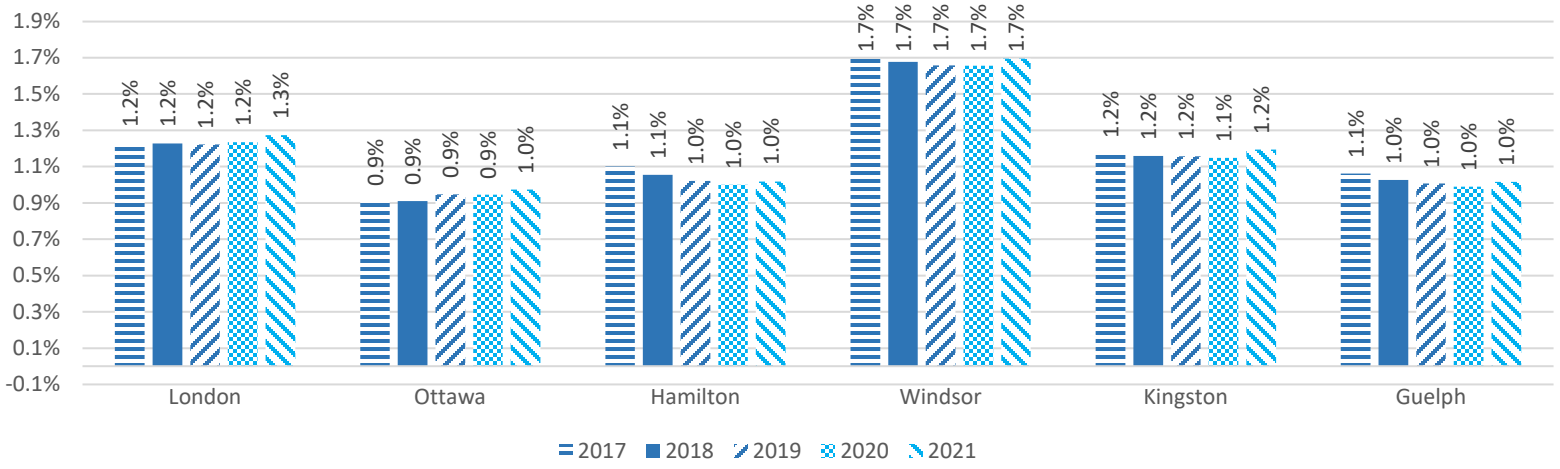
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

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

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

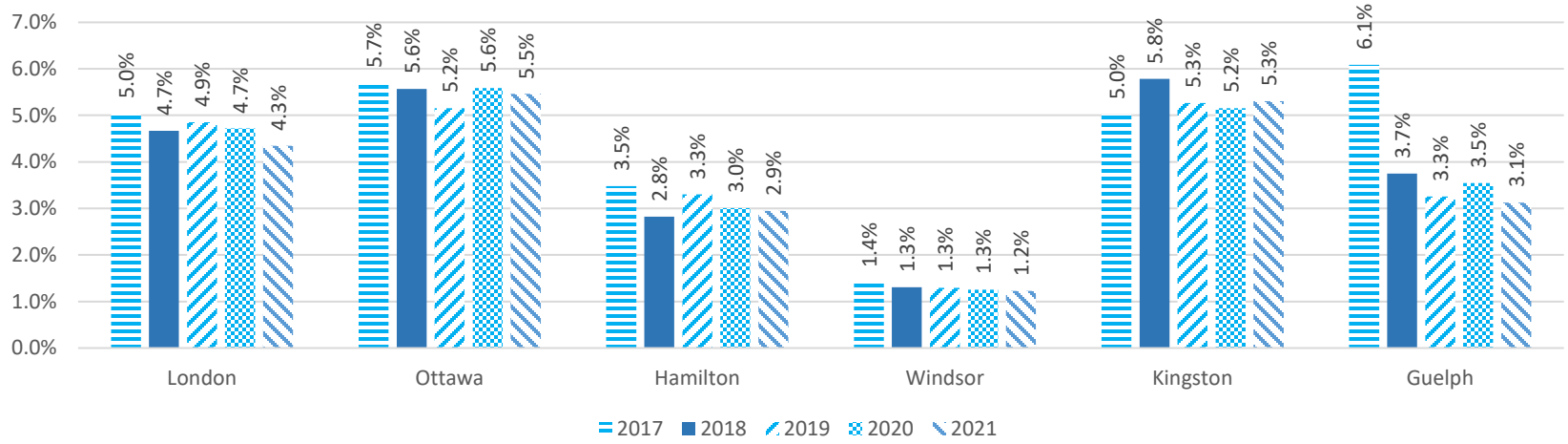
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

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

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

### TYPE OF INDICATOR

Sustainability

Flexibility ✓

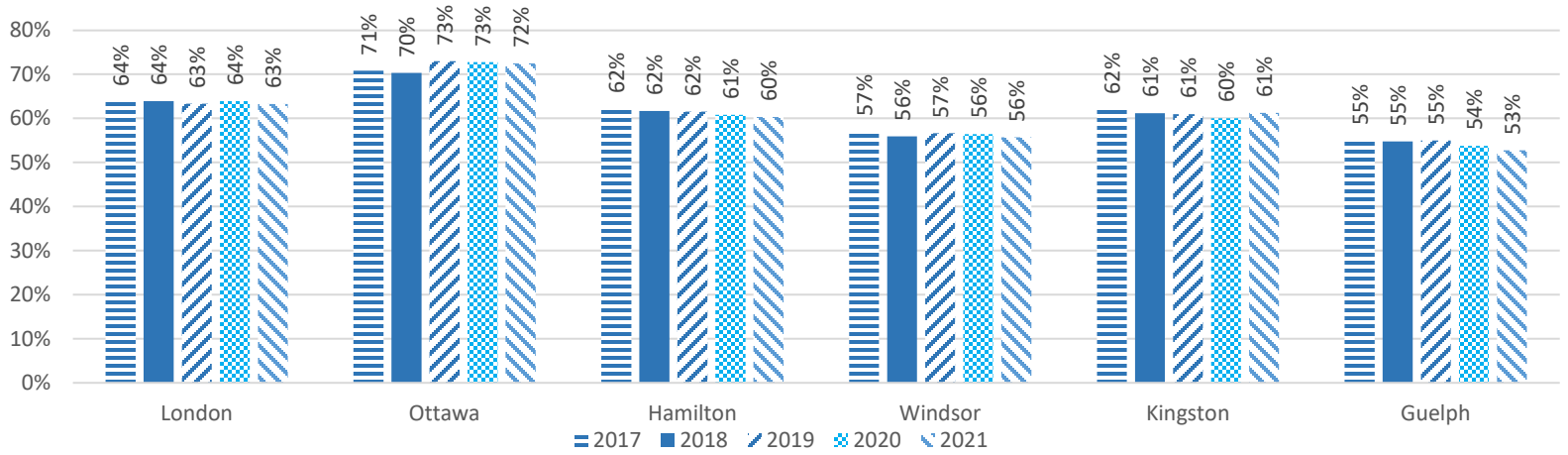
Vulnerability

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES

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

### TYPE OF INDICATOR

Sustainability

Flexibility

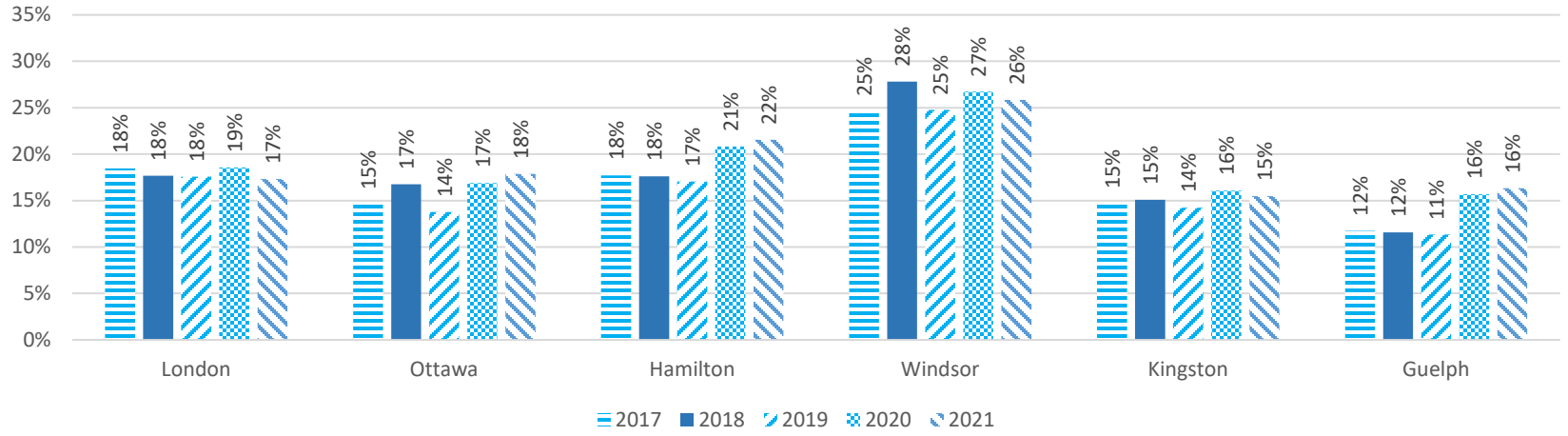
Vulnerability ✓

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

# Financial Indicators

## CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES

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

### TYPE OF INDICATOR

Sustainability

Flexibility

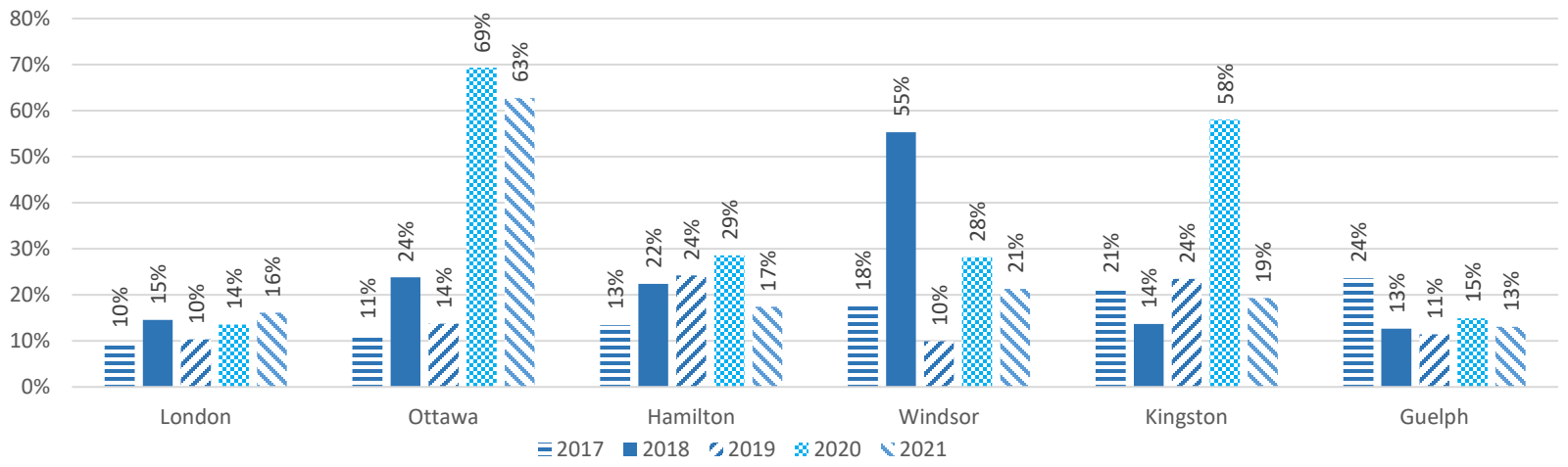
Vulnerability ✓

### FORMULA

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

### POTENTIAL LIMITATIONS

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




© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

home.kpmg/ca

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

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

**Document Classification: KPMG Public**

# Appendix: Insights to enhance your business

Learn more

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

## Lean in Audit

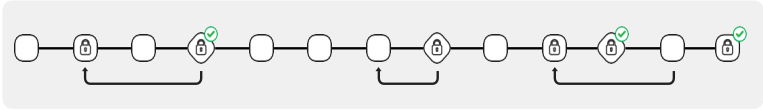
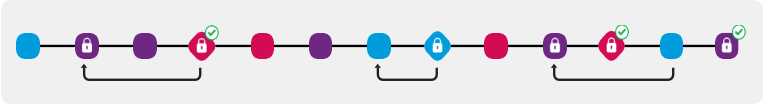
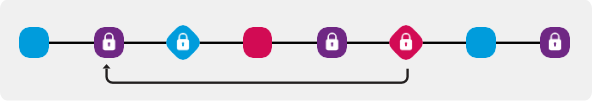
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to using this approach on your audit in upcoming years and will work with you to select the appropriate processes.

## How it works

| | | |
|---|---|---|
| **Standard Audit** | Typical process and how it's audited |  |
| **Lean in Audit™** | Applying a Lean lens to perform walkthroughs<br>Typically 95% + is considered redundant through a customer's lens |  |
| **How Lean in Audit helps businesses improve processes** | Make the process more streamlined and efficient for all |  |

**Value:** what customers want **(maximize)**

**Necessary:** required activities **(minimize)**

**Redundant:** non-essential activities **(remove)**

Process controls

Key controls tested

# Appendix: Audit and assurance insights

Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

**KPMG Audit & Assurance Insights**

Curated research and insights for Audit Committees and boards.

**Government and Public Sector Insights**

Navigating the contentious issues disrupting all government and public sector organizations requires the steady hand of a trusted guide.

**Board Leadership Centre**

Leading insights to help board members maximize boardroom opportunities.

**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.

**Current Developments**

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

**Momentum**

A quarterly newsletter providing curated insights for management, boards and Audit Committees.

**Audit Committee Guide – Canadian Edition**

A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

**Uncertain Times Financial Reporting Resource Centre**

Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

**KPMG Learning Academy**

Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

**Environmental, social and governance (ESG)**

Building a sustainable, resilient and purpose-led organization

**Other Insights**

# Appendix: Environmental, Social and Governance (ESG)

## The Importance of Sustainability Reporting

### Sustainability Reporting – Who is impacted?

- **Lenders and underwriters –** increased focus on ESG considerations when making access to capital decisions
- **Investors –** ESG integration has become an investment norm
- **Employees –** ESG has become a key factor in attracting and retaining top talent
- **Consumers –** stakeholders increasingly scrutinize companies' ESG performance and transparency affecting brand acceptance and consumer demand

### Importance to the Audit Committee

- **Regulatory developments –** ESG-related compliance costs and disclosure requirements continue to evolve as rules are finalized
- **Material ESG issues –** Audit Committees should understand stakeholder priorities and the company's material ESG risks and opportunities
- **Value creation –** developing a clear ESG strategy, along with a standardized reporting process can set a company apart from its competitors

### Governance on ESG Data and Sustainability Reporting

- **Data collecting and reporting –** understand the ESG frameworks and reporting standards most commonly adopted in the industry and jurisdiction (benchmark to others in the industry)
- **ESG assurance –** Audit Committees are best positioned to understand which ESG metrics merit assurance. An assurance readiness assessment on Carbon is a common and often recommended first place to start

# Appendix: Environmental, Social and Governance (ESG)

**The time is now to accelerate the ESG journey.**

Environmental, Social and Governance (ESG) has revolutionized how organizations in all sectors and markets are delivering their services. ESG refers to a framework to integrate environmental, social, governance risks and opportunities into an entity's strategy to build long-term sustainability and value creation. KPMG's 2021 CEO Outlook highlighted that 30% of CEO's are planning to invest more than 10% of their revenues towards becoming more sustainable. Stakeholder expectations have changed significantly — ESG is no longer a nice-to-have, or an initiative that can be pursued independent of an entity's other objectives.

To be successful, ESG needs to become an integral component of an entity's strategy, and all facets of its operations. Entities need to transform how performance is measured. ESG is also shaping financial reporting requirements. In addition to substantial investments to support sustainability and climate change, the Government of Canada's Budget 2021 announced a commitment to engage with the provinces and territories on adoption of climate disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD). Canada's Crown corporations are presently working to adopt the TCFD standards. Leading not-for-profit organizations are also looking at adopting the TCFD requirements on a voluntary basis.

KPMG shares your passion for ESG. Recently, KPMG launched a transformative ESG global strategy to embed ESG in every one of the services we provide, the learning and development of our professionals, and commits the firm to achieve net-zero carbon emissions by 2030. Globally, KPMG is investing over $1.5 billion over the next three years to accelerate global solutions for environmental, social and governance issues. Our sustainability and impact service offerings cover the full range of requirements, from strategy setting, to impact measurement, decarbonization, reporting and assurance. The time is now to begin a discussion on your entity's ESG journey.

Contact us to discuss how KPMG can support you on your ESG journey!

**Bailey Church, CPA, CA**
**Partner, Accounting Advisory Services**
613-212-3698 | bchurch@kpmg.ca

# Appendix: Cyber Security

**Cyber-related risk a top concern for audit committees**

Cybersecurity is among the most complex and rapidly evolving issues facing organizations. New research from KPMG finds that only 38 per cent of Canadian companies feel cybersecurity is "deeply embedded" into all aspects of their governance and management processes. As cyber threats grow more sophisticated, so does the audit committee's responsibility for cybersecurity risk oversight. It's critical that Audit Committees have a fundamental understanding of the organizational risks and vulnerabilities associated with a remote workforce, adoption of cloud services, and accelerated digital transformation.

See full article.

**Audit committees need to look internally to fight cyber threats**

Hacks and breaches can be costly, damage the reputation of a company and open it to litigation—making cybersecurity one of the most pressing issues facing organizations today. Companies must have a cyber strategy both to protect their operations and to secure customer data. Audit committees, overseeing many of the company's activities and performance, must be certain management is keeping up with the evolving threat landscape and has sound strategies in place to identify and mitigate risk.

See full article.

**No backing down on cyber**

Budgets are tighter and economic forecasts less favorable, but now is no time to stick a pin in cybersecurity. If anything, the surging necessity for digital transformation among Canada's businesses underscores a need for technologies, strategies, and leadership to manage today's threats.

See full article.

kpmg.ca

© 2022 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG member firms around the world have 227,000 professionals, in 145 countries.