City of Toronto

Audit Planning Report

for the year ending December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared on November 13, 2020

kpmg.ca/audit

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A message from Kevin Travers and Paul Simonetta

We want to take this opportunity to share how excited we all are to be working with you as the auditor of the City of Toronto including the Agencies and Corporations of the City of Toronto (the “City”) commencing with the year ending December 31, 2020.

We are eager to work with your teams and build new relationships across the various entities. We are personally looking forward to working with all of you.

In our roles as the Lead Audit Engagement Partner and Executive Relationship Partner, we will both be directly involved in the provision of audit services. Kevin will provide overall direction and leadership to our broader KPMG team and serve as KPMG’s main point of contact with the City as well as numerous Agencies and Corporations. In this role, Kevin will take the lead in defining the teams’ conclusions, act as a sounding board on business matters, and be responsible for the quality of all the services we provide. Paul will make use of his authority as the Business Unit Leader for KPMG LLP’s Toronto audit practice to ensure that we bring the top resources and audit services to the City and will follow up to ensure that our performance exceeds your expectations.

We believe in open two-way communication and we would encourage you to reach out for any questions, concerns, or comments.

Thank you on behalf of the KPMG team!

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Executive summary

The purpose of this Audit Planning Report is to assist you, as a member of the Audit Committee, in your review of the planning of our audit of the consolidated financial statements (the "financial statements") of the City of Toronto (the "Entity" or "City") as at and for the year ending December 31, 2020.

COVID-19

COVID-19 is undoubtedly going to have an impact to the Entity's business and the Entity's financial reporting.

See pages 2 to 3 and throughout the report.

Group reporting

While KPMG performs audits of many of the City's Agencies and Corporations ("A&Cs"), our audit engagement for the City focuses only on the audits of the significant A&Cs included in the financial statements of the City.

We plan to focus on 4 full scope audits which will provide us with a coverage of more than 90% of the City's consolidated financial results. We will be communicating with and reviewing the results of the audit findings for all in-scope A&Cs.

See pages 4 to 5.

Audit and business risks

Our audit is risk-focused. In planning our audit, we have considered key areas of focus for financial reporting. The significant financial reporting risks include:

- Fraud resulting from fraudulent revenue recognition
- Fraud resulting from management override of controls
- Consolidation process

See pages 6 to 7. Other areas of focus are covered on pages 8 to 13.

Audit materiality

Materiality has been determined based on projected total revenues. We have determined group materiality to be $247,950,000.

Materiality will be set at lower thresholds where necessary to meet local subsidiary financial statement audit requirements. See page 14.

Quality control

We have a robust and consistent system of quality control. We provide complete transparency on all services and follow Audit Committee approved protocols.

See pages 15 to 17.

Initial audit engagement

The year ending December 31, 2020 will be KPMG's first year as the auditor of the Entity. The Entity's financial statements for the year ended December 31, 2019 were audited by a different audit firm. As part of our risk assessment process, we plan to complete our review of predecessor working papers. Our auditors' report will include an 'other matter' paragraph to note the change in auditor.

Current developments and audit trends

Please refer to pages 19 to 23 and Appendix 5 for accounting changes relevant to the City and relevant audit trends.

COVID-19: Embedding Resilience & Readiness

COVID-19 is undoubtedly going to have an impact to the Entity's business and the Entity's financial reporting.

Potential financial reporting implications

Refer to our COVID-19 Financial Reporting site:

- Events or conditions that cast significant doubt regarding going concern:
  - Determining plans to mitigate such conditions or events (e.g., debt restructuring);
  - Evaluating ability to carry out those plans considering the current conditions;
- Impairment of non-financial assets (e.g., Tangible capital assets, intangible assets, and prepaid expenses):
  - Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions);
- Impairment of financial assets (e.g., financial instruments);
- Fair value measurements, if applicable;
- Employee benefits and employer obligations;
- Government assistance including impact on funding received from federal and provincial government;
- Accounts receivable, to determine the collectability of certain receivables;
- Accrued liabilities, to ensure completeness of liabilities including severance and others considering the pandemic;
- Enhanced audit risk around cut-off of liabilities;
- Contingent gains and losses;
- Incremental expenses due to COVID-19;
- Discontinuation of programs and operations managed by the Entity;
- Discontinuation of any capital projects managed by the Entity;
- Subsequent events due to evolving economic reactions.

Potential implications on internal control over financial reporting

- Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in Internal Control over Financial Reporting (ICFR) or to bias estimates;
- New or enhanced controls, to respond to new financial reporting risks or elimination of on-site preventative controls;
- Consideration of changes in the individuals performing the control (e.g. re-directing the performance to a different division);
- Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees;
- Revisions may be needed for planned internal audit programs;
- Plan for inventory counts may need to be re-considered (e.g. cycle-counts) to ensure all inventory is counted once during the year;
- Reconsideration of ICFR impacts related to broader IT access given remote work arrangements.

Potential financial reporting implications related to disclosures

Refer to our COVID-19 Financial Reporting site:

- Events and conditions that cast significant doubt regarding going concern;
- New accounting policies;
- Significant management judgements in applying accounting policies;
- Major sources of estimation uncertainty that have significant risk;
- Liquidity risks.

Other potential considerations

- Reporting material changes in ICFR;
- Cyber security risks (e.g. wire transfers schemes);
- Possible delay in preparing annual financial statements.

COVID-19: Embedding Resilience & Readiness (Continued)

Similarly, COVID-19 is a major consideration in the development of our audit plan for your 2020 financial statements.

Potential audit implications

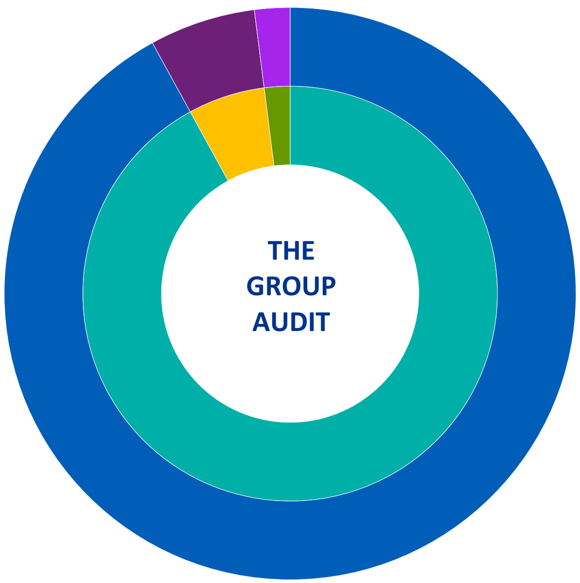
Planning and risk assessment:

- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements.
- Understanding the potential financial reporting impacts, the changes in Entity's environment, and changes in the entity's system of internal control, and their impact on our:
  - identified and assessed risks of material misstatement;
  - audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures.

Executing:

- Remote auditing:
  - Increased use of other collaboration tools (TEAMS, Skype etc.) and the need for written management acknowledgment for their use;
  - Potential increased use of electronic evidence (and understanding the Entity's processes to provide such evidence to us).
- Timing of procedures may need to change:
  - Tests of controls may need to be deferred (to allow the Entity to put new or revised controls in operation and to be able to re-perform such controls).

Group audit scope



Type of work performed	# of components	Legend
Individually financially significant (page 5)	4	
Significant due to inherent risk	-	
In-scope - not significant – requirement for a statutory audit (note 1)	9	
Out of scope - not significant – untested (note 2)	n/a	

Procedures performed by	Legend
Group team – KPMG Toronto	
Component auditors – KPMG Toronto	
Component auditors – non-KPMG auditors	

Note 1: In-scope not significant – requirement for a statutory audit:

This category includes audit engagements of the components that are not significant for the purpose of issuing the auditors' opinion on the group audit of the financial statements of the City. A separate audit opinion is issued for these non-significant components due to statutory requirements. These components include A&Cs, Arenas, Community Centres and Business Improvement Areas.

Note 2: Out of scope - Not significant – untested:

This category includes other assurance and non-assurance engagements of the components that are not significant for the purpose of the issuing the auditors' report on the group audit of the financial statements of the City. These components include A&Cs, Arenas, Community Centres and Business Improvement Areas.

Group audit - Significant components

Nature of the planned involvement in the work of component auditors of significant components:

Significant component	Discuss component's business activities and component's susceptibility to material misstatement	Review of reporting including planning and completion highlights memorandums	Evaluate the planned procedures to respond to significant risks	Involvement in performing tests of controls or substantive tests	Review of working papers – on location or remotely
City of Toronto non-consolidated	√	√	√	√	√
Toronto Hydro Corporation ("THC")	√	√	N/A	Through review of completed group reporting package	√
Toronto Transit Commission ("TTC")	√	√	N/A	Through review of completed group reporting package	√
Toronto Community Housing Corporation ("TCHC")	√	√	N/A	Through review of completed group reporting package	√

Significant risk

Relevant factors affecting our risk assessment

Complexity

Significant financial reporting risk	Why is it significant?
Consolidation process	Risk of material misstatement related to the consolidation process due to complex organizational structure and the manual process (in excel spreadsheets) followed by the City.

Our audit approach

- We will evaluate the design and implementation of selected relevant controls in place over the consolidation and financial reporting process.
- We will perform substantive procedures over the consolidation workbooks including all adjustments booked as part of the consolidation process.
- We will involve our IRM specialists to gain an understanding of the automated inputs into the consolidation process, as relevant.
- We will gain an understanding of the consolidation process at the City and various elements and inputs for the consolidation. We will obtain supporting schedules to understand the inputs into the consolidation workbook and perform further audit procedures related to these supporting schedules.
- We will perform procedures on the completeness of reporting the City's interest in all entities under its control including Government Business Entities which are accounted for using the modified equity basis (Toronto Hydro Corporation and Toronto Parking Authority) and entities subject to joint control, which are accounted for using the proportionate consolidation method (Toronto Waterfront Revitalization Corporation)
- We will audit the consolidation workbook for accuracy through recalculation and reperformance of the key aspects of consolidation exercise.
- We will test significant manual journal entries by obtaining supporting documentation for the amounts calculated for these manual journal entries.
- We will test consolidation information related to the significant components to source records for these respective significant components. We will obtain financial information of these significant components from the respective component audit teams to ensure we are using the audited information for the purposes of the consolidation.

Presumed Significant risks

Relevant factors affecting our risk assessment

Complexity Estimate

Professional requirements	Why is it significant?
Fraudulent revenue recognition: Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	This is a presumed risk of material misstatement due to fraud. We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (obligatory).
Management override of controls: Risk of material misstatement due to fraud resulting from management override of controls.	This is a presumed risk of material misstatement due to fraud.

Our audit approach

Fraudulent revenue recognition:

- Our audit approach consists of evaluating the design and implementation of selected relevant controls over the manual journal entries and other adjustments.
- We will be performing substantive procedures on manual journal entries and other adjustments associated with deferred revenue (obligatory).
- We have a comprehensive audit approach related to revenue. See page 9 for our detailed audit approach related to the various streams of revenue, including deferred revenue (obligatory).

Management override of controls:

- 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 and evaluating the business rationale of significant unusual transactions.
- We will take a risk-based approach tailored to the City when designing substantive procedures and selecting specific transactions for testing. We will continue to make use of technology to extract our risk-based sample from the entire population of journal entries. We will consider the potential impact of COVID-19 when identifying areas which may be subject to additional risk whether due to fraud or error in this regard.

Audit risks

Other areas of focus	Why are we focusing here?
Cash and Investments	Material account balances and disclosures. Valuation of investments and concerns over decline in fair value due to COVID-19 global pandemic.
Tangible Capital Assets	Risk of material misstatement related to existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital asset additions, deferred capital contribution, and contributed assets, if any.

Our audit approach

COVID-19 implications:

- Risk related to valuation of investments will be addressed through our audit procedures over any declines in the fair value of the investments.

Key controls and substantive audit procedures:

- Perform testing over manual and automated controls related to bank and investment reconciliation process.
- Perform test of details over significant reconciling items for cash and investments.
- Perform substantive test of details over additions and disposals of investments and for any derivative financial instruments included in City's financial statements.
- Obtain supporting documentation regarding the investment income earned on deferred revenue to ensure appropriate revenue recognition.
- Obtain confirmations from third parties.
- Review of financial statement note disclosure in line with the Public Sector Accounting Standards (PSAS).

COVID-19 implications:

- Potential risk related to impairment of assets as a result of the ongoing pandemic. This is not expected to be a significant risk due to City's nature of operations.

Key controls and substantive audit procedures:

- Perform testing over manual and automated controls related to recording costs to the relevant capital projects.
- Perform substantive test of details over additions and disposals using a representative sample.
- Obtain amortization policy and assess reasonableness of the estimated useful lives in use and to address the requirements of new CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives.
- Review assets under construction to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis.
- Obtain an understanding of asset write-downs during the year and the rationale behind these write-downs.
- Review of financial statement note disclosure in line with the PSAS.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Taxes Receivable and Taxation Revenue	Risk of material misstatement related to designated revenue and accuracy of timing of revenue recognition.
User Charges and other revenue sources	Risk of material misstatement related to the various streams of revenue due to potential differences in revenue recognition criteria.
Government Transfers	Risk of material misstatement related to eligibility criteria related to the different government transfers.

Our audit approach

COVID-19 Implications for revenue streams:

- Risk related to unexpected significant variances from prior year actual and current year budget due to decline in revenue streams.

Taxes Receivable and Taxation Revenue:

- Perform substantive audit procedures to recalculate taxation revenue using approved tax rates and assessment.

User charges and other revenue sources:

- Gain an understanding of the activities over the initiation, authorization, processing, recording and reporting of user charges and other revenue.
- Obtain the City-prepared calculation of user charges and other revenue balances and perform test of details using a combination of substantive analytical and representative sampling approach.

Government transfers:

- Obtain a listing of government transfer revenue reported by the City and perform test of details including a combined approach of substantive analytical and 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.
- Review financial statement disclosures in line with PSAS.

Audit risks (continued)

Relevant factors affecting our risk assessment

Complexity Estimate

Other areas of focus	Why are we focusing here?
Investments in Government Business Enterprises (GBEs)	Risk of material misstatement related to accuracy of the GBE investments.
Deferred Revenue (obligatory)	Risk of material misstatement due to management assessment and judgment.
Employee Benefit Liabilities	Risk of material misstatement related to accuracy and valuation of the estimate involved in employee benefits liabilities.

Our audit approach

Government Business Enterprises:

- Obtain a listing and assessment of the GBEs by the City including any changes from prior year, including impairment assessment due to COVID-19.
- Obtain support for adjustments made to the investments in GBE including income from operations, dividends received, distribution to City and any other adjustments.
- Review financial statement disclosures in accordance with PSAS.

Deferred Revenue – obligatory reserve funds:

- Gain an understanding of the activities over the initiation, authorization, processing, recording and reporting related to deferred revenue (obligatory reserves).
- Obtain the detailed continuity for the deferred revenue (obligatory reserves) and test a sample of ins (cash receipts) and outs (revenue recognized) using representative sampling techniques.
- Obtain the supporting documentation related to the samples tested for the ins and outs and assess the support to ensure that recognition for revenue is in accordance with the accounting framework requirement under PSAS.

Employee Benefit Liabilities:

- Gain an understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuaries engaged by the City (preparer of the estimate), and the historical accuracy of the estimates.
- Obtain an update on the actuarial valuation prepared by management specialist (actuaries engaged by the City) for the year ending December 31, 2020.
- Perform audit procedures on method, data and, assumptions used by actuary and management to address the new CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to employment benefit liabilities.
- Engage KPMG actuarial specialists to complete audit procedures related to assumptions used by management and management specialist.
- Review financial statement disclosures in accordance with PSAS.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Expenses – Salaries and Benefits	Risk of material misstatement related to accuracy and occurrence of expenses.
Accounts Payable, Accrued Liabilities, and Expenses	Risk of material misstatement related to completeness of liabilities.
Commitments and Contingencies	Risk of material misstatement related to completeness of contingent liabilities and corresponding disclosures. Estimation uncertainty related to determination of recognition of contingencies.

Our audit approach

Expenses – Salaries and Benefits:

- Perform testing over manual and automated controls related to payroll process.
- Vouch a sample of employees' salary and benefit expense to payroll information.

COVID-19 implications:

- Risk of unexpected significant variances from budget and prior year actual due to temporary lay offs during the year.

Accounts Payable, Accrued Liabilities, and Expenses:

- Perform search for unrecorded liabilities.
- Examine significant accrued liabilities for existence, accuracy and completeness and to address the requirements of new CAS540, Auditing Accounting Estimates and Related Disclosure requirements related to accrued liabilities.
- Perform substantive test of details on selected non-payroll expenditures.

Commitments and Contingencies:

- Perform a detailed review of Council Meeting minutes.
- Direct communication with the internal legal counsel (and external as necessary) to ensure significant contingent liabilities are appropriately disclosed and/or recorded.
- Significant findings review with management during planning and completion stage of the audit engagement.

COVID-19 implications:

- Risk of unexpected changes to the terms of agreements due to extension/deferrals resulting in changes to commitments previously reported.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Long-term debt	Risk of material misstatement related to the existence and accuracy of liabilities.
Environmental and contaminated site liabilities	Estimation uncertainty due to assumptions involved.
Reserve and reserve funds	Material account balance and disclosures.

Our audit approach

Long-term debt:

- Obtain agreement for the unsecured debentures issued by the City and related supporting documentation.
- Obtain confirmation from the A&Cs that consolidated entity debt pertains to.
- Review of disclosures related to long-term debt to ensure it is in accordance with the PSAS.

Environmental and contaminated site liabilities:

- Obtain management specialist report for the estimated liabilities and understand the process in place to determine the estimated liability.
- Perform audit procedures on the data, method and assumptions included in management’s specialist reports to address the new CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to environmental and contaminated site liabilities.
- Review of disclosures related to environmental and contaminated site liabilities in accordance with the PSAS.

Other audit areas

Other areas of focus	Why are we focusing here?
Reserve and reserve funds	Material account balance and disclosures.
Trust funds	Statutory audit requirement.
Sinking fund debt	Statutory audit requirement.

Our audit approach

Reserve and reserve funds:

- Obtain an understanding of the reserve and reserve fund set up at the City.
- Obtain and review inter-fund transfers for the year ending December 31, 2020 and rationale behind the transfers.
- Review the accounting treatment and the related disclosures in accordance with PSAS.

COVID-19 implications:

- Risk related to new or unexpected transfers during the current year due to the pandemic and auditor assessment of reasonableness of such transfers.

Trust funds:

- Direct confirmation of cash and investment year-end balances with relevant third parties.
- Vouching of selected revenue and expense transactions to source documents.
- Review the accounting treatment and the related disclosures in accordance with PSAS.

COVID-19 implications:

- Risk related to valuation of investments will be addressed through our audit procedures over any declines in the fair value of the investments.

Sinking fund debt:

- Obtain and review any amendments to the agreement for the sinking fund debt issued by the City and obtain confirmation of the sinking fund debt as at year-end.
- Perform audit procedures on the actuarial requirement to achieve planned growth to pay the debt.
- Review the accounting treatment and the related disclosures in accordance with PSAS.

COVID-19 implications:

- Risk related to valuation of investments will be addressed through our audit procedures over any declines in the fair value of the investments.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Group amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $270,588,000	$247.95 million
Benchmark	Based on an estimate of projected total revenues for the year. This benchmark used by the predecessor auditor in the prior year was total expenditures.	$13,050 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2%	2%
Performance Materiality	Determined to account for aggregation risk and to design our audit procedures and sample selection. Calculated at 75% (2019 - 75%) of total materiality. The corresponding amount for prior year is $202.94 million.	$185.96 million
Audit misstatement posting threshold (AMPT)	Determined to report all individual unadjusted audit differences, including disclosure exceptions to the Audit Committee. Calculated at 5% (2019 – 5%) of total materiality. The corresponding amount for prior year is $13,529,000.	$12,397,500

Materiality as a % of other metrics

Total expenses	Net assets
1.91%	0.94%

Component Materiality

THC	$18.1 million
TTC	$52.0 million
TCHC	$17.6 million

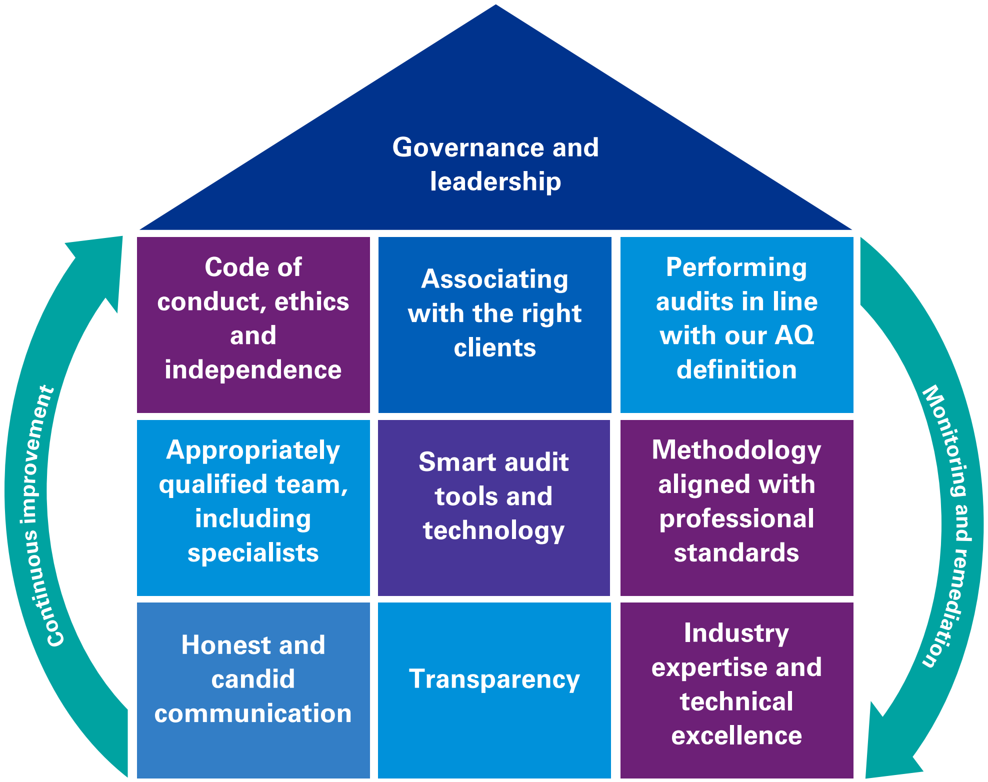
We will report to the Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements
- Errors and omissions in disclosures (corrected and uncorrected)

Audit Quality Matters

Audit quality and transparency

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and meet the requirements of Canadian professional standards.   Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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**.

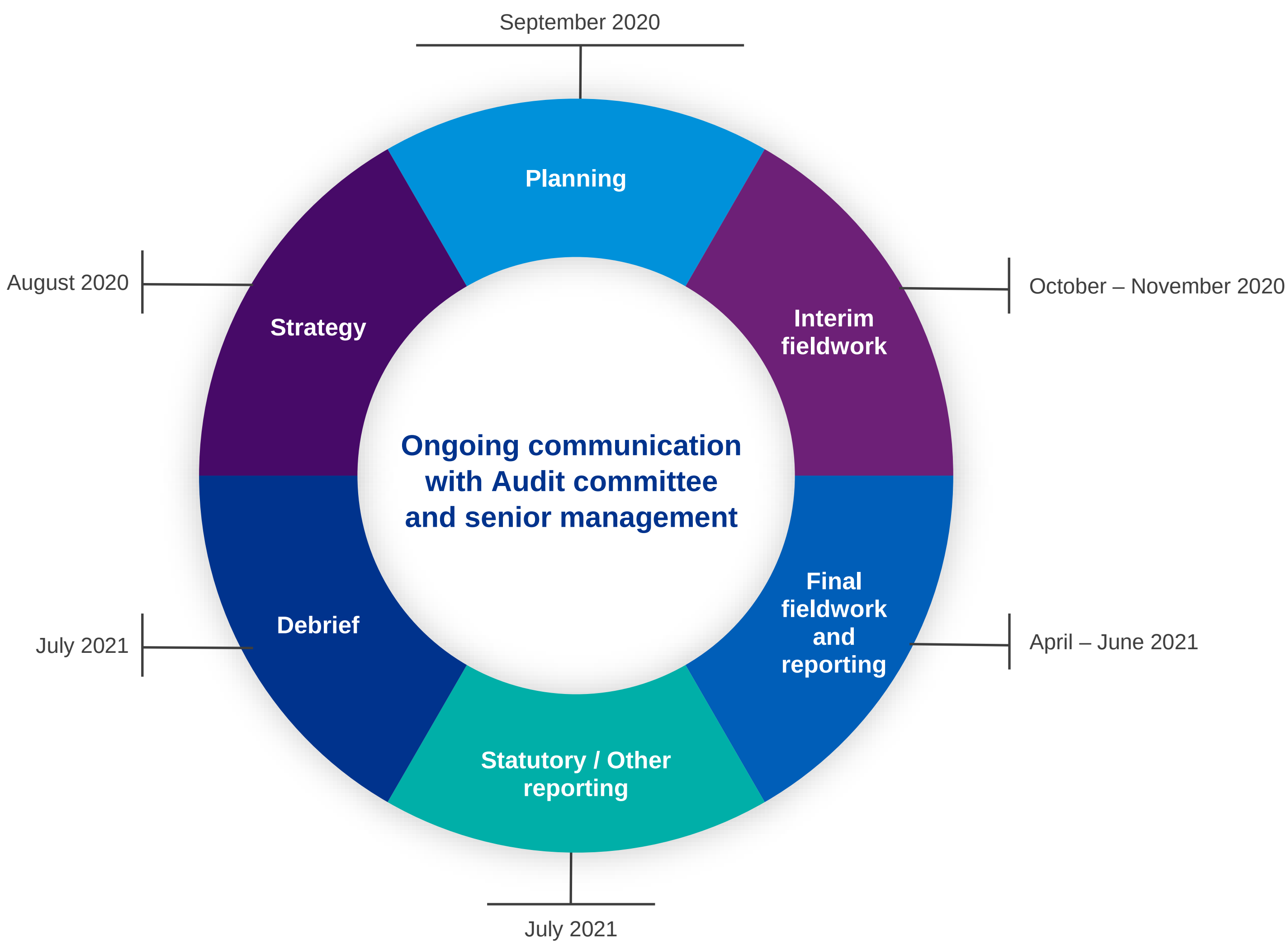
Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

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 will communicate the status of the below AQIs as requested.

AQI	Measurement criteria	Milestone measurement and status
Team Composition	Experience of the team	Your current audit partner Kevin Travers has spent 28 years practicing public accounting and has extensive experience providing audit, advisory and other services in the public sector, specifically municipalities. Your relationship partner Paul Simonetta has spent over 20 years practicing audit and leads the audit practice in the Greater Toronto Area. In addition, the Senior Manager Maria Khoushnood has spent 12 years auditing public sector entities, primarily municipalities. We have talented resources and excellent ability to maintain continuity over the coming years to maximize audit efficiencies.
Engagement Hours	Hours spent by level and phase of the audit	Combined audit partner and manager hours on average are approximately 35% - 40% of total hours. What does this tell you... you are getting senior management attention; we are hands-on in our files. Our field staff split their hours between interim and year-end, allowing for work to be performed at points in time in the year to ensure that the finance department is not stretched to capacity. The staff are assigned based on years of service and seniority to the more complex sections.
Technology in the Audit	Implementation of Technology in the Audit	We have several technologies that are we are planning on implementing int the coming years after gaining a deeper understanding of the systems in place during our first year of audit. We use IT tools to run queries on journal entries and GL details to ensure completeness of financial information. These tools provide for a more efficient and effective audit.
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	We have shared our PBC listing for the interim work with management and will be providing the year-end listing well in advance of the year-end audit weeks. This allows management sufficient time to go through our requests and have them ready for us prior to our arrival on the first of fieldwork.
Quality Reviews	Results of internal and external reviews	At KPMG we are externally reviewed by CPA Institute every 3 years and internally reviewed for in-depth quality standards by peers from other offices on the same schedule. Annually, your financial statements will undergo a technical review by a CPA unrelated to the audit team. This allows for a fresh set of eyes to comment on the readability and transparency of the financial statements.
Use of Specialists	Areas involving specialists	As part of the planning and risk assessment process this year, we will be discussing the involvement of specialists as per the needs and demands of the audit engagement. We will include some of these specialists in our planning and risk assessment process during interim audit work. We will report specific specialist involvement to you as part of our audit findings report upon completion of our audit.
	Specialists' hours	Having these resources internally allow for a more seamless and transparent audit process. Due to the complexity of specialist analysis, most of the hours are concentrated at Partner and Senior Manager level. This tells you that you are getting senior management attention from our specialists as well.

Key deliverables and milestones



New audit standards

New auditing standards that are effective for the current year are as follows:

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures **Effective for audits of Entities with year-ends on or after December 15, 2020**	**Expected impact on the audit:** — more emphasis on the need for exercising professional skepticism — more granular risk assessment to address each of the components in an estimate (method, data, assumptions) — more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions) — more focus on how we respond to levels of estimation uncertainty — more emphasis on auditing disclosures related to accounting estimates — more detailed written representations required from management	CPA Canada Client Briefing

Current Developments - Accounting

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 are effective in the current year or 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.

Standard	Summary and implications
Asset Retirement Obligations (applicable for the year ending December 31, 2023 with option for retrospective application effective December 31, 2022)	– A new standard, PS3280 *Asset Retirement Obligations*, has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end). – 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 would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would 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 would 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 would have to: o consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; o 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; o 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.
Revenue	– A new standard, PS3400 *Revenues*, has been approved that is effective for fiscal years beginning on or after April 1, 2023 (the City's 2024 year-end). – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.

Standard	Summary and implications
	– The standard notes that in the case of revenues arising from an exchange, 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.
Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2022 (the City's 2023 year-end). – 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 government'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 Re-measurement 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. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in 2020. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
International Strategy	– At its May 5, 2020 meeting, PSAB voted to adapt IPSAS principles when developing future standards. This decision has been years in the making, including extensive consultation with Canadian stakeholders, as part of the Board's International Strategy project. – In PSAB's 2017-2021 Strategic Plan, the Board signaled its intent to review its approach towards International Public Accounting Standards (IPSAS). IPSAS has matured over the last decade and are a high quality and comprehensive set of accounting standards. With other jurisdictions comparable to Canada adopting or adapting IPSAS, PSAB has decided it was time to review Canada's current approach towards IPSAS. – While PSAB has made the decision, more planning and work will be done to support stakeholders in this change. The Board itself will also continue to work on implementing this change into its due process, which will require further discussion and work in the coming year. A basis for conclusions was issued in September 2020 that outlines how PSAB came to this important decision. – The implementation date of this decision is April 1, 2021 (the City's 2022 year-end). All standards projects initiated on or after this date will use the principles of IPSAS in the development of the PSAS standard, if a similar IPSAS already exists. In cases where similar IPSAS does not exist, PSAS standards would continue to be developed as they are today.
Employee Future Benefit Obligation	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance

Standard	Summary and implications
	on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. The objective is to develop a public sector accounting standard specific to pubic private partnerships. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard was issued in November 2019. – Public private partnership infrastructure is recognized as an asset when the public sector entity acquires control of the infrastructure. A liability is recognized when the asset is recognized and may be a financial liability, a performance obligation or a combination of both. – An infrastructure asset acquired in an exchange transaction is recorded at cost which is equal to its fair value on the measurement date. The liability is measured at the cost of the infrastructure asset initially. – Subsequently, the infrastructure asset is amortized in a rational and systematic manner over its useful life. – Subsequent measurement of the financial liability would reflect the payments made by the public sector entity to settle the liability as well as the finance charge passed on to the public sector entity through the public private partnership agreement. – Subsequent measurement of the performance obligation: revenues are recognized, and the liability reduced in accordance with the substance of the public private partnership agreement.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB is developing two exposure drafts (one for a revised conceptual framework and one for a revised reporting model) with two accompanying basis for conclusions documents and resulting consequential amendments. PSAB expects to issue the two exposure drafts and accompanying documents in 2020. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018. – The SOC proposes a revised, ten-chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: o Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. o Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). o Restructuring the statement of financial position to present non-financial assets before liabilities. o 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).

Standard	Summary and implications
	o A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
2019 – 2020 Annual Improvements	– PSAB adopted an annual improvements process to make minor improvements to the CPA Canada Public Sector Accounting (PSA) Handbook or Statements of Recommended Practices (other guidance). – The annual improvement process: o clarifies standards or other guidance; or o corrects relatively minor unintended consequences, conflicts or oversights. – Major or narrow scope amendments to the standards or other guidance are not included in the annual improvement process.
Purchased Intangibles	– As a result of stakeholder feedback received, PSAB will revisit validity of the prohibition against recognizing purchased intangibles in public sector financial statements and will consider a narrow scope amendment. – Input received in response to the 2018 conceptual framework and reporting model documents for comment supported PSAB relocating the recognition prohibitions from the conceptual framework to the standards level. This is a bigger issued for Indigenous governments. PSAB is looking into the question of why purchased intangibles acquired through an exchange transaction cannot be recognized in public sector financial statements as they are measurable at the price in the transaction.

Appendices

Content

Appendix 1: Required communications

Report

Audit planning report – as attached.

A draft report will be provided at the completion of the audit.

Engagement terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter provided by City's management.

Reports to the Audit Committee

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

Representations of management

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

Matters pertaining to independence

The group audit team will report on its independence directly to the management and Audit Committee and City Council throughout the audit engagement and upon completion.

Internal control deficiencies

Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be, communicated to management.

Required inquiries

Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.

Audit Quality

The following links are external audit quality reports for referral by the Audit Committee:

- CPAB Audit Quality Insights Report: 2019 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2019 Fall Inspection Results

Appendix 2: Use of technology in the audit

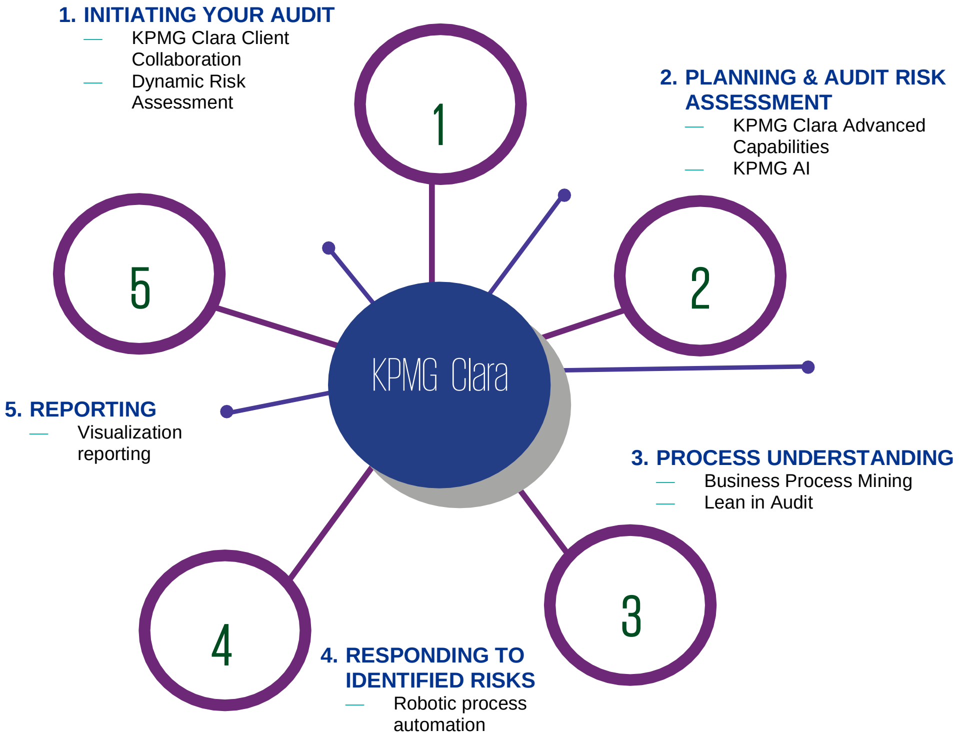
Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions through the use of robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

We will be discussing the use and implementation of these tools with the Entity over the course of our audit. These tools will be adopted and applied to the Entity's audit using a phased approach over the coming years. We will keep you apprised of our progress on a continuous basis.

Our five-phased audit approach



Appendix 2: Use of technology in the audit (continued)

Phase 1: Initiating your audit

To ensure that you are involved in every step of the audit, management and the Audit Committee will have access to **KPMG Clara Client Collaboration (KCCC)**. KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit. KCCC supports seamless collaboration between our audit team and your finance team, including exchange of information and access to the real time reporting you need in one central location, reducing the impact to your people in coordinating and overseeing the audit. It ensures there are no surprises during the execution of the audit and the ability to efficiently track issues and outstanding matters with a single click.

*Want to know more about **KCCC**?*

Phase 2: Planning and audit risk assessment

KPMG Clara Advanced Capabilities incorporates structured rules, specific to you industry, to review your financial data and assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow transactions. Our advanced analytic tool enables a more precise risk assessment and development of a tailored audit approach. We will work with management to use this tool using a phased approach beginning our conversations this year.

*Want to know more about **Clara Advanced Capabilities**?*

The result of KPMG Clara Advanced Capabilities allows us to tailor our audit approach to your specific risks.

Phase 3: Process understanding

As part of understanding your processes, KPMG uses our **Lean in Audit methodology**. Our Lean in Audit methodology allows our team to work collaboratively with you to gain an in-depth understanding of selected end-to-end processes. We will be discussing the use of this methodology for our audit of the Entity over the coming months to understand management's assessment and appetite to incorporate this approach into our overall methodology.

We also incorporate **Business Process Mining (BPM)** technology. BPM provides immediate visualization of how 100% of your transactions are processed to complement your process narratives & flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks & leveraging your team's resources efficiently. It helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.

*Want to know more about **Business Process Mining**?*

Phase 4: Responding to identified risks

Our **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.

Appendix 3: KPMG's audit approach and methodology

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

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

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.

Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards.

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

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

Appendix 4: Lean in Audit™

An innovative approach leading to enhanced value and quality

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

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

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

We will be discussing the use of this of tool with management over the coming months to understand management's assessment and appetite for the use of this tool for current and future periods.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

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

2. Interactive workshops

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

3. Insight reporting

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

Appendix 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	**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**
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	**Learn more**
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	**Learn more**
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	**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**
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	**Learn more**
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**
Return to the Workplace	As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.	**Link to report**

kpmg.ca/audit