The City of Toronto

Audit Planning Report
for the year ended
December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared on January 17, 2022 for
presentation on February 18, 2022

kpmg.ca/audit

KPMG

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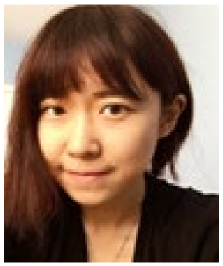

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Our refreshed Values

What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

Executive summary

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, 2021.

Audit quality

See Appendix 1 for how we deliver audit quality and how you can measure our audit quality.

Materiality

Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including projected total revenues. We have determined group materiality to be $280.1 million

Materiality will be set at lower thresholds where necessary to meet local subsidiary financial statement audit requirements. See Appendix 2.

Group Audit – Scoping & Significant Components

While KPMG performs financial statement 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 financially significant A&Cs included in the consolidated 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.

Significant components include:

- City of Toronto Non-consolidated
- Toronto Hydro Corporation
- Toronto Transit Commission
- Toronto Community Housing Corporation

See Appendix 3.

Audit Risks

Our audit is risk focused. In planning our audit, we have identified areas of financial reporting where significant risks of material misstatement may arise. See Appendix 4 for further detail on the following audit risks:

- Consolidation process
- Risk of fraud involving improper revenue recognition
- Risk of fraud resulting from management override of controls

Audit Areas of Focus

Our audit areas of focus covered in this report include significant balances for the financial statements of the City, the Sinking Fund and the Trust Fund. See Appendix 5 for detail of our audit plan related to these areas of focus.

In completing our audit procedures, we make use of advanced technological tools to bring forward valuable insights to management and those charged with governance. See Appendix 9 for use of technology in the audit.

Key Milestones & Deliverables

Please refer to Appendix 6 for key milestones and timelines for our deliverables.

Sector Current Developments

Please refer to Appendices 7 and 10 for accounting changes relevant to the City and relevant audit trends.

Required Communications

See Appendix 8 for required communications with those charged with governance.

Appendices

Appendix 1: Audit Quality: How do we deliver audit quality?

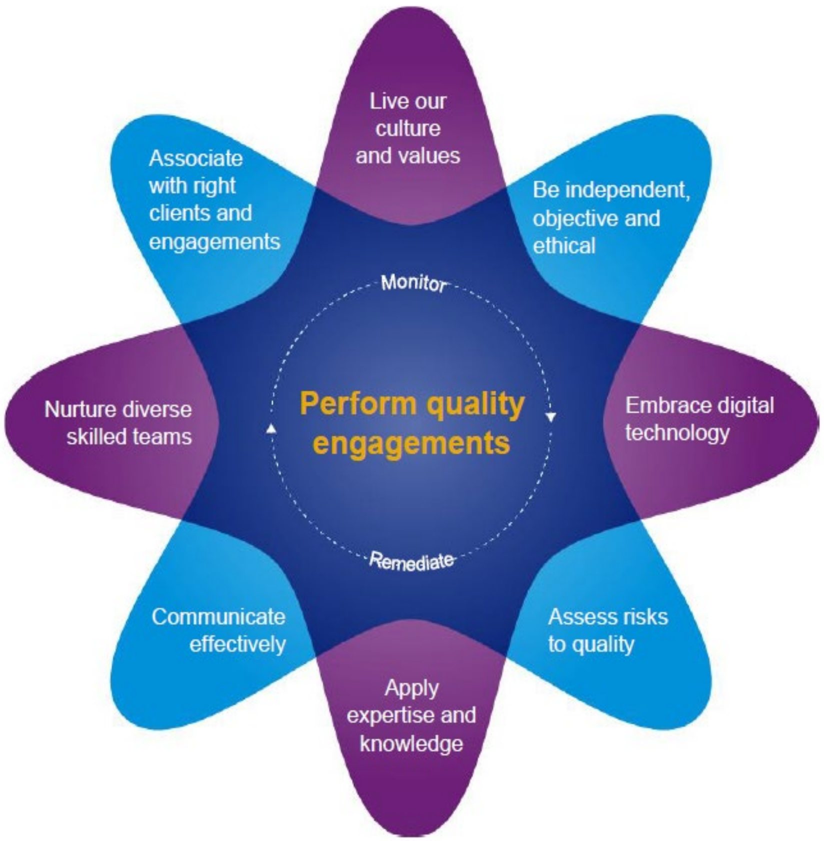
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'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.

Appendix 2: Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to 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 (e.g., performance materiality or, in the case of a group audit, component 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 **$247,950,000**.	$280.14 million
Benchmark **(the metric that is *most* relevant to the users)**	Based on an estimate of projected total revenues for the year. This benchmark is consistent with the prior year.	$14,007 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%** (2020 - **75%**) of total materiality. The corresponding amount for the prior year was **$185.96 million**.	$210.1 million
Audit misstatement posting threshold (AMPT)	Determined to report all individual unadjusted audit differences, including disclosure exceptions to the Audit Committee. Calculated at **5%** (2020 – **5%**) of total materiality. The corresponding amount for the prior year was **$12,397,500**.	$14,007,000

Materiality as a % of other metrics

Total expenses: 2.26%

Net assets: 0.99%

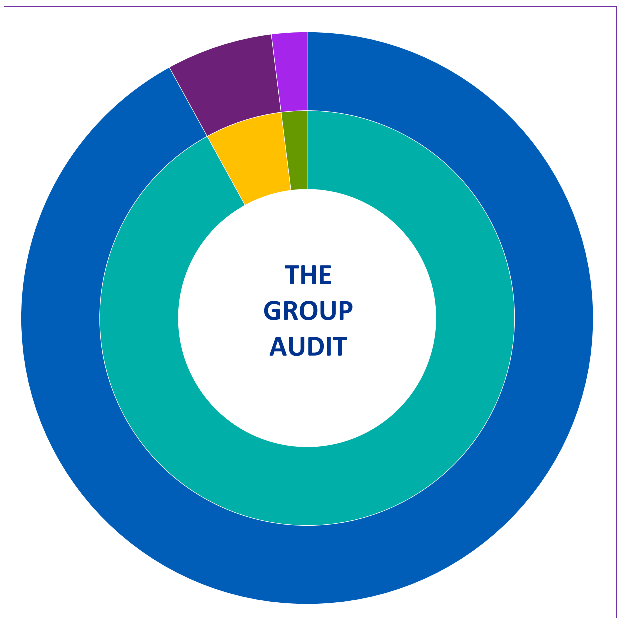
Component Materiality

THC:	**$19.8 million**
TTC:	**$54.6 million**
TCHC :	**$17.8 million**

We will report to the Audit Committee:

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

Appendix 3: Group Audit - Scoping



Type of work performed	# of components	Legend
Individually financially significant (page **11**)	4	
Significant due to inherent risk	-	
In-scope - not significant – requirement for a statutory audit (see **Note 1**)	9	
Out of scope - not significant – untested (see **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 (BIAs).

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 (BIAs).

✓ CY Planned Involvement

✓ PY Involvement

Group Audit - Significant Components

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

Individually financially significant components	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	✓✓

Appendix 4: Audit risks

Relevant factors affecting our risk assessment

Complexity

Significant 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 material adjustments booked as part of the consolidation process.
- We will involve our IT Audit 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 those that qualify as 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.

Audit risks (continued)

Relevant factors affecting our risk assessment

Complexity Estimate

Significant risk - 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 reserve funds.
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 reserve funds.
- We have a comprehensive audit approach related to revenue. See page 15 for our detailed audit approach related to the various streams of revenue, including deferred revenue/obligatory reserve funds.

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.

Appendix 5: Audit - Areas of Focus

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.
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

Cash and 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).

Tangible Capital Assets:

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 the amortization policy and assess reasonableness of the estimated useful lives in use and to address the requirements of 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 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 - Areas of Focus (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

Ongoing COVID-19 Implications for revenue streams:

- Risk related to unexpected significant variances from prior year actual and current year budget due to decline or changes in revenue streams. Perform analytical procedures to highlight significant variances and perform further substantive audit procedures on the significant variances.

Taxes Receivable and Taxation Revenue:

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

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 approaches.

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 - Areas of Focus (continued)

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 reserve funds	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

Investments in Government Business Enterprises:

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

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 detailed continuity for deferred revenue (obligatory reserves). Test a sample of cash receipts and revenue recognized using representative sampling techniques.
- Obtain the supporting documentation related to the samples tested for the cash receipts and revenue recognized and assess the support to ensure that recognition for revenue is in accordance with the 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's expert (actuaries engaged by the City) for the year ended December 31, 2021 as there is a requirement for full actuarial valuation updated required in 2021.
- Perform audit procedures on method, data and, assumptions used by actuary and management to address the 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's expert
- Review financial statement disclosures in accordance with PSAS.

Audit - Areas of Focus (continued)

Other areas of focus	Why are we focusing here?
Expenses – Salaries and Benefits	Risk of material misstatement related to accuracy and existence 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

***COVID-19 implications**:*
Risk of unexpected changes to the terms of agreements due to extension/deferrals resulting in changes to commitments previously reported.

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.

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 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.
- Directly communicate 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.

Audit - Areas of Focus (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.

Our audit approach

Long-term debt:

- Obtain agreement for the unsecured debentures issued by the City and related supporting documentation.
- Obtain confirmation from the respective A&Cs that the 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 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.

Audit - Areas of Focus (continued)

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

Our audit approach

COVID-19 implications:

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

Reserves and reserve funds:

– Obtain an understanding of the reserves and reserve funds set up at the City.
– Obtain and review inter-fund transfers for the year ending December 31, 2021 and rationale behind the transfers.
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.

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.

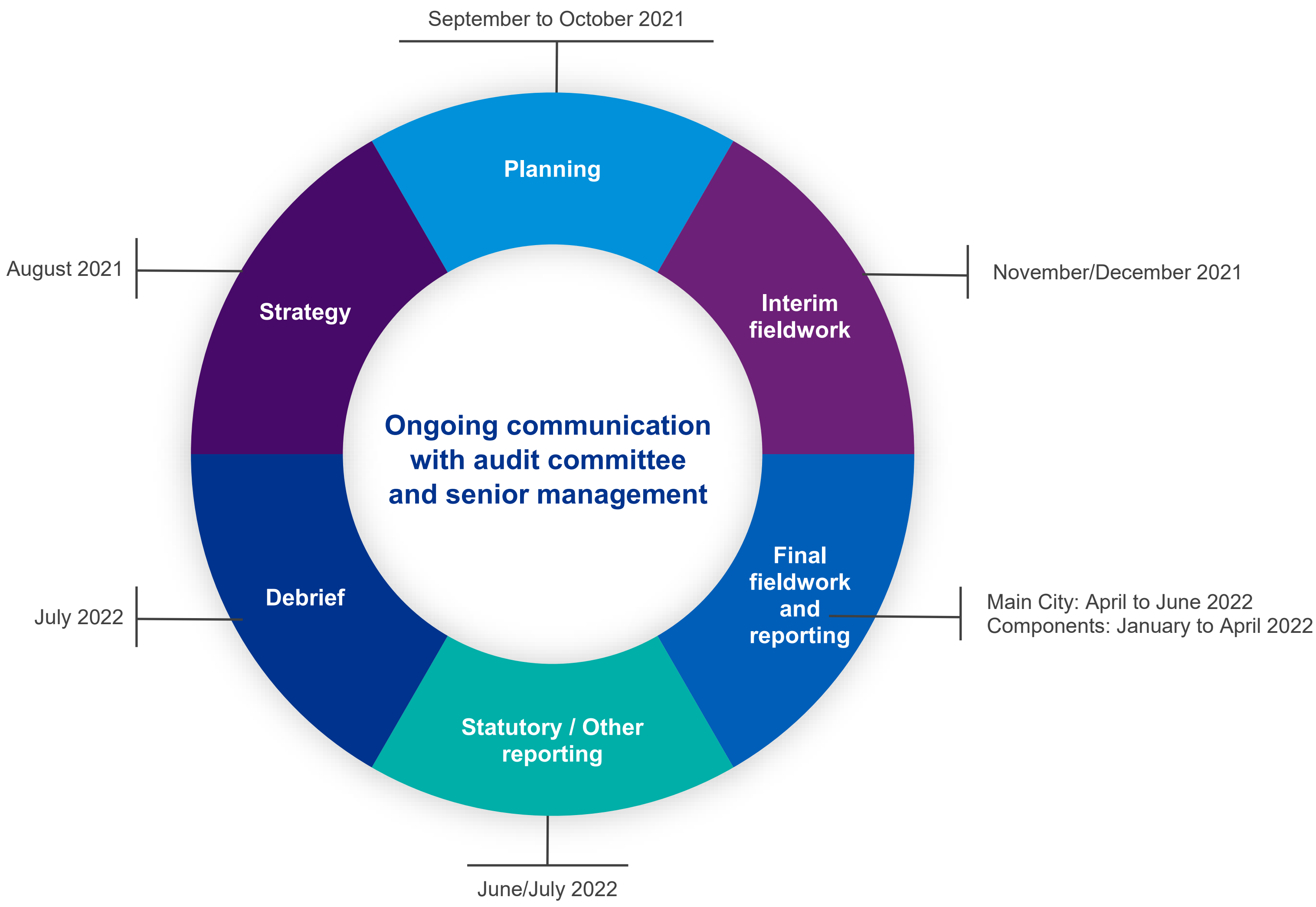
COVID-19 implications:

– 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.

Appendix 6: Key milestones and deliverables



Appendix 7: Sector Current Developments

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

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

Standards	Summary and implications
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

	– In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts were released in summer 2020.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Public Private Partnerships ("P3")	– PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023 and may be applied retroactively or prospectively. – The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.

The following are active projects that the Public Sector Accounting Board are currently in the works. We have provided an overview of these projects and potential considerations on financial reporting.

Accounting projects	Summary and implications
PSAB's Draft 2022 – 2027 Strategic Plan	– PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period and determining standard-setting priorities. – The Strategic Plan emphasizes four key priorities: • Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. • Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. • Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. • Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.
Government Not-for-Profit Strategy	– PSAB is in the process of reviewing its strategy for government not-for-profit ("GNFP") organizations. PSAB intends to understand GNFPs' fiscal and regulatory environment, and stakeholders' financial reporting needs. – PSAB released a second consultation paper in January 2021 which summarizes the feedback received to the first consultation paper. It also describes options for the GNFP strategy and the decision-making criteria used to evaluate the options. PSAB recommends incorporating the PS4200 series with potential customizations into PSAS. This means reviewing the existing PS4200 series to determine if they should be retained and added to PSAS. Incorporating the updated or amended PS4200 series standards in PSAS would make the guidance available to any public sector entity. Accounting and/or reporting customizations may be permitted if PSAB determines there are substantive and distinct accountabilities that warrant modification from PSAS. – PSAB is in the process of considering stakeholder comments.
Employee Future Benefit Obligation	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations 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.

Accounting projects	Summary and implications
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 released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. – PSAB is proposing 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. – In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • 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”. • 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.

Appendix 8: Other required communications

Report

Audit planning report – as attached.

A draft report will be provided at the completion of the audit which will highlight the form and content of the report.

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 and any subsequent amendments as provided by City's management.

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 recent quality inspections in Canada:

- Audit Quality Insights Report: 2020 Annual Audit Quality Assessments
- CPAB 2020 Annual Report - Regulatory Oversight in a Global Pandemic
- CPAB Audit Quality Insights Report: 2020 Interim Inspection Results

Representations of management

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

Matters pertaining to independence

Throughout the audit engagement and at the completion of our audit, we will provide our independence letter to the audit committee and City Council.

Control deficiencies

On a timely basis, identified significant deficiencies will be communicated to the audit committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

Reports to the Audit Committee

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

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.

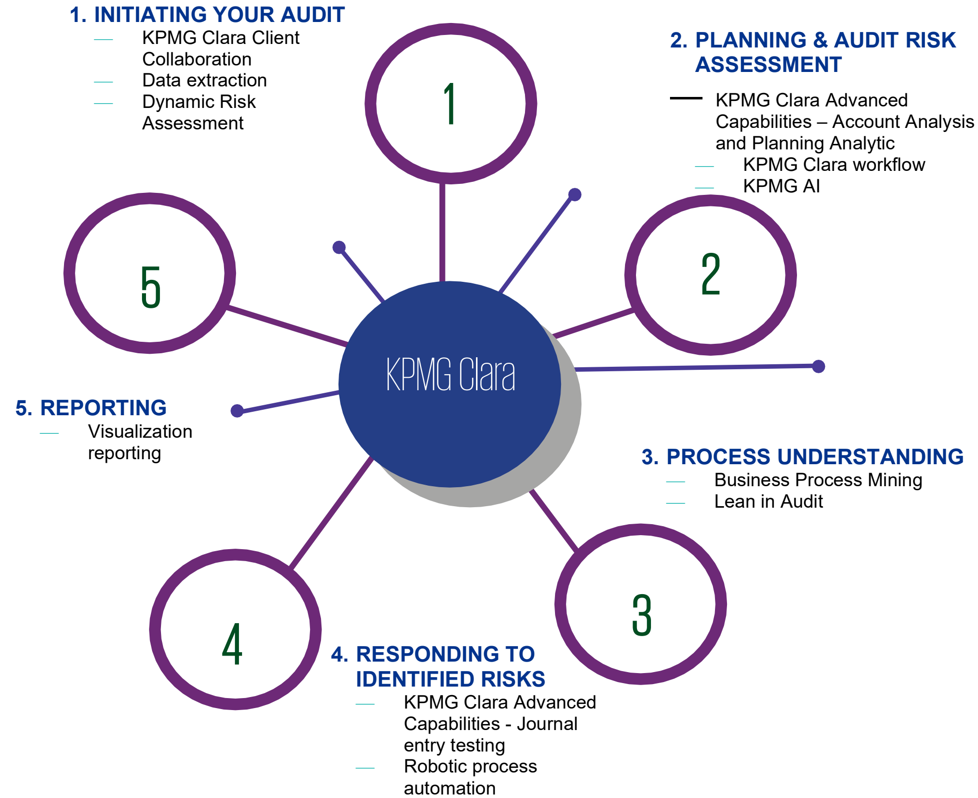
Appendix 9: Use of technology in the audit

KPMG Clara is our integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. KPMG Clara embeds analytics throughout all phases of the audit and allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures. 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 and identifying areas to embed robotic process automation ("KPMG Bots").

Our "five-phased" audit approach



Appendix 9: 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 – account analysis and planning analytics incorporates structured rules, specific to your 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. *Want to know more about **Clara Advanced Capabilities**?*
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 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 KPMG advanced capabilities **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 10: Audit and Assurance Insights

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

Featured insight	Summary
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards
Accelerate	The key issues driving the audit committee agenda in the time of COVID-19
Board Leadership Centre	Supporting you in your Director role
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
KPMG Global IFRS Institute	The latest news, insights and guidance for boards, audit committee members, investors and all stakeholders about the evolving global financial reporting framework.
KPMG Climate Change Financial Reporting Resource Centre	Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.
You can't go green without blue - The blue economy is critical to all companies' ESG ambitions	In this report, we consider how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.

kpmg.ca/audit

KPMG member firms around the world have 227,000 professionals in 146 countries.