The Corporation of City of Hamilton

Audit Findings Report for the year ended December 31, 2019

Chartered Professional Accountants, Licensed Public Accountants

June 18th, 2020

kpmg.ca/audit
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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements ("the financial statements") of The Corporation of the City of Hamilton ("the City") as at and for the year ended December 31, 2019.

Changes from the Audit Plan

In March 2020, the coronavirus (COVID-19) was declared a global pandemic by the World Health Organization. In Canada, the federal and provincial governments have enacted emergency measures to combat the spread of the virus. The City has responded to the COVID-19 crisis. From a financial reporting perspective, our audit was adjusted as a result of the implications of COVID-19 on the operations and the financial statements of the City. Audit procedures performed in response to the crisis relate to the collectability of accounts receivable and long term receivables and the valuation of investments.

Finalizing the audit

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

- Receipt of updated legal confirmations to audit report date;
- Completing our discussions with the audit committee / general committee;
- Obtaining evidence of the Council’s approval of the financial statements;
- Receipt of the signed management representation letter (to be signed upon approval of the financial statements);

We will update the general committee, and not solely the Chair (as required by professional standards), on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the General Committee and City Council. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.
Executive summary

Adjustments and differences

For the City financial statements, we did not identify differences that remain uncorrected. We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates. The areas of estimation relate to: contingent liabilities, contaminated sites, valuation related to contributed TCA acquisitions and accruals for employee future benefits. See pages 9-12

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Control and other observations

No significant deficiencies in internal control over financial reporting came to our attention.

Independence

We are independent with respect to the City of Hamilton (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation. We are independent and have extensive quality control and conflict checking processes in place.
Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with management in the Audit Plan, as well as any additional significant risks identified.

**Significant financial reporting risk**

**Fraud risk from management override of control**

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included the testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.
- We did not identify any issues or concerns regarding management override of controls.

**Significant financial reporting risk**

**Fraud risk from revenue recognition**

- Our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included testing of journal entries and other adjustments, substantively testing revenues (both recognized and amounts held as deferred at year end), and recalculating management’s determination of deferred revenue – obligatory reserve funds through auditing management’s methodology.
- We did not identify any issues related to fraud risk associated with revenue recognition.
Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

<table>
<thead>
<tr>
<th>Area of focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tangible capital assets (“TCA”)</strong></td>
</tr>
</tbody>
</table>

**Our response and significant findings**

- During our substantive testing of tangible capital asset additions, we noted that the City recognized $466.9M (2018 -$455.2M). $21.7M (2018 – 46.7M) of which was due from developer contributed assets.
- We reviewed on a sample basis the additions to tangible capital assets and noted that management has correctly capitalized the additions from work in progress to capital assets. Developer contributed assets were appropriately valued at fair value.
- In our testing, we reviewed the assets contributed by developers and others recognized on the statement of financial position and noted that management has appropriately recognized the related revenue in the statement of operations and accumulated surplus.
- No exceptions were noted during testing.
## Audit risks and results

Significant findings from the audit regarding other areas of focus are as follows:

<table>
<thead>
<tr>
<th>Area of focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognition and deferral policies including grants</td>
</tr>
</tbody>
</table>

### Our response and significant findings

- We performed substantive testing over the recognition of developer contributions and charges earned
- During our testing, we noted that the City recognized $6M of deferred revenue earned
- We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to
- Based on our testing, we conclude that deferred revenue was recognized as revenue appropriately
- No exceptions were noted during testing
Audit risks and results

Area of focus

Landfill Liability and liability for contaminated sites

Our response and significant findings (continued)

Landfill liability

— The City owns and operates one open landfill site and owns and maintains 12 closed landfill sites. The present value of the expected closure and post closure care costs of the open landfill site and present value of monitoring and capital rehabilitation costs of the closed landfill sites have been reported as a liability on the Consolidated Statement of Financial Position.

— All closure costs for the open landfill site and post closure care costs for the closed sites were based upon management estimates, adjusted by 3% inflation. The costs were discounted back to December 31, 2019 using a discount rate of 4%.

— Estimates have been based upon a post closure care period of 50 years.

— We reviewed and assessed management assumptions and reviewed the report prepared by management’s expert.

— We concur with management’s assumptions and did not find any audit misstatements.

Liability for contaminated sites

— We reviewed management’s process for identifying potential contaminated sites and reviewed management’s listing of contaminated sites and the analysis against the prescribed criteria to determine if a liability should be recorded.

— We gained an understanding and assessed the reasonability of the remediation estimates for contaminated sites deemed to be relevant to this standard and performed a recalculation of the present value of the determined liability.

— Where applicable, we obtained the reports procured from subject matter experts by management and evaluated the reasonability of the applied discount and inflation rates. We evaluated our ability to rely on the experts work.

— We concur with management’s assumptions and did not find any audit misstatements.
Audit risks and results

Area of focus

Investments and related income

Our response and significant findings (continued)

— All investment activities shall be in compliance with the regulations (Section 418 of the Municipal Act, 2001 and Ontario Regulation 438/97, Eligible Investments and Related Financial Agreement). There is a risk of material misstatement related to accuracy, valuation and ownership.

— We obtained third party confirmations from the financial institutions holding the investments and ensured that management’s records agreed to the value reported.

— We performed substantive analytical testing over investment income and noted the amount of related income earned in the current year was reasonable.

— We performed subsequent event procedures to ensure that the value of the investments were reasonably stated subsequent to year end as a result of COVID 19.

— No audit misstatements found.
Audit risks and results

Area of focus

Operating expenditures

Our response and significant findings (continued)

— Risk surrounding the completeness, existence and accuracy of reported expenses and accruals.
— We completed various substantive audit procedures over operating expenditures, including payroll and employee benefits expenditures.
— We performed a detailed comparison of operating expenditures to budget and used the variances to determine the extent of testing to perform.
— No misstatements related to operating expenses were identified during our testing.
Audit risks and results

Area of focus

Subsequent Events – COVID 19 assessment

Our response and significant findings (continued)

— Risk surrounding the valuation over taxes receivable and other accounts receivable balances including long term receivables.

— Management carried out steps to verify whether or not additional allowances were needed as a result of COVID 19. Based on their assessment it was determined that no allowances were needed and that the same assessment that was previously made on the accounts were still appropriate.

— KPMG carried out subsequent event substantive procedures to verify that management’s assessment at the time of this report is appropriate.

— Additional disclosure has been added to note 25 of the consolidated financial statements for management’s assessment of the impacts of COVID 19.

— No misstatements were identified during our testing.
## Accounting estimates

Certain figures in the consolidated financial statements contain elements requiring the use of judgment and assumptions that management makes about the future, and other sources of estimation uncertainty, at the end of the reporting period. These judgments and estimates have a risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year.

We have summarized our assessment of the subjective areas.

<table>
<thead>
<tr>
<th>Item</th>
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<tbody>
<tr>
<td>Contingent Liabilities and contaminated sites</td>
</tr>
</tbody>
</table>

### Contingent Liabilities:

- The CPA Handbook PS 3300 Contingent Liabilities requires that the City recognize a liability when "...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated."
- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, contract settlements etc.
- We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is consistent with the approach taken in prior years and has been appropriately reviewed.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.
Accounting estimates continued

KPMG comment (con’t)

Contaminated Sites:
– We reviewed management’s processes for updating the contaminated sites liability including:
  – Updated list of property owned by the City and assessment of productive use
  – Enquiries regarding unexpected events occurring during the year that resulted in contamination
  – Assessment of new liabilities that should be recorded
  – Assumptions used in determining the liability balance
– We reviewed financial statements for disclosures and presentation.
– No misstatements were identified.
Accounting estimates continued

<table>
<thead>
<tr>
<th>Item</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation related to contributed TCA acquisitions</td>
<td>$ 21.7M</td>
</tr>
</tbody>
</table>

**KPMG comment**

- Contributed assets are normally tangible capital assets that have been donated or transferred to the municipality. The City received $21.7M (2018 - $46.8M) of donated and contributed assets.
- PSAB 3150 *Tangible Capital Assets* indicates that contributed assets are to be measured at fair value which may be determined by using the market value or appraised value. If the fair value cannot be determined, the asset should be recorded at a nominal value.
- KPMG obtained a listing of all contributed assets and performed substantive testing by corroborating the fair values recorded by management to third party invoices and contracts.
- No exceptions were noted during testing.
Accounting estimates continued

<table>
<thead>
<tr>
<th>Item</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee future benefits obligation</td>
<td>$372.7M</td>
</tr>
</tbody>
</table>

**KPMG comment**

**Employee future benefits:**

- The City provides certain employee benefits which will require funding in future periods. These benefits include long-term disability, benefits under the Workplace Safety Insurance Board ("WSIB") Act and extended health and dental benefits for early retirees as well as pension benefits. The liability for these future benefits has been determined by actuarial valuation.

- We obtained the current year’s valuation update of the obligation from management’s third party actuary and performed procedures to verify the significant assumptions and inputs.

- We ensured management’s reporting of the estimate was accurate based on the expert’s valuation and that the appropriate disclosures were made within the financial statements.
  
  a) Based on our testing, we conclude that EFB obligation was recognized appropriately.
  
  b) We placed reliance on the actuary and evaluated their credentials.

- No exceptions were noted during testing.
As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

<table>
<thead>
<tr>
<th>Tool</th>
<th>Our results and insights</th>
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</thead>
<tbody>
<tr>
<td>Journal Entry Testing</td>
<td>We utilized our proprietary D&amp;A tool, IDEA, to evaluate the completeness of the journal entry population through a roll-forward of all accounts, analyze journal entries and determine sub-populations for more focused and risk-based testing, and apply certain criteria to sub-populations to identify potential high-risk journal entries for further testing. We did not identify any issues in regards to the completeness of journal entries. Moreover, we are satisfied with the results of our testing of specific relevant journal entries.</td>
</tr>
</tbody>
</table>
Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

**Corrected adjustments**

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

**Uncorrected differences**

We did not identify differences that remain uncorrected.
## Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

<table>
<thead>
<tr>
<th>Form, arrangement, and content of the financial statements</th>
<th>The financial statements are, in all material respects, in accordance with the applicable financial accounting framework, Public Sector Accounting Standards. The disclosures in the notes to the financial statements are appropriate. KPMG provides management with recommendations on financial statement presentation and disclosure. Subsequent event disclosure has been added to the financial statements regarding COVID-19 and the potential impact for the City.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application of accounting pronouncements issued but not yet effective</td>
<td>No concerns at this time regarding future implementation.</td>
</tr>
</tbody>
</table>
COVID-19 Response and Resources

The rapid advancement of COVID-19 has left many businesses assessing cash flow requirements, resource capacity, staffing levels, and business continuity plans while adapting to new ways of work and managing customer and shareholder expectations. The immediate change in time-of-use pricing outside the usual timing for updating rates further highlight the ever-changing impact of COVID-19. This is no doubt an unprecedented and challenging time. We are here to help. Should you require any further information do not hesitate to reach out. Please visit KPMG’s COVID-19 Insights for up-to-date information.

<table>
<thead>
<tr>
<th>Thought Leadership</th>
<th>Overview</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-19 Podcasts</td>
<td>KPMG is releasing a series of podcasts aimed at discussing relevant and important topics as COVID-19 continues to evolve on matters ranging from tax (HST), cash flow strategy and insurance considerations.</td>
<td>Please reach out to us and we would be happy to share the podcasts with you as they become available</td>
</tr>
<tr>
<td>COVID-19 Return to Work guide</td>
<td>The guide outlines the 4 phases of responding to the crisis and returning to the workplace is part of the Recovery phase. The guide provides a framework for the return to the workplace</td>
<td>Link to report</td>
</tr>
<tr>
<td>Business Continuity Guide</td>
<td>For many businesses, a continuity plan to minimize disruption is just simply not available or adequate. KPMG has compiled a series of business continuity insights to help businesses across all sectors stay on course.</td>
<td>Link to report</td>
</tr>
<tr>
<td>Legal considerations</td>
<td>For everything employee, HR, contracts and credit discussions, KPMG’s in-house legal counsel have summarized key information to consider in your decision making.</td>
<td>Link to report</td>
</tr>
<tr>
<td>The Board’s perspective</td>
<td>COVID-19 response and assessment does not stop at management. The Board must be involved in assessing risks, impacts, and future operations. The Board must understand current implications while balancing long-term strategic goals and become more adaptive than ever.</td>
<td>Link to report</td>
</tr>
</tbody>
</table>
Not only has the ongoing pandemic temporarily shifted the pattern of our society, and tested the resilience of our economy, but it has fundamentally altered our financial reporting environment this year and next year, and perhaps for much longer.

Regardless of a public sector entity’s size and complexity, COVID-19 will impact your disclosures and financial reporting for this year-end. Some of the more significant elements you should think about include:

- Subsequent events
- Going concern
- Contingent liabilities and contractual obligations
- Impairment (of tangible capital assets, and financial assets)
- Government transfers
- Loans with concessionary terms
- Tax revenues

### Subsequent events

#### Description

- The COVID-19 pandemic has evolved rapidly in 2020 and has impacted how public sector entities evaluate and disclose events after the reporting date (‘subsequent events’). Depending on an entity’s reporting date, the impacts of the COVID-19 outbreak could be adjusting or non-adjusting events.

- For public sector entities with reporting periods ending March 31, 2020, the COVID-19 outbreak is likely to be a current-period event that will require ongoing evaluation to determine the extent to which developments after the reporting date should be recognized in that reporting period.

#### Action tips

- Identify and consider all subsequent events until the date the financial statements are authorized for issue and determine whether these events are adjusting – i.e. they provide evidence of conditions that existed as at the reporting date or indicate that the going concern assumption may be inappropriate.

- Disclose the nature and financial effects of events that are considered to be material, even if they are non-adjusting.

### Going concern

#### Description

- Under PSAB, going concern is a rebuttable presumption. It is assumed to be valid unless events exist suggesting otherwise.

- With respect to COVID-19, management needs to consider whether these events or conditions, either individually or collectively (‘current events or conditions’), cast significant doubt on the entity’s ability to continue as a going concern. If management is comfortable that significant doubt does not exist, due to the strength of their financial position, or flexibility of funding sources, the going concern assumption remains appropriate. In severe cases, management may question whether the going concern assumption is still appropriate as a basis for the preparation of the financial statements.
**Action tips**

- Management should be prepared to demonstrate their consideration of going concern to their auditors, even if significant doubt does not exist.
- If significant doubt does exist, management should prepare forecasts and sensitivities taking into different possible outcomes.
- Consider downside scenarios
- Assess plans to mitigate events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (including reassessing funding sources).
- Assess whether its plans are achievable and realistic.

**Contingent liabilities and contractual obligations**

**Description**

- Public sector entities may struggle to fulfil certain legal or contractual obligations and may be subject to penalties – e.g. for delays or non-performance – resulting in a provision.
- Public sector entities may also create new contractual obligations that will become future liabilities, based on the terms of COVID-related financial assistance committed to others.

**Action tips**

- Consider if COVID-19 has triggered a liability that would result in an outflow of resources, or a new contractual obligation.
- Review termination clauses in key contracts to consider if a liability should be recognized. Consider if COVID-19 falls under the force majeure clause in your jurisdiction, where applicable.
- Where there remains uncertainty with respect to the amount of an obligation a public sector entity may ultimately incur, the likelihood of an adverse outcome must be evaluated by management. Public sector entities should account for these based on PSAB’s contingent liabilities guidance.

**Impairment**

**Description**

- The COVID-19 outbreak is having a significant impact on global markets driven by supply chain and production disruptions, workforce restrictions, travel restrictions, and reduced spending. This is impacting the financial performance of many investments which public sector entities may hold.
- Public sector entities are also unable to deliver certain programs and services in accordance with their mandate.
- As a result, the conditions requiring a write down of certain investments and tangible capital assets are more likely to be noted, requiring a formal assessment of impairment.

**Action tips**

- Management should consider if conditions are present which suggest that an asset may be impaired, requiring a formal impairment assessment.
- If conditions of impairment are noted, management should perform an impairment assessment.
- Where it is determined that a tangible capital asset can no longer contribute to the public sector entity’s ability to provide goods and services, it should be written down.
- For other financial assets, a write down is necessary where management determines there is a loss in value that is “other than temporary”. This will require the exercise of significant professional judgement.

**Government transfers**

**Description**

- Federal and provincial governments have reacted to the impact of COVID-19 with a variety of measures, including tax rebates, holidays and various grants, to provide financial support to citizens and businesses.
- Certain programs will meet the definition of a government transfer under PS3410: Transfers of monetary assets from a government to an individual, an organization or another government for which the government making the transfer does not receive any goods or services directly in return; expect to be repaid in the future; or expect a direct financial return.
- PS3410 determines the accounting for government transfers from both a transferring and recipient government perspective.

**Action tips**

- Transferring and recipient governments should determine the timing of recognition of transfers based on the guidance in PS3410.

**Loans with concessionary terms**
In response to COVID-19, many public sector entities have announced loan programs to provide financial support to citizens and businesses.

- Certain loans may have significant concessionary terms, such that part of the loan is more akin to a grant.
- Loans may also have forgivable conditions, suggesting they are, in substance, a grant.

**Action tips**
- Public sector entities should consider whether COVID-19 related loan programs contain forgivable conditions or significant concessionary terms.
- Where such conditions or terms are present, the public sector entity should ensure that the appropriate component of the loan considered to be a grant (or the entire loan amount, if appropriate) is expensed in the period the loan is made.
- For loans with forgivable conditions, the public sector entity should consider if the loan meets the definition of a conditional grant, and accounted for as a government transfer.

**Description**
- The COVID-19 pandemic has had a significant, adverse impact on the Canadian economy, and the financial well-being of many Canadians.
- The economic shock brought on by COVID-19 will impact tax revenues, which may be collected by each level of government, as the underlying assumptions previously used to determine tax revenues may no longer be appropriate.

**Action tips**
- Governments should re-consider their assumptions and processes used to estimate tax revenues, to ensure they remain appropriate in the COVID-19 environment.
- Governments should also evaluate assumptions regarding the collectability of tax revenues, to consider if further write-downs for bad debt are necessary.

**Employee benefits**

**Description**
- Public sector entities may make changes to or introduce new remuneration policies.
- The accounting implications, including any employee termination plans, will require careful consideration.
- Updated actuarial valuations of defined benefit liabilities might be required.

**Action tips**
- Consider the appropriate accounting for new employee benefit arrangements
- Assess when to recognize an expense and liability for termination benefits.
- Update estimates, including actuarial assumptions used to measure all employee benefits.
- Consider the need for updated actuarial valuation reports.
- For any actuarial valuation reports obtained before the reporting date, consider how to reflect material events occurring between the valuations and reporting dates.

**Tax revenues**

**Description**
- Given the financial hardship faced by many Canadian businesses and citizens, collection of taxes due may also be challenged.

**Action tips**
- Governments should re-consider their assumptions and processes used to estimate tax revenues, to ensure they remain appropriate in the COVID-19 environment.
- Governments should also evaluate assumptions regarding the collectability of tax revenues, to consider if further write-downs for bad debt are necessary.

**Employee benefits**

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**Contact us**

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Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the information below that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

<table>
<thead>
<tr>
<th>Thought Leadership</th>
<th>Overview</th>
<th>Links</th>
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<tbody>
<tr>
<td>Accelerate</td>
<td>Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.</td>
<td>Link to report</td>
</tr>
<tr>
<td>Bracing for digital disruption</td>
<td>The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.</td>
<td>Link to report</td>
</tr>
<tr>
<td>Asset Retirement Obligation (PS3280)</td>
<td>This standards addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities. This standard will apply to fiscal years beginning on or after April 1, 2021 and earlier adoption is permitted.</td>
<td></td>
</tr>
<tr>
<td>Revenues (PS3400)</td>
<td>This standard outlines a framework describing two categories of revenue – transactions with performance obligations and transaction without performance obligations. This section will apply to fiscal years beginning on or after April 1, 2022, with earlier adoption permitted. This section may be applied retroactively or prospectively. This section will not impact the present accounting for taxation revenues and government transfers.</td>
<td></td>
</tr>
<tr>
<td>Financial Instruments (PS3450)</td>
<td>This standard highlights how to account for and report all types of financial instruments including derivatives. This section applies to fiscal years beginning on or after April 1, 2021 with earlier adoption permitted. This section must be adopted with Section PS 2601, Foreign Currency Translation. Specific transition requirements are outlined within the section.</td>
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</tbody>
</table>
Appendices

- Appendix 1: Required communications
- Appendix 2: Audit Quality and Risk Management
- Appendix 3: Background and professional standards
Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- Auditors’ Report
  The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements.

- Management representation letter
  In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. Management has provided you with a copy of the representation letter for the audit of the financial statements.
Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also 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 six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our most recent Audit Quality Report.

Other controls include:
- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm’s standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:
- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training

Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.
Appendix 3: Background and professional standards

Internal control over financial reporting

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

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

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors’ report that are available through to the date of our auditors’ report. The objective of reading these documents through to the date of our auditors’ report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors’ report, contains the same information and carries the same meaning.
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