

# The Corporation of the City of Cambridge

Audit Findings Report  
for the year ended  
December 31, 2021

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Prepared April 20, 2022, for the  
Council Meeting May 31, 2022

[kpmg.ca/audit](http://kpmg.ca/audit)



# Table of contents

<b>Audit Quality: How do we deliver audit quality?</b>	<b>2</b>
<b>Audit highlights</b>	<b>3</b>
<b>Materiality</b>	<b>5</b>
<b>Group audit scope</b>	<b>6</b>
<b>Audit risks and results</b>	<b>7</b>
<b>Uncorrected and corrected audit misstatements</b>	<b>12</b>
<b>Control deficiencies</b>	<b>13</b>
<b>Financial statement presentation and disclosure</b>	<b>14</b>
<b>Significant accounting policies and practices</b>	<b>15</b>
<b>Appendices</b>	<b>16</b>
<b>Appendix: Other required communications</b>	<b>17</b>
<b>Appendix: Draft auditors' report</b>	<b>18</b>
<b>Appendix: Management representation letter(s)</b>	<b>20</b>
<b>Appendix: Newly effective accounting standards</b>	<b>24</b>
<b>Appendix: Upcoming changes to auditing standards</b>	<b>26</b>
<b>Appendix: Audit and assurance insights</b>	<b>27</b>

# KPMG contacts

The contacts at KPMG in connection with this report are:



**Matthew Betik**  
**Lead Audit Engagement Partner**  
Tel: 519-747-8245  
mbetik@kpmg.ca



**Courtney Cheal**  
**Senior Manager**  
Tel: 519-747-8884  
ccheal@kpmg.ca

## 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.



# Audit Quality: How do we deliver audit quality?

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

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

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

We define ‘**audit quality**’ as being the outcome when:

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



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

**Doing the right thing. Always.**

# Audit highlights

## Purpose of this report<sup>1</sup>

The purpose of this report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements as at and for the year ended December 31, 2021.

### Status of the audit

As of April 20, 2022, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing certain audit testing procedures, including follow up inquiries and documentation requests
- Completing our final quality control and review procedures
- Receipt of management representation letter
- Completing our discussions with Council
- Obtaining evidence of Council's approval of the financial statements.

We will update Council, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided in Appendix: Draft Auditors' Report, will be dated upon the completion of any remaining procedures.

### Going concern

No matters to report.

### Audit and business risks and results

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Post employment benefits
- Tangible capital assets
- Obligatory reserve fund revenue and deferred revenue

See pages 8-12

### Uncorrected audit misstatements

Professional standards require that we request of management and Council that all identified audit misstatements be corrected. We have already made this request of management.

### Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in

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<sup>1</sup> This report to the audit committee is intended solely for the information and use of Management, the audit committee, and the Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

### Significant accounting policies and practices

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

### Independence

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

# 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
<b>Materiality</b>	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. Prior year materiality was \$4.5 million	\$5,250,000
<b>Benchmark</b>	Based on revenues for the year.  This benchmark is consistent with the prior year.	\$217,686,954
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 2.31%	2.41%

## We will report to Council:



Corrected audit misstatements



Uncorrected audit misstatements

# Group audit scope

Entities for which KPMG includes in their scope for the City of Cambridge audit and performs an audit over are as follows:

Entities	Scoping
Corporation of the City of Cambridge	Audit
Trust Funds Administered by the City of Cambridge	Audit
Cambridge Public Library Board (o/a Idea Exchange)	Audit
Preston Towne Centre BIA	Audit
Downtown Cambridge BIA	Audit
Hespeler Village BIA	Audit
Annual Reconciliation Report (ARR) for the Ministry of Health & Long Term Care	Special Report

# Audit risks and results

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

Significant financial reporting risk	Why is it significant?
<p>Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.</p>	<p>This is a presumed risk of material misstatement due to fraud under Canadian auditing standards. However, the audit team has rebutted this presumption due to the following reasons:</p> <ul style="list-style-type: none"><li>— The presumed fraud risk is ordinarily associated with for-profit enterprises</li><li>— The majority of revenue is calculated based on MPAC data, approved property tax rates, utility rates, and user fees, as well as funding agreements with senior levels of governments, and is not subject to complexity or judgement at the reporting level;</li><li>— KPMG does not believe that the use of inappropriate cut-off would be utilized to perpetuate fraud.</li></ul>
<b>Our response</b>	
<p>Not applicable.</p>	
Significant financial reporting risk.	Why is it significant?
<p>Risk of material misstatement due to fraud resulting from management override of controls</p>	<p>This is a presumed risk of material misstatement due to fraud under Canadian auditing standards. We have not identified any specific additional risks of management override relating to this audit.</p>
<b>Our response</b>	
<p>As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures included testing of journal entries and other adjustments, performing a retrospective review of estimates, and evaluating the business rationale of significant unusual transactions.</p> <ul style="list-style-type: none"><li>— KPMG performed various substantive based procedures examining journal entries that were being posted to the general ledger.</li><li>— Journal entries were selected using various criteria to identify journal entries that could possibly be related to override activities.</li></ul> <p>No findings were identified in our testing performed.</p>	

# Audit risks and results

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

Area of focus	New or changed?	Estimate?
Post-employment benefits	No	Yes  These amounts are determined through actuarial valuations and involve complex accounting guidance involving judgments.

## Our response & significant findings

Our procedures included:

- Communicated with management's actuarial specialists.
- Management's process for identification and making accounting estimates are consistent with prior year.
- Assessed the reasonableness of assumptions used, and tested the appropriateness of the underlying data, including employee populations.
- Discount rate used in calculating the employee future benefits in 2021 of 3.50%, considered to be reasonable, and consistent with similar term borrowing rate.
- We used the work of the Nexus Actuarial Consultants Ltd. (Actuarial Consultant) in our audit of the accounts and disclosures.

KPMG did not find any issues identified through our audit procedures.

# Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Obligatory reserve funds revenue and deferred revenue	No	No

## Our response and significant findings

Our procedures included:

- Tested controls around the recording of revenues/cash receipts
- Obtained management’s continuity schedule for deferred development charges and ensured the spreadsheet was accurate
- Vouched a sample of development charges collected from developers during the current fiscal year
- Performed substantive testing over amounts being recognized as revenue by ensuring the expenditure meets the criteria as a “growth-related” project.

During the year, the City has created a program called Credit for service agreements (“CFSA”) which is a program to facilitate the construction of growth-related municipal infrastructure ahead of the City’s capital program. Under these agreements, developers construct, or pay to have constructed, infrastructure that the City is unwilling or unable to fund within the time frame sought by a developer. The reimbursement to the developer is provided by way of development charge credit and/or refund. Because of this, the City has a payable at the end of the year for \$11,705,800. This liability will be satisfied as developers take out permits in future years and credits will be applied to the DCs otherwise payable at that time. KPMG has audited this accrual to ensure it is complete and accurate.

On January 1, 2020, changes to the Development Charges Act came into effect due to the passing of Bill 108. Historically, development charges (“DCs”) were assessed and paid at building permit issuance to the area municipality. The amendment resulted in two significant changes: the deferral of payments and the rate freeze. The deferral of payments changed how the City collected DCs for some properties, as the first installment becomes due at occupancy and the remaining payable is due in installments on annual anniversaries after that date, over a period of 5 or 20 years. Therefore, as at December 31, 2021 there was an accounts receivable balance of \$1,474,000 relating to the deferrals of payments from developers. KPMG performed procedures over the accounts receivable and ensured the existence and accuracy of the receivable was appropriate. KPMG did not find any issues identified through our audit procedures.

During our procedures, KPMG noted that there was a growth-related capital expenditure that had \$607,000 of development charges recognized during the year. Per further review, we noted this capital expenditure was completed in 2020 and therefore there was a cut-off issue relating to the recognition of revenue. We also note other projects whereby revenue was recognized in 2020 that should not have been recognized until 2021. The net impact of these adjustments was \$560,000 of revenue recognized in 2020 that should not have been recognized until 2021, resulting in an understatement of revenue in 2021. Please see management representation letter for uncorrected adjustment relating to this.

# Audit risks and results (continued)

Area of focus	New or changed?	Estimate?
Tangible capital assets (TCA)	No	<p>Yes</p> <p>The useful lives used to calculate the net book value of the City's assets are estimated ranges, though based on historical data.</p> <p>Risk of error in inappropriately recognizing costs as either capital or operating.</p>

## Our response and significant findings

Our procedures included:

- Discussion over capitalization policies and their application with management
- Substantive test of details approach, vouching samples of additions and retirements in fiscal 2021.
- Review of expense accounts to ensure that items related to tangible capital assets were not inappropriately expensed in 2021.
- Testing of the reasonableness of amortization expense.

During our audit procedures relating to contributed assets management identified that there was a wastewater pond that had the incorrect inputs within the fair value calculation. During our procedures we noted that there was a replacement value for a road within a subdivision that was incorrect. Further review of the subdivision, management identified additional differences within the contributed asset. Management has determined to not correct these entries and KPMG agrees with their conclusion.

# Audit risks and results (continued)

Other areas of focus	Our audit approach and findings
Investments and related income	— Confirmation of details with investment managers
Taxation Revenue	— Performed a substantive analytical procedure using MPAC data and budgeted tax rates
User Fees and Service Charge Revenue	— Analytical procedures were performed comparing current year's revenues on a disaggregated basis to the current year budget and the prior year, adjusting for known changes in assumptions
Expenses	— Analytical procedures comparing current year's expenses on a disaggregated basis to the prior year, adjusting for known changes in assumptions — Substantive procedures to test the existence and accuracy of expenses — Testing the completeness, existence, and accuracy of yearend accruals, most notably those that contain areas of estimate of judgment
Government Transfers	— Review agreements to ensure proper revenue recognition criteria is followed. To ensure transfers are authorized and all eligibility criteria and any stipulations were met. — Perform test of details on significant transfers

KPMG did not find any issues through our audit procedures on the above noted areas of focus.

# Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

## Uncorrected audit misstatements

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial, including the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements — individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditors' report.

## Corrected audit misstatements

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

# Control deficiencies

## Consideration of internal control over financial reporting

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

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

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

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

## Significant deficiencies in internal control over financial reporting

We have not identified any significant deficiencies in internal controls.

# Financial statement presentation and disclosure

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

We also highlight the following:

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Form, arrangement, and content of the financial statements

The form, arrangement, and content of the financial statements are appropriate for the size, scope, and industry of the organization.

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Significant qualitative aspects of financial statement presentation and disclosure

There are no concerns with respect to the presentation or disclosure of the financial statements; the financial statement presentation and disclosure is considered appropriate for the organization.

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# Significant accounting policies and practices

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## **Initial selections of significant accounting policies and practices**

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Nothing to report

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## **Description of new or revised significant accounting policies and practices**

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Nothing to report

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# Appendices

## Content

**Appendix: Other required communications**

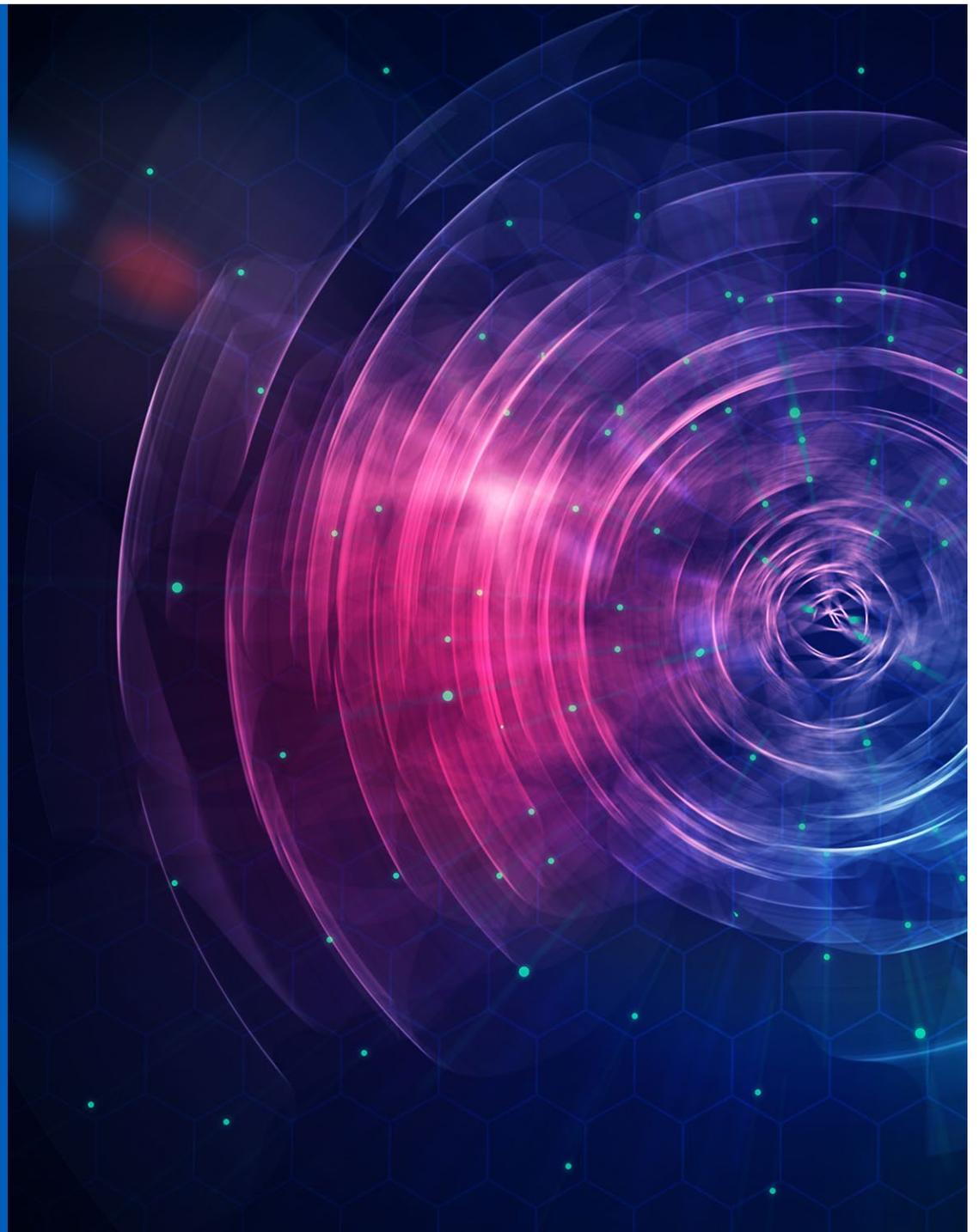
**Appendix: Draft auditors' report**

**Appendix: Management representation letter(s)**

**Appendix: Newly effective accounting standards**

**Appendix: Upcoming changes to auditing standards**

**Appendix: Audit and assurance insights**



# Appendix: Other required communications

## Audit Quality in Canada

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

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

## Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to Council.

# Appendix: Draft auditors' report

## INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Cambridge

We have audited the consolidated financial statements of The Corporation of the City of Cambridge (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statements of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

# Appendix: Management representation letter(s)

KPMG LLP

115 King Street South 2nd Floor

Waterloo, ON N2J 5A3

May 31, 2022

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of Corporation of the City of Cambridge (“the Entity”) as at and for the period ended December 31, 2021.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated October 4, 2019, including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:
    - the names of all related parties and information regarding all relationships and transactions with related parties;
    - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
  - c) providing you with unrestricted access to such relevant information.
  - d) providing you with complete responses to all enquiries made by you during the engagement.
  - e) providing you with additional information that you may request from us for the purpose of the engagement.
  - f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

Fraud & non-compliance with laws and regulations:

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
    - management;
    - employees who have significant roles in internal control over financial reporting; or
    - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

11) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Non-SEC registrants or non-reporting issuers:

12) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

13) We also confirm that the financial statements of the Entity will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

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Sheryl Ayres, Chief Financial Officer

cc: Council

## **Attachment I – Definitions**

### **Materiality**

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

### **Fraud & error**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **Related parties**

In accordance with Public Sector Accounting Board (PSAB) related party is defined as:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Public Sector Accounting Board (PSAB) a related party transaction is defined as:

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

# Appendix: Newly effective accounting standards

## New accounting standards

The following new accounting standards that are effective for the current year had an impact on our audit.

Standard	Key observations
<b>PS 3280, Asset Retirement Obligations (new)</b>	<p>This standard describes how to account for and report asset retirement obligations associated with tangible capital assets. The City will have to identify if they have any asset retirement obligations which will be a significant project.</p> <p>On June 25, 2020 the PSAB deferred the effective date by one year due to the impact of COVID-19, and therefore the effective date is for annual financial statements relating to fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 yearend). Earlier adoption is permitted.</p>
<b>PS 3160 Public Private Partnerships (new)</b>	<p>This section contains requirements for recognizing, measuring, and classifying infrastructure procured through a public private partnership. This section applies when the private sector partner is obligated to design, build, acquire or better new or existing infrastructure; finance the transaction past the point where the infrastructure is ready for use; and operate and/or maintain the infrastructure. The infrastructure should be recognized as an asset when the public sector entity acquires control of the infrastructure. This asset should be initially measured at cost and amortized over the useful life of the asset in a rational and systematic manner. A liability should be recognized when the public private partnership recognizes an asset. The liability would be measured at the same value of the asset, reduced for any consideration previously transferred. The financial liability should be at amortized cost using the effective interest method.</p> <p>This standard will be in effect for fiscal years beginning on or after April 1, 2023 (the City's December 31, 2024 yearend). Earlier adoption is permitted.</p>
<b>PS 3400, Revenue (new)</b>	<p>Currently the Public Sector Accounting Handbook has two sections that address two major sources of revenue, government transfers and tax revenue. This new standard addresses the recognition, measurement and presentation of revenues that are common in the public sector other than government transfers and tax revenue.</p> <p>On June 25, 2020 the PSAB deferred the effective date by one year due to the impact of COVID-19, and therefore the effective date is for annual financial statements relating to fiscal years beginning on or after April 1, 2023 (the City's December 31, 2024 yearend). Earlier adoption is permitted.</p>

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**PS 1150 Generally Accepted Accounting Principles (amendment)**

In April 2021, the Public Sector Accounting Board (PSAB) issued amendments to the GAAP hierarchy set out in PS 1150 to position International Public Sector Accounting Standards (IPSAS) as the first accounting framework to consult in situations where PSAB has not issued a specific standard, situations not covered by primary sources of GAAP, or for assistance in applying a primary source of GAAP to specific circumstances and it is necessary to consult pronouncements issued by other bodies authorized to issue accounting standards. PSAB will continue to issue Canadian Public Sector Accounting Standards (PSAS), but future standards would be based on the principles of IPSAS.

This amendment will be in effect for fiscal years beginning on or after April 1, 2021 (the City's December 31, 2022 yearend).

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**PS 1201 Financial Statement Presentation (new)**

In June 2011, PSAB issued a new standard, PS 1201 which revises and replaces PS 1200 Financial Statement Presentation. The main change to the standard is the introduction of a new statement, the statement of remeasurement gains and losses.

On June 25, 2020 the PSAB deferred the effective date by one year due to the impact of COVID-19, and therefore the effective date is for annual financial statements relating to fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 yearend). Earlier adoption is permitted.

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**PS 3041 Portfolio Investments (new)**

The PSAB has issued a new standard, PS 3041 Portfolio Investments, which replaces PS 3030 Temporary Investments and PS 3040 Portfolio Investments. The new standard does not make a distinction between temporary and portfolio investments and investments previously within the scope of PS 3030, which are not cash equivalents, are now accounted for within the scope of PS 3041.

On June 25, 2020 the PSAB deferred the effective date by one year due to the impact of COVID-19, and therefore the effective date is for annual financial statements relating to fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 yearend). Earlier adoption is permitted.

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**PS 3450 Financial Instruments (new)**

This new standard establishes requirements for recognition, measurement, derecognition, presentation, and disclosure of financial assets and financial liabilities, including derivatives. In this standards, financial instruments are classified into two measurement categories, fair value, or cost or amortized cost. Almost all derivatives are measured at fair value. Portfolio investments in equity instruments quoted in an active market are measured at fair value. Other financial assets and liabilities are generally measured at cost or amortized cost. Remeasurement gains and losses on financial instruments measured at fair value are reported in the new statement of remeasurement gains and losses until the financial instrument is derecognized. Financial assets and liabilities are only offset and reported on a net basis if a legally enforceable right to set off the recognized amounts exists, and the entity intends to settle on a net basis or realize/settle the amounts simultaneously.

Measurement provision are applied prospectively and adjustments to previous carrying amounts are recognized in opening accumulated remeasurement gains or losses.

On June 25, 2020 the PSAB deferred the effective date by one year due to the impact of COVID-19, and therefore the effective date is for annual financial statements relating to fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 yearend). Earlier adoption is permitted.

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# Appendix: Upcoming changes to auditing standards

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

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

CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.

# Appendix: Audit and assurance insights

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

Featured insight	Summary	Reference
<b>Accelerate 2022</b>	The key issues driving the audit committee agenda in 2022	<a href="#">Learn more</a>
<b>Audit Committee Guide – Canadian Edition</b>	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada	<a href="#">Learn more</a>
<b>Unleashing the positive in net zero</b>	Real solutions for a sustainable and responsible future	<a href="#">Learn more</a>
<b>KPMG Audit &amp; Assurance Insights</b>	Curated research and insights for audit committees and boards.	<a href="#">Learn more</a>
<b>Board Leadership Centre</b>	Leading insights to help board members maximize boardroom opportunities.	<a href="#">Learn more</a>
<b>KPMG Climate Change Financial Reporting Resource Centre</b>	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	<a href="#">Learn more</a>
<b>The business implications of coronavirus (COVID 19)</b>	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.	<a href="#">Learn more</a>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	<a href="#">Learn more</a>
<b>Momentum</b>	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.	<a href="#">Sign-up now</a>
<b>KPMG Learning Academy</b>	Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.	<a href="#">Learn more</a>



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