

**CITY OF VAUGHAN
AUDIT COMMITTEE
AGENDA**

This is an Electronic Meeting.

Monday, May 31, 2021

11:00 a.m.

Electronic Meeting

Vaughan City Hall

	Pages
1. CONFIRMATION OF AGENDA	
2. DISCLOSURE OF INTEREST	
3. COMMUNICATIONS	
4. DETERMINATION OF ITEMS REQUIRING SEPARATE DISCUSSION INCLUDING MEMBERS RESOLUTION(S)	
1. 2020 DRAFT CONSOLIDATED FINANCIAL STATEMENTS Report of the Deputy City Manager, Corporate Services City Treasurer and Chief Financial Officer with respect to the above.	3
2. 2020 INTERNAL AUDIT ANNUAL REPORT Report of the Director of Internal Audit with respect to the above.	137
3. WATER SAMPLING FOLLOW-UP AUDIT Report of the Director of Internal Audit with respect to the above.	190
4. INFORMATION TECHNOLOGY SECURITY AUDIT Report of the Director of Internal Audit with respect to the above.	196
5. ADOPTION OF ITEMS NOT REQUIRING SEPARATE DISCUSSION	
6. CONSIDERATION OF ITEMS REQUIRING SEPARATE DISCUSSION	

7. NEW BUSINESS

8. ADJOURNMENT

Audit Committee Report

DATE: Monday, May 31, 2021

WARD(S): ALL

TITLE: 2020 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

FROM:

MICHAEL CORONEOS DEPUTY CITY MANAGER CORPORATE SERVICES CITY
TREASURER AND CHIEF FINANCIAL OFFICER

ACTION: DECISION

Purpose

Council's approval is requested on the 2020 Draft Consolidated Corporation of the City of Vaughan Financial Statements, Vaughan Public Library Board Financial Statements, Kleinburg Business Improvement Area Financial Statements, Tourism Vaughan Corporation Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements. The KPMG 2020 Audit Findings report is attached for Council review.

Report Highlights

- The statutory financial statements are a requirement prescribed by the Municipal Act, 2001 that shows the results of operations for the fiscal year and the financial position at the end of the fiscal year.
- These statements have been prepared in accordance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.
- The City's statutory financial statements are presented in a different manner than the 2020 budget and 2021-2022 plan, and these differences are explained in this report and in the notes to the financial statements.
- The City has received an "unqualified" audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounts Board (PSAB).

Recommendations

1. That the 2020 Draft Consolidated Corporation of the City of Vaughan Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management for the Kleinburg Business Improvement Area Financial Statements, Tourism Vaughan Corporation Financial Statements, the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements be approved. (Attachment 2)
2. That the KPMG Audit Findings Report for the year ended December 2020 be received. (Attachment 3)
3. That the 2020 Draft City Consolidated Financial Statement Highlights be received. (Attachment 1)

Background

The City's Draft Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

The City's Draft Consolidated Financial Statements incorporate the financial results of:

- The Corporation of the City of Vaughan
- Vaughan Public Library Board
- Kleinburg Business Improvement Area
- Tourism Vaughan Corporation
- Hydro Vaughan Corporations:
 - Alectra (20.5% ownership through Vaughan Holdings Inc.)
 - Vaughan Holdings Inc. (100% owned by the City of Vaughan)
 - Hydro Vaughan Energy Corporation (100% owned by Vaughan Holdings Inc.)
 - 1446631 Ontario Inc. (100% owned by the City of Vaughan)

The City's Trust Financial Statements are separate and are not included in the City's consolidated financial results. These statements are not part of the Consolidated Statements because they include assets held in trust by the City for other uses (ie: cemetery perpetual care).

Included are separate Financial Statements for the Vaughan Public Library Board, the Board of Management for the Kleinburg Business Improvement Area, Tourism Vaughan Corporation, as well as a Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events.

The Mayor's Gala and Golf Event statements include funds raised and administered by the City of Vaughan for the Mayors Gala and Golf events. The 2020 Mayors Gala and Golf events were cancelled due to the COVID-19 pandemic.

Unqualified Audit Opinion

The City has received an “unqualified” audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted

Accounting Principles for governments as recommended by the Public Sector Accounts Board (PSAB). Our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2020 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2020 in accordance with public sector accounting standards.

Tourism Vaughan Corporation

On March 19th, 2019, Council approved a Bylaw allowing the City to levy a four per cent Municipal Accommodation Tax (MAT) on the purchase of transient accommodations including hotels, motels and bed and breakfasts in Vaughan effective April 1, 2019. Pursuant to Ontario Regulation 435/17, at least 50 percent of the MAT revenue must be shared with a Tourism promotion entity.

The Corporation of the City of Vaughan established a municipal service corporation, Tourism Vaughan Corporation (TVC) to serve as the City’s tourism promotion entity. TVC was incorporated May 15th, 2019.

The Financial Statements of TVC are included in the attached financial statement package and are also included in the City of Vaughan Consolidated Financial Statements.

The collection of MAT was suspended from March 17, 2020 until September 1, 2020 due to the COVID-19 pandemic.

TVC was approved for a grant of \$0.4M from the Tourism Association of Ontario Regional Relief and Recovery Fund to enable recovery from the economic disruption associated with the COVID-19 pandemic.

2020 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan’s 2020 Consolidated Statement of Financial Position demonstrates a continued strong position, as the City is in a net financial asset position of \$610.8 million (2019 - \$595.6 million).

Major items such as Cash and cash equivalents, Investment in Hydro Vaughan Corporations, Accounts payable and accrued liabilities, Deferred revenue and other items are discussed in Attachment 1 – Highlights.

Financial Statement Presentation Differences from Budget Presentation

The City’s statutory financial statements are presented in a different manner from the 2020 Budget and 2021-2022 Plan.

The statutory financial statements must comply with Provincial Statutory Reporting and use an accrual basis of accounting whereas, the tax supported, rate supported and Capital Budgets approved by Council are intended to set tax and utility rates and are prepared on a cash basis of accounting.

Statements	Budget Approved By Council	Statutory Financial Statements
Purpose	To set the tax rate in accordance with the Municipal Act	To comply with Provincial Statutory Reporting
Basis	Cash basis of accounting	Accrual basis of accounting
Differences	Presents a partial financial picture	Presents full financial picture
	Expense tangible capital assets	Capitalize tangible capital assets
	Reserve contributions / No amortization	Amortization over the useful life of tangible capital assets
	Excludes unfunded liabilities	Includes unfunded liabilities

The major differences between the two presentations are:

1. Amortization

The City's 2020 Budget and 2021-2022 Plan is developed excluding amortization on tangible capital assets. The statutory financial statements present the net book value of the City's tangible capital assets on the Statement of Financial Position and includes annual amortization to recognize the use of tangible capital assets in the current year in the Statement of Operations and Accumulated Surplus. Council has chosen not to include amortization expense in the tax levy requirements in accordance with *Regulation 284/09 of the Municipal Act, 2001*. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of these assets be raised through taxation each year to help smooth out potential large tax increases in the years of replacement.

2. Contributed Tangible Capital Assets

The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's statutory financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.

3. Post Employment Benefits

The City's 2020 budget and 2021-2022 Plan excludes future post-employment costs except for actual post-employment benefit payments as they are funded from taxation. However, post-employment benefits on the statutory financial statements represent the retirement benefits that have accrued over the service life of the City's employees to date but not yet paid. These are expensed over the life of the employees as they render the service. The result is a difference between the

budget and the statutory statements due to the gap between the current funding and the liability for post-employment benefits.

4. Share of net earnings in Hydro Vaughan Corporations/Dividends

The City's 2020 Budget and 2021-2022 Plan includes dividends paid by the Hydro Corporations to the City. The statutory financial statements exclude dividends received, but, include the equity pickup of the 2020 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Fiscal Health Report for the year ending December 31, 2020 (presented to Council in May) and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

Reconciliation of the City of Vaughan's Operating Surplus to PSAB Surplus

2020 City of Vaughan Operating Surplus on Fund Basis December 31, 2020	\$	-
Add:		
Water and Wastewater revenues		173.62
Contributed tangible capital assets		174.55
Share of net earnings in Hydro Vaughan Corporations		16.13
PSAB adjustments		89.44
Contributions from developers		41.30
Debt principal payments		5.73
Less:		
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)		(1.71)
Amortization		(78.98)
Water and Wastewater expenditures		(174.30)
Post Employment Benefits		(8.44)
Hydro dividends received		(13.11)
PSAB adjustments		(45.16)
Annual Surplus per Draft Consolidated Financial Statements	\$	179.08

Previous Reports/Authority

N/A

Analysis and Options

N/A

Financial Impact

N/A

Broader Regional Impacts/Considerations

N/A

Conclusion

The City of Vaughan's 2020 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, Tourism Vaughan Corporation, the Trust Fund and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events present fairly, in all material respects, the financial position of each entity as at December 31, 2020 and the results of operations and accumulated surplus, the change in net financial assets and the cash flows for each entity for the year ended December 31, 2020 in accordance with public sector accounting standards.

For more information, please contact:

Dean Ferraro, Director of City Financial Services/Deputy Treasurer Ext. 8272
or Nancy Yates, Controller, Ext. 8984

Attachments

1. 2020 Draft City Consolidated Financial Statement Highlights
2. 2020 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Kleinburg Business Improvement Area Financial Statements, Tourism Vaughan Corporation and the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements
3. 2020 Audit Findings Report – KPMG LLP

Prepared by

Nancy Yates CPA, CA, BComm
Controller, Ext. 8984

Approved by



Michael Coroneos
Deputy City Manager
Corporate Services City Treasurer and
Chief Financial Officer

AUDIT COMMITTEE – MAY 31 , 2021**2020 DRAFT CITY CONSOLIDATED FINANCIAL STATEMENT HIGHLIGHTS****Financial Assets****Cash and Cash Investments**

- Cash balance totals \$795.0 (2019, \$779.7M)
- Net increase cash \$15.3M (2019, increase of \$49.3M)
- Net increase in cash from operating activities \$77.4M (2019, \$111.0M)
- Significant items not involving cash
 - Amortization \$79.0M (2019, \$76.7M)
 - Contributed tangible capital assets \$174.5M (2019, \$486.6M)
 - Assumed assets decreased in 2020
 - Assumption of assets related to development applications is developer driven
 - Developers cannot approach the city for assumption until the maintenance stage set out in their respective agreement
 - Market related factors such as sales of residential, commercial and industrial units affect the request by developers for assumption
 - Once a request is made, multiple city and external departments need to inspect and provide clearance for assumption
 - The restrictions of the COVID-19 pandemic resulted in construction and inspection delays thereby reducing the requested assumptions by developers and the approval of assumptions by the City
 - Assumptions requested in the first quarter of 2021 exceed the total assumptions in the year 2020.
 - Assumed assets include:

• Land	\$157.8M
• Land Improvements	0.6M
• Buildings and Facilities	2.3M
• Roads Infrastructure	4.0M
• Water & Sewer Infrastructure	9.8M
 - Share of net earnings of Hydro Vaughan Corps \$16.1M (2019, \$10.8M)
 - Increase resulting from higher income from Alectra \$75M (2019, \$49M) due to:
 - Increase in electricity sales driven by higher electricity prices
 - Higher other revenue from LED projects and increased consulting revenue
 - Higher distribution revenue as a result of higher distribution rates
 - Offset by:
 - Increase in the cost of power as a result of higher wholesale electricity prices
 - Higher operating expenses due to increases in expected credit losses attributed to the COVID-19 pandemic
 - Higher income taxes due to higher 2020 income
 - Higher amortization costs due to new additions in 2020
 - Increase in deferred revenues – obligatory reserve funds \$0.8M (2019, \$2.2M)
 - Revenues received increased by \$56.1M and interest increased by \$6.7M offset by expenditures of \$62.0M
 - Continued impact on revenues due to 2018 DC pre-payment agreements coupled with increasing development charge related capital expenditures

- Recreation Land revenues increased over 2019 due to increased development in intensification areas
- Net decrease in cash from capital activities \$83.1M (2019, \$82.2M)
 - Cash used to acquire tangible capital assets \$83.1M (2019, \$82.3M)
- Net increase in cash from financing activities \$0.0M (2019, \$5.5M)
 - Debenture and other debt repaid \$5.7M (2019, \$6.8M)
 - Debenture and other debt incurred \$5.7M (2019, \$12.3M)
 - Debt incurred relates to amount owing re YMCA construction interest
- Net increase in cash from investing activities \$21.1M (2019, \$15.0M)
 - Increase in cash due to decrease in investments \$6.2M (2019, decrease in cash due to increase in investments \$1.3M)
 - Increase in cash from Investment in Hydro Vaughan Corporations is \$14.8M (2019, \$16.3M) made up of operating dividends on solar and common shares, \$13.1M, a capital dividend on solar shares of \$1.7M from Alectra to Vaughan Holdings Inc. In 2019, the increase is made up of operating dividends on solar and common shares \$14.3M and a capital dividend of \$2.0M on solar shares from Vaughan Holdings Inc.

Taxes Receivable

- Taxes receivable are monies owing from property owners as at December 31st, 2020 and include the City's portion, Regional portion and the Provincial portion for education
- Taxes receivable totals \$58.8M (2019, \$48.2M)
 - Increase of \$10.6M primarily due to collection issues related to COVID-19
 - Waiver of penalty for interim billing effectively deferring payment of interim taxes until July 1st
 - Extension of final billing due date by 30 days to August
 - Arrears notices not sent out until year-end

Water and Wastewater Receivable

- The water and wastewater receivables total \$25.3M (2019, \$25.2M)
 - Increase of \$0.1M due to an increase in residential consumption offset by a decrease in commercial consumption during the pandemic

Investments

- Investments total \$82.4M (2019, \$88.6M)
 - Decrease of \$6.2M primarily related to a decrease in investment in PPN of \$7.5M, a decrease in investment in various banks of \$5.0M and a decrease in Federal bonds of \$0.6M offset by an increase in investment with CIBC Mellon of \$7.0M

Accounts Receivable

- The City's accounts receivable totals \$19.8M (2019, \$21.6M)
- Comprise a wide range of monies owing from various levels of government, outside agencies, and businesses
 - Decrease of \$1.8M mainly due the following:
 - a decrease of \$4.6M in miscellaneous accounts receivable
 - Offset by an increase in HST receivable of \$1.2M and Due to the Region of \$1.4M and an increase in by-law fines receivable of \$0.3M

Investment in Hydro Vaughan Corporations

- Investment is increased by share of cash invested and Alectra's net income but is decreased by receipt of dividends
- Vaughan Holdings Inc. (VHI) – owns 20.5% (2019, 20.5%) share of Alectra
- Hydro Vaughan Energy Corporation – 100% subsidiary of VHI
- 1446631 Ontario Inc. – inactive – 100% owned by the City of Vaughan (COV)
- Investment in Hydro Vaughan Corporations is \$628.9M (2019, \$629.3M)

- Gain on merger with Guelph Hydro Electric Systems Inc of \$0.0M (2019, 1.0M)
- Share of net earnings Hydro Vaughan Corporations of \$16.1M (2019, \$10.8M)
- Reduction of dividends paid from VHI to the City of Vaughan (COV) of \$13.1M (2019, \$14.3M)
- Return of capital on solar shares from Alectra to VHI of \$1.7M (2019, \$2.0M)
- Return of capital on solar shares form VHI to the COV of \$1.7M (2019, \$2.0M)
- PowerStream Holdings merged with Horizon Holdings and Enersource Holdings on February 1, 2017
- On February 28, 2017, the newly merged company named Alectra acquired Hydro One Brampton Networks
- Ring Fenced Solar business retained as an operating subsidiary of Alectra and existing PowerStream shareholders retain ownership of the economic interests in those assets represent by Class S of Common Shares
- On January 1, 2019 Alectra amalgamated with Guelph Hydro Electric Systems Inc. VHI's percentage of ownership reduced to 20.5% from 21.49%

LIABILITIES

Accounts Payable and Accrued Liabilities

- City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the York Region and School Boards
- Balance at December 31, 2020 was \$123.2M (2019, \$125.1M)
 - Decrease of \$1.9M is primarily due to a decrease in the year-end amount owing to the School Boards, \$6.1M, a decrease of \$5.0M in capital accruals, a decrease of \$4.3M in year-end accruals and a decrease of \$0.1M in HST payable offset by increases in trade payables of \$9.0M, accrual for the refund of the disallowed library wage grant of \$3.1M, York Region payables of \$1.4M and payroll accruals of \$0.2M

Employee Future Benefit Liability

- Employee Future Benefit Liability totals \$155.0M (2019, \$144.8M)
- Includes:
 - Post retirement non-pension benefits \$139.3M (2019, \$129.9M)
 - Accrued Vacation Pay \$9.4M (2019, \$7.6M)
 - Workplace Safety and Insurance Board (WSIB) \$6.3M (2019, 7.2M)
- Post retirement non-pension benefits are based on a new 3-year actuarial study beginning in 2020
- Represents the retirement benefits that have accrued over the service life of city employees to-date but not yet paid (ie. medical and dental)
- Costs of these benefits are recognized annually in the financial statements as the employees render their service
- A portion of these liabilities that are not funded annually are netted against the accumulated surplus
- To fund this liability, Council approved the creation of a reserve for post employee's retirement benefits, which now totals \$33.1M (2019, \$29.9M)
- Vacation entitlement is earned during the course of employment and this liability represents the unused portion
- The WSIB valuation is based on a 2020 actuarial study
- WSIB liability represents the future expected claims and the liability is \$6.3M (2019, \$7.2M) due to an increased number of firefighters on WSIB for post-traumatic stress which is now fully funded by WSIB
- The WSIB reserve is \$1.4M (2019, \$1.3M)
 - \$75,000 is budgeted annually as the transfer to the WSIB reserve
- The City has an insurance policy for single WSIB claims between \$0.5M and \$1.5M

Deposits and Deferred Revenue

- Deposits and Deferred Revenue represent pre-paid funds from developers, builders and other parties held by the City for capital projects to be constructed or various City services to be rendered in the future
- Deposits and deferred revenue total \$33.4M (2019, \$40.0M)
- Decrease of \$6.6M primarily due to reduced deferred Recreation revenue due to COVID of \$2.1M Building Standards of \$2.6M and miscellaneous permits and licenses of \$1.9M

Deferred Revenue – Obligatory Reserve Fund

- Development Revenue – Obligatory Reserve Fund includes
 - Development charges
 - Cash in-lieu of parkland
 - Sub-divider contributions
 - Funds set aside from building permits under the Building Standards Act
 - Unused gas tax funds and other Provincial and Federal grants
- Funds considered liabilities as they are non-discretionary in terms of use and represent capital work obligations to be constructed by the City in the future

	2020	2019
Recreational land (The Planning Act)	\$ 87,581,337	\$ 72,544,521
Development Charges Act	469,585,159	482,519,449
Subdivider contributions	17,648,814	15,217,466
Federal Gas Tax Revenues	27,431,163	34,015,694
Building Standards Act	16,028,358	12,233,461
Ontario Grants	1,713,680	2,652,245
	\$ 619,988,511	\$ 619,182,836

Debenture and Other Debt

- Debenture and other debt total \$64.6M (2019, \$64.6M)
- Consists of sinking fund debentures, serial debentures and other development related debt.
- 2020 debt ratio is 2%, well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%
 - Debt repayment of \$5.7M was offset by new debt issued in 2020 of \$5.7M which is the debt payable to the YMCA for construction of the city library and recreation space in the Vaughan Metropolitan Centre

Non-Financial Assets

- Non-financial assets are the City's tangible capital assets and prepaid expenses
- Tangible capital assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan
- The tangible capital assets net book value as at December 31, 2020 total \$9.2B (2019, \$9.0B)
- Net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments
- Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put into service
- The 2020 amortization expense was \$79.0M (2019, \$76.7M)
- Assets under construction totalling \$206.1M (2019, \$199.3M) will not be amortized until the assets are brought into service
- Refer to Note 9 of the Draft Consolidated Financial Statements for a breakdown of tangible capital assets

Accumulated Surplus

- Consists of:
 - Investment in tangible capital assets
 - Investment in Hydro Vaughan Corporations
 - Discretionary reserves
 - Amounts to be recovered in future years – debt and employee future benefits
 - Opening operating and capital fund balances
- The accumulated surplus at December 31, 2020 is \$9.8B (2019, 9.6B)
- Discretionary reserves increased to \$357.3M (2019, \$320.7M)
- Refer to Note 10 of the Draft Consolidated Financial Statements for a further breakdown of the Accumulated Surplus

Annual Surplus

- The Annual Surplus is a result of the accrual basis of accounting as required under Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB). The cash basis of accounting used in the preparation of the budget (management reporting) will not yield the same result.
 - Statutory financial statements present an annual surplus that for the year end December 31, 2020 is \$179.1M (2019, \$494.2M) versus breakeven results in 4th quarter Fiscal Health Report
- Significant differences between Statutory financial statements versus from 4th quarter Fiscal Health Report due to statutory reporting requirements include:
 - Contributed assets \$174.5M (2019, \$486.6) included in statutory reporting revenue not in Fiscal Health Report
 - Statutory reporting for all Vaughan Hydro Corporations are done on an equity pick up basis, which includes 20.5% (2019, 20.5%) of Alectra income less dividends received from Alectra, 100% of VHI net income and 100% of HVEC net loss while 4th quarter results include 75% of Alectra dividends from VHI and do not include the net income or loss of VHI and HVEC
 - Statutory reporting expenses includes amortization of tangible capital assets of \$79.0M (2019, \$76.7M) versus reserve contributions of \$41.9M in 4th quarter Fiscal Health Report
 - Statutory reporting includes an adjustment for the decrease in the City's equity interest in the net assets of Alectra of \$1.7M (2019, decrease \$2.0M) not included in 4th quarter Fiscal Health Report

Audit of Tourism Vaughan Corporation

- On March 19th, 2019, Council approved a Bylaw allowing the City to levy a four per cent Municipal Accommodation Tax (MAT) on the purchase of transient accommodations including hotels, motels and bed and breakfasts in Vaughan effective April 1, 2019. Pursuant to Ontario Regulation 435/17, at least 50 percent of the MAT revenue must be shared with a Tourism promotion entity
- The Corporation of the City of Vaughan established a municipal service corporation, Tourism Vaughan Corporation (TVC), to serve as the City's tourism promotion entity. TVC was incorporated on May 15th, 2019
- The Financial Statements of TVC are included in the attached financial statement package and are also included in the City of Vaughan Consolidated Financial Statements
- 2020 Revenue from the MAT was \$0.3M (2019, \$1.1M), 50% of total MAT collected by the City. The significant reduction in 2020 was a result of reduced demand in the hospitality industry due to the COVID-19 pandemic. The collection of the MAT was suspended from March 17 until September 1st, 2020.
- TVC received a grant from the Tourism Association of Ontario Regional Relief and Recovery Fund of \$0.2M in 2020 to enable recovery from economic disruption associated with the COVID-19 pandemic

- 2020 Expenses were \$0.5M (2019, \$0.2M) and included professional fees and salary for 3 staff
- 2020 Net Profit was \$0.1M (2019, \$0.9M)

Audit of the Mayor's Gala and Golf Events Statement of Revenue/Expenses and Fund Balance

- All Gala and Golf revenue and expenses through the City of Vaughan books have always been included in the City's consolidated financial statements
- The 2020 Gala and Golf events were cancelled due to the COVID-19 pandemic
- Any sponsorship revenue raised has been either returned or treated as deferred revenue for future Gala and Golf events
- Some expenditures paid in 2020 will be applied to future Gala and Golf events and have been treated as prepaid expenditures in 2020

Consolidated Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change 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, 2020, and its consolidated results of operations, its consolidated change 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Financial Assets		
Cash and cash equivalents	\$ 795,002,927	\$ 779,700,486
Taxes receivable	58,789,431	48,247,575
Water and sewer billings receivable	25,340,148	25,220,469
Accounts receivable	19,758,156	21,575,321
Investments (note 3)	82,378,515	88,610,584
Investment in Hydro Vaughan Corporations (note 4)	628,919,333	629,320,313
	<u>1,610,188,510</u>	<u>1,592,674,748</u>
Financial Liabilities		
Accounts payable and accrued liabilities	123,161,346	125,121,697
Accrued interest on long-term liabilities	73,695	93,272
Employee future benefits (note 5)	154,981,349	144,778,571
Deposits and deferred revenue (note 6(a))	33,374,323	40,013,432
Deferred revenue - obligatory reserve funds (note 6(b))	619,988,511	619,182,836
Debenture and other debt (note 7)	64,547,720	64,569,163
Note payable (note 8)	3,303,523	3,303,523
	<u>999,430,467</u>	<u>997,062,494</u>
Net financial assets	610,758,043	595,612,254
Non-Financial Assets		
Tangible capital assets (note 9)	9,203,062,448	9,041,767,804
Prepaid expenses	4,997,756	2,355,744
	<u>9,208,060,204</u>	<u>9,044,123,548</u>
Contractual rights (note 15)		
Commitments (note 16)		
Contingencies (note 17)		
Accumulated surplus (note 10)	<u>\$ 9,818,818,247</u>	<u>\$ 9,639,735,802</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2020, with comparative information for 2019

	Budget (note 13) (note 1(p))	2020	2019
Revenue (note 12):			
Property taxation	\$ 218,955,021	\$ 218,292,594	\$ 210,313,730
Taxation from other governments	1,500,000	1,541,371	1,649,320
Municipal accommodation tax	3,600,000	624,660	2,117,140
User charges	57,954,511	53,943,797	64,190,969
Water and sewer billings	190,352,167	173,615,718	162,355,455
Government transfers (note 11)	12,411,620	24,712,732	18,125,035
Investment income	6,330,700	9,236,779	8,675,665
Penalties and interest on taxes	5,200,000	6,971,632	5,774,042
Other fees and services	241,320	5,921,743	3,277,186
Contributions from developers	102,816,767	41,300,710	27,170,561
Contributed assets (note 9(b))	–	174,547,055	486,611,658
Hydro Vaughan Corporations (note 4):			
Share of net earnings	12,202,000	16,132,631	10,772,850
Interest on notes receivable	–	3,450,220	3,450,220
	611,564,106	730,291,642	1,004,483,831
Expenses (note 12):			
General government	42,758,047	48,950,196	28,653,424
Protection to persons and property	88,708,813	94,785,214	84,017,469
Transportation services	58,835,111	73,930,106	62,157,780
Environmental services	225,134,340	212,852,436	200,467,273
Health services	121,038	143,864	94,844
Social and family services	306,710	121,711	126,154
Recreation and cultural services	108,061,551	91,230,794	108,649,537
Planning and development	108,553,164	27,484,674	25,072,447
	632,478,774	549,498,995	509,238,928
Gain on merger of Alectra Inc. with Guelph Hydro Electric Systems Inc. (note 4)	–	–	989,605
Adjustment for the decrease of the City's equity interest in the net assets of Alectra Inc. (note 4)	–	(1,710,202)	(1,998,163)
Annual surplus (deficit)	(20,914,668)	179,082,445	494,236,345
Accumulated surplus, beginning of year	9,639,735,802	9,639,735,802	9,145,499,457
Accumulated surplus, end of year	\$ 9,618,821,134	\$ 9,818,818,247	\$ 9,639,735,802

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2020, with comparative information for 2019

	Budget (note 13) (note 1(p))	2020	2019
Annual surplus (deficit)	\$ (20,914,668)	\$ 179,082,445	\$ 494,236,345
Amortization of tangible capital assets	–	78,978,870	76,674,645
Proceeds on disposal of tangible capital assets	–	37,135	137,172
Loss on disposal of tangible capital assets	–	17,368,663	1,741,538
Acquisition of tangible capital assets	–	(257,679,312)	(568,961,634)
	(20,914,668)	17,787,801	3,828,066
Acquisition of prepaid expenses	–	(2,642,012)	52,836
Increase (decrease) in net financial assets	(20,914,668)	15,145,789	3,880,902
Net financial assets, beginning of year	595,612,254	595,612,254	591,731,352
Net financial assets, end of year	\$ 574,697,586	\$ 610,758,043	\$ 595,612,254

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 179,082,445	\$ 494,236,345
Items not involving cash:		
Amortization of tangible capital assets	78,978,870	76,674,645
Loss on disposal of tangible capital assets	17,368,663	1,741,538
Contributed tangible capital assets	(174,547,055)	(486,611,658)
Gain on merger of Alectra Inc. with Guelph Hydro Electric Systems Inc.	–	(989,605)
Share of net earnings of Hydro Vaughan Corporations	(16,132,631)	(10,772,850)
Decrease in equity interest in net assets of Alectra Inc.	1,710,202	1,998,163
Change in non-cash assets and liabilities:		
Increase in taxes receivable	(10,541,856)	(458,461)
Increase in water and sewer billings receivable	(119,679)	(2,108,480)
Decrease in accounts receivable	1,817,165	765,268
Increase (decrease) in accounts payable and accrued liabilities	(1,960,351)	23,750,316
Decrease in accrued interest on long-term liabilities	(19,577)	(22,276)
Increase in employee future benefits	10,202,778	10,559,815
Decrease in deposits and deferred revenue	(6,639,109)	(18,577)
Increase in deferred revenue - obligatory reserve funds	805,675	2,177,085
Decrease (increase) in prepaid expenses	(2,642,012)	52,836
	77,363,528	110,974,104
Capital activities:		
Proceeds on disposal of tangible capital assets	37,135	137,172
Cash used to acquire tangible capital assets	(83,132,257)	(82,349,976)
	(83,095,122)	(82,212,804)
Financing activities:		
Debenture and other debt repaid	(5,733,698)	(6,827,447)
Debenture and other debt incurred	5,712,255	12,334,878
	(21,443)	5,507,431
Investing activities:		
Decrease (increase) in investments, net	6,232,069	(1,317,410)
Dividend and return of capital from Hydro Vaughan Corporations	14,823,409	16,304,838
	21,055,478	14,987,428
Increase in cash and cash equivalents	15,302,441	49,256,159
Cash and cash equivalents, beginning of year	779,700,486	730,444,327
Cash and cash equivalents, end of year	\$ 795,002,927	\$ 779,700,486
Supplemental cash flow information:		
Interest paid	\$ 527,512	\$ 693,472
Interest and dividends received	32,168,296	39,927,229

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements

Year ended December 31, 2020

The Corporation of the City of Vaughan (the "City" or "City of Vaughan") is a lower-tier municipality located in the Regional Municipality of York, Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes, such as the Municipal Act, Municipal Affairs Act and related legislation.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Since the first quarter of 2020, the COVID-19 pandemic has impacted the global economic environment due to government-imposed lockdowns and social distancing requirements. The economic conditions and City's response to the COVID-19 pandemic had an operational and financial impact on the City. The full extent of the financial impact is currently indeterminable due to the evolving nature of the COVID-19 pandemic.

1. Significant accounting policies:

The consolidated financial statements of the City of Vaughan are prepared by management in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenue, expenses and accumulated surplus of the reporting entity. The reporting entity comprises all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City, except for the City's government business enterprises, which are accounted for on the modified equity basis of accounting.

The consolidated financial statements include:

- The Corporation of the City of Vaughan Public Library Board;
- Board of Management for the Kleinburg Business Improvement Area; and
- Tourism Vaughan Corporation.

Interdepartmental and inter-organizational transactions and balances between these entities have been eliminated upon consolidation.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(ii) Investments in government business enterprises:

The City's investments in Vaughan Holdings Inc., Hydro Vaughan Energy Corporation, 1446631 Ontario Inc. and Alectra Inc., collectively referred to as "Hydro Vaughan Corporations", are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its consolidated statement of operations and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City receives from the Hydro Vaughan Corporations are reflected as reductions in the investment asset account.

(iii) Accounting for Regional Municipality of York (the "Region" or "Region of York") and school board transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the Region and the school boards are not reflected in these consolidated financial statements. Information on amounts collected and remitted to the Region and the school boards is provided in note 2.

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in these consolidated financial statements. Information on trust funds balances is provided in note 14.

(b) Basis of accounting:

The City follows the accrual method of accounting for revenue and expenses. Revenue is normally recognized in the year in which it is earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

The annual cost of owning and using tangible capital assets (estimated amortization) is deducted from annual results. That is, a portion of the cost of the asset is recognized in annual results in each of the periods of its useful life.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents consist of deposits in banks, certificates of deposits and investments with original maturities of three months or less. Cash and cash equivalents are recorded at cost with write down to market when there is a decrease in value.

(d) Investments:

Investments are recorded at cost or amortized cost. Investment earnings are accounted for on the accrual basis. Premiums and discounts are amortized over the life of the investment. When there has been a loss of value that is other than a temporary decline in value, the respective investment is written down to recognize the loss in the consolidated statement of operations and accumulated surplus.

(e) Government transfers:

Government transfers are recognized in the consolidated financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be made.

(f) Deposits and deferred revenue:

Deposits and deferred revenue represent user fees and charges that have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the services are performed.

(g) Deferred revenue - obligatory reserve funds:

The City receives development charge contributions and payments in lieu of parkland under the authority of provincial legislation and City bylaws. The City also receives federal gas tax revenue and other transfer payment from other levels of governments. These funds, by their nature, are restricted in their use and, until applied to applicable capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal period they are spent for the purpose for which they were collected.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(h) Pension, vacation entitlements and employee benefits:

The City accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan. The City does not recognize any share of the pension plan deficit based on the fair market value of OMERS assets, as this is a joint responsibility of all Ontario municipalities and their employees.

Vacation entitlements are accrued for as the entitlements are earned.

Other post-employment benefits and compensated absences are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation is determined by reference to the market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the related employee groups.

Unamortized actuarial gains/losses for event-triggered liabilities, such as those determined as claims related to the Workplace Safety and Insurance Board ("WSIB"), are amortized over the average expected period during which the benefits will be paid.

Costs related to prior period employee services arising out of plan amendments are recognized in the period in which the plan is amended. Where applicable, the City has set aside reserve funds intended to fund these obligations either in full or in part. These reserve funds were created under municipal by-law and do not meet the definition of a plan asset under PS 3250, Retirement Benefits. Therefore, for the purposes of these consolidated financial statements, the plans are considered unfunded.

A full actuarial valuation of the post-retirement non-pension benefit obligation and the WSIB obligation was completed as at January 1, 2020 for 2020, 2021 and 2022 in accordance with the financial reporting guidelines established by PSAB.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(i) Taxation and related revenue:

Property tax bills are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation. Tax rates are established annually by City Council, incorporating amounts to be raised for local services, the requisition made by the Region in respect of regional services and amounts the City is required to collect on behalf of the Province of Ontario in respect of education taxes.

The assessment process includes the issuance of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the taxes applicable and renders supplementary tax billings. Taxation revenue and taxes receivable are recognized when they meet the definition of an asset, the tax is authorized and a taxable event has occurred. Property assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

The City is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

(j) Municipal accommodation tax:

Municipal accommodation tax revenue is recognized in the period that the tax is levied on accommodation charges by accommodation providers.

(k) Investment income:

Investment income earned on surplus funds is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue - obligatory reserve fund balances.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(l) Segment disclosures:

The City adopted PS 2700, Segment Disclosures. A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The additional disclosure required as a result of this standard is included in note 12.

(m) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Land improvements	2 - 100 years
Buildings and facilities	5 - 85 years
Machinery and equipment	5 - 35 years
Vehicles	7 - 18 years
Furniture and fixtures	7 - 15 years
Information technology	2 - 6 years
Leasehold improvements	5 - 50 years
Roads infrastructure	2 - 75 years
Water and sewer infrastructure	20 - 95 years

Annual amortization is charged in the year that the asset is available for productive use and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(iii) Works of art and cultural and historic assets:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(iv) Interest capitalization:

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases, which transfer substantially all of the benefits and risks incidental to ownership of property, are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(n) Assets:

The assets standard provides additional guidance on the definition of assets and what is meant by economic resources, control, past transactions and events from which future economic benefits are to be obtained. For the year ended December 31, 2020, all material assets have been disclosed and reported within this definition.

(o) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant estimates include assumptions used in estimating the carrying values of taxes receivable and accounts receivable, provisions for accrued liabilities and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of PS 3150, Tangible Capital Assets, requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

The full extent of the impact that the COVID-19 pandemic, including government and regulatory responses to the pandemic, will have on the Canadian economy and the City's operations remains uncertain at this time. Actual results could differ from these estimates.

(p) Presentation of budget information:

The 2020 budget figures, as presented in these consolidated financial statements, consist of the operating, capital, and water, wastewater and stormwater budgets as approved by City Council.

(q) Future accounting pronouncements:

These standards and amendments were not yet effective for the year ended December 31, 2020, and have therefore not been applied in preparing these consolidated financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements.

- (i) PS 1201, Financial Statement Presentation, was issued in June 2011. This standard requires entities to present a new statement of remeasurement gains and losses separate from the consolidated statement of operations and accumulated surplus. This new statement includes unrealized gains and losses arising from remeasurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This standard is effective for fiscal years beginning on or after April 1, 2022 and applies when PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, are adopted (the City's December 31, 2023 year-end).
- (ii) PS 3450, Financial Instruments, establishes the standards on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2022 (the City's December 31, 2023 year-end).

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

- (iii) PS 2601, Foreign Currency Translation, establishes the standards on accounting for and reporting transactions that are denominated in a foreign currency. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2022 (the City's December 31, 2023 year-end). Earlier adoption is permitted. A public sector entity adopting this standard must also adopt the new financial instruments standard.
- (iv) PS 3280, Asset Retirement Obligations, addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. This standard is effective for fiscal years beginning on or after April 1, 2022 (the City's December 31, 2023 year-end).
- (v) PS 3400, Revenue, establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. This standard is effective for fiscal years beginning on or after April 1, 2023 (the City's December 31, 2024 year-end).
- (vi) Public Sector Guideline 8 Purchased Intangibles, allows public sector entities to recognize intangibles purchased through an exchange transaction. This guideline is effective for fiscal years beginning on or after April 1, 2023 (the City's December 31, 2024 year-end).

2. Operations of school boards and the Region of York:

During 2020, requisitions were made by the district school boards and the Region of York requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are not recorded in these consolidated financial statements and are summarized below:

	District school boards	The Region
Property taxes, net of adjustments and write offs	\$ 316,173,069	\$ 367,466,771
Taxation from other governments	441,928	781,962
Amounts requisitioned and remitted	\$ 316,614,997	\$ 368,248,733

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 1.83% to 4.02% (2019 - 1.83% to 4.02%) with maturity dates from April 26, 2021 - December 15, 2025 (2019 - June 24, 2020 - December 15, 2025). Market value of investments costing \$82,378,515 (2019 - \$88,610,584) is \$84,729,243 (2019 - \$89,671,789) at December 31, 2020.

4. Investment in Hydro Vaughan Corporations:

The City has incorporated corporations under the provisions of the Ontario Business Corporations Act. The corporations are collectively referred to as Hydro Vaughan Corporations.

The City of Vaughan's ownership of the Hydro Vaughan Corporations is as follows:

	Interest held	
	2020	2019
Vaughan Holdings Inc. (including 100% ownership of Hydro Vaughan Energy Corporation and 20.5% (2019 - 20.5%) share interest in Alectra Inc.)	100%	100%
1446631 Ontario Inc.	100%	100%

On January 1, 2019, Alectra Inc. ("Alectra") amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra issued 485,000 Class G common shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common share issuance by Alectra represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares.

The resulting shareholder ownership structure after this merger is as follows:

Shareholder	Interest held
Barrie Hydro Holdings Inc.	8.4%
Enersource Corporation	29.6%
Hamilton Utilities Corporation	17.3%
Markham Enterprises Corporation	15.0%
St. Catharines Hydro Inc.	4.6%
Vaughan Holdings Inc.	20.5%
GMHI	4.6%

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

4. Investment in Hydro Vaughan Corporations (continued):

The following table provides condensed supplementary financial information in respect of the City's investment accounted for on a modified equity basis in Hydro Vaughan Corporations.

Financial position	2020	2019
Assets		
Current	\$ 19,575,787	\$ 15,060,868
Investment in government business enterprises	628,919,333	629,320,313
Other	200,575	202,256
Total assets	\$ 648,695,695	\$ 644,583,437
Liabilities		
Current	\$ 1,539,090	\$ 1,281,121
Total liabilities	1,539,090	1,281,121
Shareholders' equity		
Share capital	196,859,952	196,859,952
Retained earnings and contributed surplus	450,296,653	446,442,364
Total shareholders' equity	647,156,605	643,302,316
Total liabilities and shareholders' equity	\$ 648,695,695	\$ 644,583,437

Results of operations:

	2020	2019
Revenue	\$ 16,448,066	\$ 11,118,065
Expenses	315,435	345,215
Net income	\$ 16,132,631	\$ 10,772,850

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

4. Investment in Hydro Vaughan Corporations (continued):

A summary of the City's investment in Hydro Vaughan Corporations is as follows:

	2020	2019
Equity	\$ 543,916,663	\$ 544,317,643
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	869,645	869,645
Investment in Hydro Vaughan Corporations	\$ 628,919,333	\$ 629,320,313

A summary of the change in the City's investment in Hydro Vaughan Corporations is as follows:

	2020	2019
Equity pickup in Hydro Vaughan Corporations	\$ 16,132,631	\$ 10,772,850
Gain on merger	—	989,605
Decrease in equity interest	(1,710,202)	(1,998,163)
Return of capital	(1,710,202)	(1,998,163)
Dividend	(13,113,207)	(14,306,675)
Net change in investment in Hydro Vaughan Corporations	(400,980)	(6,540,546)
Opening investment in Hydro Vaughan Corporations	629,320,313	635,860,859
Closing investment in Hydro Vaughan Corporations	\$ 628,919,333	\$ 629,320,313

Notes receivable of \$84,133,025 includes an unsecured note receivable from Alectra in the amount of \$78,236,285, repayable within 90 days following demand by the City. The note receivable was renegotiated in 2017 and now bears interest at an annual rate of 4.41% down from 5.58%. The remaining \$5,896,740 portion of the note receivable represents an amount due from Vaughan Holdings Inc. without interest and no specified terms of repayment.

The obligations of Hydro Vaughan Corporations for the notes payable to the City are subordinated to secured credit agreements of Alectra.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

5. Employee future benefits:

The components of the liability for employee future benefits are as follows:

	2020	2019
Post-retirement non-pension benefits ^(d)	\$ 139,303,097	\$ 129,931,784
Vacation entitlements ^(c)	9,390,352	7,626,387
WSIB ^(b)	6,287,900	7,220,400
	<u>\$ 154,981,349</u>	<u>\$ 144,778,571</u>

(a) Pension:

The City provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The plan is a defined benefit pension plan, which specifies the amount of the retirement benefit to be received by employees based on the length of credited service and average earnings. No past service liability exists.

The City is current with all payments to OMERS. As at December 31, 2020, OMERS has a deficit of \$3.2 billion (2019 - \$3.4 billion). The date of the most recent filed actuarial valuation for funding purposes for the OMERS Primary Pension Plan was December 31, 2019. The next required filing of an actuarial valuation for funding purposes will be performed with a date no later than December 31, 2022.

Total OMERS contributions amounted to \$31,810,056 in 2020 (2019 - \$31,186,897), of which \$15,689,973 (2019 - \$15,613,181) represented the City's portion.

(b) Workplace safety and insurance obligations:

Under the provision of the WSIB, the City is a self-insured Schedule 2 employer.

An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability of \$6,287,900 (2019 - \$7,220,400) reported in these consolidated financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to \$1,000,000.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

5. Employee future benefits (continued):

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is \$9,390,352 (2019 - \$7,626,387).

(d) Post-retirement non-pension benefits:

The City pays certain health, dental and life insurance benefits on behalf of its retired employees. The City recognizes these post-retirement non-pension benefit costs in the period in which the employee renders the services.

The projected benefit liability for active employees and retirees at December 31, 2020 of \$139,303,097 (2019 - \$129,931,784) and the expense for the year ended December 31, 2020 of \$10,835,008 (2019 - \$11,178,920) was determined by actuarial valuation using a discount rate of 3.0% (2019 - 3.5%).

Information about the City's defined benefit plan is as follows:

	2020	2019
Accrued benefit obligation, beginning of year	\$ 132,755,809	\$ 123,939,872
Actuarial gain	(3,665,458)	
Service cost	6,839,180	6,397,250
Interest cost	4,055,930	4,545,940
Benefits paid	(1,463,695)	(2,106,253)
Accrued benefit obligation, end of year	138,521,766	132,755,809
Unamortized actuarial gain (loss)	781,331	(2,824,025)
Accrued benefit liability	\$ 139,303,097	\$ 129,931,784

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

5. Employee future benefits (continued):

Components of benefit expense:

	2020	2019
Service cost	\$ 6,839,180	\$ 6,397,250
Interest cost	4,055,930	4,524,940
Amortization of actuarial (gain) loss	(60,102)	256,730
Benefit expense	\$ 10,835,008	\$ 11,178,920

The main actuarial assumptions employed with the valuation are as follows:

(i) Interest (discount) rate:

The rate used to discount future benefits in the City's 2020 actuarial study is assumed to be 3.0% (2019 - 3.50%) per annum reflecting Canadian Municipal bond yields and lending rates.

(ii) Salary levels:

Future general salary and wage levels are assumed to increase at a rate management believes fairly reflects inflation.

(iii) Medical costs:

Medical costs are assumed to increase at 4.40% beginning in 2021, increase at 5.30% beginning in 2025, increase at 4.60% beginning in 2035, and increase at 4.00% beginning in 2040 and thereafter.

(iv) Dental costs:

Dental costs are assumed to increase at 4.70% beginning in 2021, increase at 5.60% beginning in 2025, increase at 5.30% beginning in 2030, increase at 4.60% beginning in 2035, and increase at 4.00% beginning in 2040 and thereafter.

(v) Expected average remaining service life of the current active group is assumed to be 14 years.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

6. Deferred revenue:

(a) Deposits and deferred revenue:

Deposits and deferred revenue as at December 31, 2020 is \$33,374,323 (2019 - \$40,013,432) and is made up of development security deposits and unearned recreation and licensing revenue.

(b) Deferred revenue - obligatory reserve funds:

Under PSAB accounting principles, obligatory reserve funds are to be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and, under certain circumstances, these funds may possibly be refunded. The balances in the obligatory reserve funds of the City are summarized below:

	2020	2019
Recreational land (The Planning Act)	\$ 87,581,337	\$ 72,544,521
Development Charges Act	469,585,159	482,519,449
Sub-divider contributions	17,648,814	15,217,466
Federal gas tax	27,431,163	34,015,694
Building Standards Act	16,028,358	12,233,461
Ontario grants	1,713,680	2,652,245
	\$ 619,988,511	\$ 619,182,836

Deferred revenue - obligatory reserve funds continuity schedule:

	Opening balance	Received	Recognized as revenue	Other	Closing balance
Recreational land (The Planning Act)	\$ 72,544,521	\$ 15,458,890	\$ (1,226,206)	\$ 804,132	\$ 87,581,337
Development Charges Act	482,519,449	21,522,165	(39,597,475)	5,141,020	469,585,159
Sub-divider contributions	15,217,466	3,295,331	(992,311)	128,328	17,648,814
Federal gas tax	34,015,694	9,289,956	(16,283,105)	408,618	27,431,163
Building Standards Act	12,233,461	6,568,522	(2,956,919)	183,294	16,028,358
Ontario grants	2,652,245	—	(945,890)	7,325	1,713,680
	\$ 619,182,836	\$ 56,134,864	\$ (62,001,906)	\$ 6,672,717	\$ 619,988,511

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

7. Debenture and other debt:

The balance of the municipal debt reported in the consolidated statement of financial position is made up of the following:

	2020	2019
Debenture debt issued by the Region on the City's behalf:		
Serial debt	\$ 17,209,195	\$ 22,942,893
Debt payable to YMCA for construction of City Library and City Recreation Space in the Vaughan Metropolitan Centre	47,338,525	41,626,270
	<u>\$ 64,547,720</u>	<u>\$ 64,569,163</u>

Debenture has been approved by by-law. Interest rates range from 2.19% to 2.71% and maturity dates range from December 2021 to May 2026. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

In 2017, the City entered into an agreement with the YMCA of Greater Toronto to be a funding partner for the construction of a YMCA, City Library and City Recreation Space in the Vaughan Metropolitan Centre. The YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation to obtain a construction loan for the project that converts to a term loan within three years from the date of the first construction loan advance. The City is responsible for payment of all interest and principal in respect of its agreed upon share of the financed project costs and is the guarantor of the YMCA's obligations under the financing agreement. The YMCA's liability amounts to \$15,907,106 (2019 - \$12,482,091). The construction loan is a non-revolving floating rate loan with interest-only payments. The term loan will be a non-revolving fixed rate loan with principal and interest payments due over an amortization period of up to 20 years. The YMCA's obligations are in good standing and no loss has been recognized. The City's obligation outstanding at December 31, 2020 includes accrued construction and interest costs to date.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

7. Debenture and other debt (continued):

Principal payments are as follows:

	YMCA	Region	Total
2021	\$ 591,733	\$ 5,733,698	\$ 6,325,431
2022	2,366,926	4,453,097	6,820,023
2023	2,366,926	2,208,400	4,575,326
2024	2,366,926	2,208,400	4,575,326
2025	2,366,926	1,302,800	3,669,726
2026 - 2040	37,279,088	1,302,800	38,581,888
	\$ 47,338,525	\$ 17,209,195	\$ 64,547,720

Total charges for the year for net debenture and other debt were as follows:

	2020	2019
Principal payments	\$ 5,733,698	\$ 6,827,447
Interest	527,512	693,472
	\$ 6,261,210	\$ 7,520,919

8. Note payable:

Effective November 1, 2000, the City issued a non-interest bearing note payable with no fixed terms of repayment in the amount of \$3,303,523 to Hydro Vaughan Energy Corporation, for the book value of the capital assets less the net long-term debt related thereto retained by the City on the dissolution of Vaughan Hydro Commission.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

9. Tangible capital assets:

	Cost				Accumulated amortization				Net book value, December 31, 2020
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2020									
Land	\$ 6,506,809,939	\$ 163,399,059	\$ —	\$ 6,670,208,998	\$ —	\$ —	\$ —	\$ —	\$ 6,670,208,998
Land improvements	216,183,889	8,402,535	(1,947,705)	222,638,719	97,176,935	7,087,455	(1,388,601)	102,875,789	119,762,930
Buildings and facilities	378,037,985	8,751,190	—	386,789,175	148,765,931	11,261,876	—	160,027,807	226,761,368
Machinery and equipment	42,737,296	7,598,897	(1,456,549)	48,879,644	25,862,040	3,682,226	(1,435,251)	28,109,015	20,770,629
Vehicles	36,445,390	1,098,997	(2,049,791)	35,494,596	22,710,059	2,086,202	(1,991,856)	22,804,405	12,690,191
Furniture and fixtures	12,380,545	1,824,958	—	14,205,503	7,376,637	680,411	—	8,057,048	6,148,455
Information technology	10,757,838	1,566,519	—	12,324,357	7,482,542	1,145,774	—	8,628,316	3,696,041
Leasehold improvements	3,110,393	—	—	3,110,393	2,571,722	16,803	—	2,588,525	521,868
Roads infrastructure	1,069,426,005	14,543,738	(7,213,035)	1,076,756,708	513,719,551	30,595,594	(4,249,336)	540,065,809	536,690,899
Water and sewer infrastructure	1,814,285,590	30,610,038	(2,018,700)	1,842,876,928	421,996,800	22,422,529	(1,256,606)	443,162,723	1,399,714,205
Assets under construction	199,255,151	19,883,381	(13,041,668)	206,096,864	—	—	—	—	206,096,864
	\$ 10,289,430,021	\$ 257,679,312	\$ (27,727,448)	\$ 10,519,381,885	\$ 1,247,662,217	\$ 78,978,870	\$ (10,321,650)	\$ 1,316,319,437	\$ 9,203,062,448

	Cost				Accumulated amortization				Net book value, December 31, 2019
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2019									
Land	\$ 6,110,249,558	\$ 396,560,381	\$ —	\$ 6,506,809,939	\$ —	\$ —	\$ —	\$ —	\$ 6,506,809,939
Land improvements	188,200,268	27,983,621	—	216,183,889	90,668,968	6,507,967	—	97,176,935	119,006,954
Buildings and facilities	366,446,656	11,591,329	—	378,037,985	137,924,559	10,841,372	—	148,765,931	229,272,054
Machinery and equipment	40,716,046	3,914,798	(1,893,548)	42,737,296	24,193,168	3,449,895	(1,781,023)	25,862,040	16,875,256
Vehicles	34,648,746	3,357,880	(1,561,236)	36,445,390	22,196,483	2,009,277	(1,495,701)	22,710,059	13,735,331
Furniture and fixtures	11,736,405	709,590	(65,450)	12,380,545	6,809,849	632,238	(65,450)	7,376,637	5,003,908
Information technology	9,051,025	1,706,813	—	10,757,838	6,310,193	1,172,349	—	7,482,542	3,275,296
Leasehold improvements	3,110,393	—	—	3,110,393	2,554,919	16,803	—	2,571,722	538,671
Roads infrastructure	1,031,803,933	37,875,170	(253,098)	1,069,426,005	483,871,128	30,096,621	(248,198)	513,719,551	555,706,454
Water and sewer infrastructure	1,756,224,390	58,418,944	(357,744)	1,814,285,590	400,359,639	21,948,123	(310,962)	421,996,800	1,392,288,790
Assets under construction	174,061,011	26,843,108	(1,648,968)	199,255,151	—	—	—	—	199,255,151
	\$ 9,726,248,431	\$ 568,961,634	\$ (5,780,044)	\$ 10,289,430,021	\$ 1,174,888,906	\$ 76,674,645	\$ (3,901,334)	\$ 1,247,662,217	\$ 9,041,767,804

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$206,096,864 (2019 - \$199,255,151) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Tangible capital assets transferred from assets under construction to other asset categories during the year is \$55,089,139 (2019 - \$41,701,433).

(b) Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$174,547,055 (2019 - \$486,611,658) comprising land and land improvements of \$158,422,543 (2019 - \$397,333,851), buildings and facilities of \$2,361,103 (2019 - nil), roads infrastructure of \$3,963,621 (2019 - \$33,860,057), and water and wastewater and stormwater infrastructure of \$9,799,788 (2019 - \$55,417,750).

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

10. Accumulated surplus:

Accumulated surplus consists of individual fund surplus (deficit) and reserves as follows:

	2020	2019
Surplus (deficit):		
Investment in tangible capital assets	\$ 9,203,062,448	\$ 9,041,767,804
Amounts to be recovered in future years:		
From future revenue	(128,620,847)	(129,147,500)
From reserves and reserve funds on hand	(33,144,803)	(29,932,613)
Investment in Hydro Vaughan Corporations (note 4)	628,919,333	629,320,313
Other	(208,691,565)	(192,947,911)
	9,461,524,566	9,319,060,093
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	4,597,651	4,229,265
Fire equipment replacement	3,530,901	3,763,753
General working capital	17,029,976	16,926,862
Tax rate stabilization	6,144,629	3,194,424
Waterworks	76,581,125	75,786,134
State of good repair water	75,313	—
Wastewater (sanitary sewers)	66,834,853	61,296,174
Stormwater reserve	33,447,859	30,995,153
Keele Valley landfill	516,781	529,531
Heritage Fund	3,964,002	3,616,341
Employee benefits	33,144,803	29,932,613
Buildings	18,683,376	15,766,387
Roads infrastructure	9,078,883	9,203,032
Sale of public lands	7,210,294	7,039,144
Parks infrastructure	5,942,872	5,423,722
Winterization	2,500,000	—
Other	23,379,216	20,228,351
Debenture payments	9,689,853	5,370,031
Engineering	4,561,642	1,676,261
Planning	4,379,629	1,767,159
City Hall Funding	30,143	29,822
Expenditure reserve	2,438,985	2,297,875
Capital from taxation	23,530,895	21,603,675
	357,293,681	320,675,709
	\$ 9,818,818,247	\$ 9,639,735,802

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

11. Government transfers:

The City recognizes the transfer of government funding as revenue in the year that the events giving rise to the transfer occurred. The government transfers reported on the consolidated statement of operations and accumulated surplus are:

	2020	2019
Provincial grants:		
General government	\$ —	\$ 18,352
Protection services	6,155,450	—
Transportation services	629,910	133,884
Environmental services	162,893	1,415,432
Recreation and cultural services	281,477	246,645
Planning and development	513,857	331,122
	7,743,587	2,145,435
Federal grants:		
General government	168,976	780,520
Transportation services	12,216,828	9,400,036
Environmental services	660,857	4,935,743
Recreation and cultural services	3,719,141	828,512
Planning and development	203,343	34,789
	16,969,145	15,979,600
	\$ 24,712,732	\$ 18,125,035

During the year, the City received total funding of \$6,152,800 from the provincial government as part of the Safe Restart Agreement. The Safe Restart Agreement is a federal investment to help provinces and territories safely restart their economies. City recognized the full amount as government transfers reported for the current year, as per the funding allocation from the Province of Ontario.

12. Segmented information:

The City is a diversified municipal government that provides a wide range of services to its citizens and holds a significant investment in the Hydro Vaughan Corporations. For management reporting purposes, the City's operations and activities are organized functionally based on services provided.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

12. Segmented information (continued):

2020	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	\$ 35,542,873	\$ 34,897,837	\$ 27,219,444	\$ 78,367,599	\$ 97,780	\$ 33,589,178	\$ 10,119,254	\$ —	\$ 219,833,965
Municipal accommodation tax	—	—	—	—	—	—	624,660	—	624,660
User charges	2,971,411	5,815,374	714,858	2,432,342	228,307	6,943,363	34,838,142	—	53,943,797
Water and sewer billings	—	—	—	173,615,718	—	—	—	—	173,615,718
Government transfers	168,976	6,155,450	12,846,738	823,750	—	4,000,618	717,200	—	24,712,732
Investment income	1,493,407	1,466,305	1,143,681	3,292,777	4,109	1,411,319	425,181	—	9,236,779
Penalties and interest on taxes	1,127,176	1,106,721	863,215	2,485,285	3,102	1,065,219	320,914	—	6,971,632
Other fees and services	211,123	(17,173)	1,168,916	292,837	152,222	1,132,955	2,980,863	—	5,921,743
Contributions from developers	58,433	2,828,236	19,224,653	1,611,840	—	15,338,799	2,238,749	—	41,300,710
Contributed assets	—	—	160,095,323	13,835,882	—	615,850	—	—	174,547,055
Hydro Vaughan Corporations	—	—	—	—	—	—	—	19,582,851	19,582,851
	41,573,399	52,252,750	223,276,828	276,758,030	485,520	64,097,301	52,264,963	19,582,851	730,291,642
Expenses:									
Salaries and benefits	50,946,286	71,443,788	7,510,026	8,695,119	54,181	49,002,333	20,584,987	—	208,236,720
Goods and services	21,881,892	4,673,314	17,505,578	149,259,090	144,771	14,287,994	1,028,828	—	208,781,467
Long-term debt interest	—	—	527,512	—	—	—	—	—	527,512
Other	(4,248,937)	6,559,862	(389,869)	7,459,826	36,023	(156,220)	(1,441,771)	—	7,818,914
Corporate support allocation	2,460,775	9,617,458	3,199,635	21,698,238	30,600	8,038,231	2,542,050	(47,586,987)	—
Loss on disposal of tangible capital assets	4,871,524	18,636	9,506,764	1,376,130	—	1,328,703	266,906	—	17,368,663
Amortization of tangible capital assets	6,092,524	2,257,634	31,684,046	23,099,333	—	15,790,774	54,559	—	78,978,870
Other capital related	14,533,120	214,521	4,386,414	1,264,700	—	2,938,979	4,449,115	—	27,786,849
	96,537,184	94,785,213	73,930,106	212,852,436	265,575	91,230,794	27,484,674	(47,586,987)	549,498,995
Annual surplus (deficit) before the undernoted	(54,963,785)	(42,532,463)	149,346,722	63,905,594	219,945	(27,133,493)	24,780,289	67,169,838	180,792,647
Adjustment for the decrease of the City's equity interest in the net assets of Alectra Inc. (note 4)	—	—	—	—	—	—	—	(1,710,202)	(1,710,202)
Annual surplus (deficit)	\$ (54,963,785)	\$ (42,532,463)	\$ 149,346,722	\$ 63,905,594	\$ 219,945	\$ (27,133,493)	\$ 24,780,289	\$ 65,459,636	\$ 179,082,445

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

12. Segmented information (continued):

2019	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	\$ 28,138,240	\$ 32,136,831	\$ 23,775,461	\$ 76,679,089	\$ 84,532	\$ 41,558,642	\$ 9,590,255	\$ —	\$ 211,963,050
Municipal accommodation tax	—	—	—	—	—	—	2,117,140	—	2,117,140
User charges	6,594,653	7,207,133	544,271	2,113,198	101,083	21,631,168	25,999,463	—	64,190,969
Water and sewer billings	—	—	—	162,355,455	—	—	—	—	162,355,455
Government transfers	798,872	—	9,533,920	6,351,175	—	1,075,157	365,911	—	18,125,035
Investment income	1,151,700	1,315,363	973,132	3,138,481	3,460	1,700,999	392,530	—	8,675,665
Penalties and interest on taxes	766,508	875,433	647,663	2,088,799	2,303	1,132,090	261,246	—	5,774,042
Other fees and services	94,172	20,334	885,370	29,649	263,277	1,517,488	466,896	—	3,277,186
Contributions from developers	(1,246)	4,413,417	15,621,169	(258,587)	—	5,715,989	1,679,819	—	27,170,561
Contributed assets	—	—	424,229,440	58,126,744	—	4,255,474	—	—	486,611,658
Hydro Vaughan Corporations	—	—	—	—	—	—	—	14,223,070	14,223,070
	37,542,899	45,968,511	476,210,426	310,624,003	454,655	78,587,007	40,873,260	14,223,070	1,004,483,831
Expenses:									
Salaries and benefits	48,095,059	69,482,304	5,023,545	10,177,338	25,307	60,919,174	20,505,090	—	214,227,817
Goods and services	21,499,798	4,116,778	18,932,173	141,099,572	135,648	18,125,387	1,723,472	—	205,632,828
Long-term debt interest	—	—	693,472	—	—	—	—	—	693,472
Other	(3,301,169)	(61,413)	(17,758)	6,807,772	36,075	196,091	(1,977,313)	—	1,682,285
Corporate support allocation	2,352,896	8,616,796	2,903,890	19,285,835	23,968	9,361,433	2,365,440	(44,910,258)	—
Loss (gain) on disposal of tangible capital assets	(2,106,793)	(6,291)	439,662	45,271	—	3,369,689	—	—	1,741,538
Amortization of tangible capital assets	5,981,360	1,841,995	31,202,986	22,570,555	—	14,994,916	82,833	—	76,674,645
Other capital related	1,042,532	27,300	2,979,810	480,930	—	1,682,848	2,372,923	—	8,586,343
	73,563,683	84,017,469	62,157,780	200,467,273	220,998	108,649,538	25,072,445	(44,910,258)	509,238,928
Annual surplus (deficit) before the undernoted	(36,020,784)	(38,048,958)	414,052,646	110,156,730	233,657	(30,062,531)	15,800,815	59,133,328	495,244,903
Gain on merger of Alectra Inc. with Guelph Hydro Electric Systems Inc.	—	—	—	—	—	—	—	989,605	989,605
Adjustment for the decrease of the City's equity interest in the net assets of Alectra Inc. (note 4)	—	—	—	—	—	—	—	(1,998,163)	(1,998,163)
Annual surplus (deficit)	\$ (36,020,784)	\$ (38,048,958)	\$ 414,052,646	\$ 110,156,730	\$ 233,657	\$ (30,062,531)	\$ 15,800,815	\$ 58,124,770	\$ 494,236,345

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

12. Segmented information (continued):

A description of the services area for segmented information is as follows:

(a) General government:

General government service area includes the governance of the City, corporate administration and supporting services.

(b) Protection to persons and property:

Protection comprises the administration and operations of the Fire Department that delivers fire suppression services, rescue services and fire prevention education. Enforcement services provide bylaw enforcement throughout the City. The Building Standards Department provides inspection services, plan examination services, plumbing services and the issuance of building permits.

(c) Transportation services:

Transportation services area includes the administration and operations of the Public Works Department as it relates to the delivery of road maintenance services, winter control and street lighting maintenance.

(d) Environmental services:

Environmental services area includes the administration and the operation of the water, wastewater, storm water distribution system as provided by the Public Works and Engineering Services Departments. This section also includes the cost of potable water and wastewater services. The collection of waste and recycling materials is provided by the Public Works Department.

(e) Health, social and family services:

This area consists of the maintenance of the City's cemeteries and funding for assistance to aged persons.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

12. Segmented information (continued):

(f) Recreation and cultural services:

The recreation and cultural services area includes the delivery of recreational program services and cultural services provided by the Recreation and Culture Department. The Corporation of the City of Vaughan Public Library Board provides library services through its various library facilities. The maintenance of the City's parks network is provided by the Parks and Forestry Operations Department and maintenance of the City's recreation facilities is provided by the Building and Facilities Department.

(g) Planning and development:

Planning and development consist of the administration and operations of the Planning Department as it relates to the development of the City through development planning services, policy planning and urban design services.

Certain allocation methodologies are employed in the preparation of the segmented financial information. Taxation, payments-in-lieu of taxes and investment income are allocated to the segments based on the actual expenses. User charges and other revenue have been allocated to the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made. Development charges earned and developer contributions received were allocated to the segment for which the charge was collected.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

13. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2020 operating and capital budgets approved by City Council on December 17, 2019. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements:

	Budget amount
Revenue:	
Operating budget	\$ 320,837,735
Water, wastewater and stormwater budget	195,153,186
Capital budget	172,587,246
Add (less):	
Transfers from other funds	(72,498,605)
Proceeds from debt issue	(9,309,795)
Other adjustments	(2,300,000)
Hospital levy	7,094,339
	611,564,106
Expenses:	
Operating budget	320,837,735
Water, wastewater and stormwater budget	195,153,186
Capital budget	172,587,246
Add (less):	
Transfers to other funds	(55,092,042)
Debt principal payments	(5,733,700)
Other adjustments	(2,367,990)
Hospital levy	7,094,339
	632,478,774
Annual deficit	\$ (20,914,668)

14. Trust funds:

Trust funds administered by the City amounting to \$1,571,594 (2019 - \$1,451,605) are presented in a separate financial statement of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and consolidated financial activities.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

15. Contractual rights:

The City is involved with various contracts and agreements arising in the ordinary course of business. This results in contractual rights to economic resources, leading to both assets and revenue in the future.

The City has a number of federal and provincial funding agreements with estimated future funding of \$54.4 million (for the period 2021 to 2023). The City has also entered into a number of third-party contracts to provide shared services with estimated future recoveries of \$0.5 million (for 2021). Future revenues from lease agreements for City-owned properties are approximately \$2.3 million (for the period 2021 to 2066).

16. Commitments:

(a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments, such as waste collection and snow clearing, obtaining City Council and other approvals as required. Expenses relating to these agreements are recorded in the year in which the payments are made. For these lease and operating commitments, minimum payments have been estimated as follows:

2021	\$ 52,240,000
2022	36,987,000
2023	30,473,000
2024	24,689,000
2025	19,505,000
Thereafter	34,427,000
	<hr/>
	\$ 198,321,000

(b) Loan guarantees:

The City has entered into contracted agreements to guarantee loans for the following:

- (i) for the accumulated sum not exceeding \$5.0 million with the Ontario Soccer Association. The loan balance as at December 31, 2020 is \$3.0 million (2019 - \$3.3 million), is in good standing and no loss has been recognized.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

16. Commitments (continued):

(ii) for the accumulated sum not exceeding \$4.5 million with the Mentena Development Group. The loan balance as at December 31, 2020 is \$2.62 million (2019 - \$2.95 million), is in good standing and no loss has been recognized.

(iii) for the total obligations outstanding under the Financing Agreement between the YMCA of Greater Toronto Area and Ontario Infrastructure and Lands Corporation in connection with the construction of a YMCA, City Library and City Recreation Space in the Vaughan Metropolitan Centre, amounts of which are disclosed in note 7.

(c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, which was continued by Alectra and the City, Alectra charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to Alectra. The total commitment under the agreement for 2020 was \$1.7 million in net charges to the City by Alectra. A new five-year agreement was finalized in 2016 before the merger with Alectra in February 2017. An amendment was made in 2020 to allow the agreement to continue through 2021 with the financial impact limited to a flat fee increase of 3%.

(d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining City Council and other approvals as required. The total value of approved and outstanding capital commitments at December 31, 2020 is approximately \$13.8 million. Expenditures relating to capital works are recorded in the year in which they are incurred and measurable as a result of receipt of goods or services under/or the creation of a legal obligation.

(e) Vaughan Hospital Precinct Development Plan:

In 2009, the City approved a grant in the amount of \$80 million, being a contribution toward the local share for land acquisition and development of a hospital in Vaughan. A special property tax levy was approved in 2009 to collect the funds of the grant required to cover the land and development costs. The total contribution is anticipated to be collected by 2022. In August 2010, the City purchased land for the hospital in the amount of \$60 million. The cost of the land is included in the City's tangible capital assets. The remaining \$20 million has been spent on development costs.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

17. Contingencies:

(a) COVID-19:

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian, Ontario and local governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however, the success of these interventions is not currently determinable.

The City of Vaughan declared a state of emergency under the Emergency Management Act Ontario on March 17, 2020. The declaration of a state of emergency provides the Mayor with the ability to take action and make orders, as necessary, to protect the health, safety and welfare of residents. In addition, the activities undertaken by the City of Vaughan in response to the pandemic include:

- Declaration of a State of Emergency and activation of the City's Emergency Operations Centre;
- Establishment of a COVID-19 Task Force led by Fire and Rescue Services and the Emergency Management Office to coordinate the City's response to the pandemic and activities to help flatten the curve;
- Closure, at various times as required by the provincial government, of all City facilities and park amenities including refunds issued without penalty for all cancelled camps, programs and permits;
- Additional safety measures and protocols in all aspects of the City's operations and service delivery;
- Financial assistance with respect to certain deferral of property taxes;
- Deferred renewals of business licenses for existing businesses by up to 90 days;
- Deferred monthly rent payments for not-for-profit tenants within City-owned facilities for three months (April to June 2020);

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

17. Contingencies (continued):

- Suspension of collection of municipal accommodation tax until September 1, 2020;
- Deferral of the annual stormwater charge for 60 days;
- Cancellation of the 2020 water and wastewater rate increases planned for April 1, 2020;
- Implemented workforce re-balancing measures, including temporary layoffs for non-essential staff who are unable to work from home, re-deployments and organizational re-alignments;
- no cost of living increases for non-union staff in 2021;
- A 0% tax levy increase in 2021; and
- The 2020 budget adopted by City Council reflects the measures taken that continue into 2021 such as closure of all City facilities and workforce rebalancing.

The current challenging economic climate may lead to adverse changes in cash flows, reduction of service levels and budgetary constraints, which may also have a direct impact on the City's revenues, annual surplus or deficit and reserve and reserve funds in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the City, surrounding economy, and services are not known at this time.

At this time, these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the ongoing financial effect is not practicable at this time.

(b) Contingencies:

The City of Vaughan, in the course of its operations, is subject to claims, lawsuits and contingencies. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the City does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its consolidated financial position.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2020

18. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN PUBLIC
LIBRARY BOARD**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The Corporation of the City of Vaughan Public Library Board (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations and accumulated surplus for the year then ended
- the statement of change in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2020, and its results of operations, its changes in net debt and its 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
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Financial Assets

Cash	\$ 8,065	\$ 149,268
Due from the City of Vaughan (note 5)	3,314,869	252,858
	<u>3,322,934</u>	<u>402,126</u>

Financial Liabilities

Accounts payable and accrued liabilities	3,292,867	403,915
Employee future benefits (note 2(b))	7,159,000	6,965,000
Deferred revenue	30,067	35,145
	<u>10,481,934</u>	<u>7,404,060</u>

Net debt	(7,159,000)	(7,001,934)
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Non-Financial Assets

Prepaid expenses	—	36,934
Tangible capital assets (note 3)	8,271,373	8,937,882
	<u>8,271,373</u>	<u>8,974,816</u>

Accumulated surplus (note 4)	\$ 1,112,373	\$ 1,972,882
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See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2020, with comparative information for 2019

	Budget 2020 (note 6)	Actual 2020	Actual 2019
Revenue:			
Municipal contributions (note 5)	\$ 18,192,516	\$ 16,266,053	\$ 19,230,195
Grants and subsidies	145,200	154,023	189,819
Fees, rental and sundry	438,020	123,730	444,260
	18,775,736	16,543,806	19,864,274
Expenses:			
Salaries and wages	12,740,753	9,694,370	12,084,393
Employee benefits	3,123,723	2,825,313	3,080,739
General administration	845,770	693,838	844,162
Periodicals	594,305	553,245	533,378
Maintenance and repairs	494,600	548,319	494,486
Utilities	419,033	344,671	410,434
Office furniture and technology	236,970	118,848	267,328
Cleaning services	125,232	158,714	137,712
Programmes	78,000	39,874	86,153
Supplies	93,350	117,432	67,788
Consulting and outside services	24,000	4,928	21,982
Amortization of tangible capital assets (note 3)	—	2,304,763	2,270,900
	18,775,736	17,404,315	20,299,455
Annual deficit	—	(860,509)	(435,181)
Accumulated surplus, beginning of year	1,972,882	1,972,882	2,408,063
Accumulated surplus, end of year	\$ 1,972,882	\$ 1,112,373	\$ 1,972,882

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Change in Net Debt

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Annual deficit	\$ (860,509)	\$ (435,181)
Net increase in prepaid expenses	36,934	(23,988)
Purchase of tangible capital assets	(1,638,254)	(1,990,719)
Amortization of tangible capital assets	2,304,763	2,270,900
Increase in net debt	(157,066)	(178,988)
Net debt, beginning of year	(7,001,934)	(6,822,946)
Net debt, end of year	\$ (7,159,000)	\$ (7,001,934)

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual deficit	\$ (860,509)	\$ (435,181)
Items not involving cash:		
Amortization of tangible capital assets	2,304,763	2,270,900
Increase in employee future benefits	194,000	155,000
Change in non-cash assets and liabilities:		
Due from the City of Vaughan	(3,062,011)	(42,502)
Accounts payable and accrued liabilities	2,888,952	210,304
Deferred revenue	(5,078)	(2,718)
Prepaid expenses	36,934	(23,988)
	1,497,051	2,131,815
Capital activities:		
Purchase of tangible capital assets	(1,638,254)	(1,990,719)
Increase (decrease) in cash	(141,203)	141,096
Cash, beginning of year	149,268	8,172
Cash, end of year	\$ 8,065	\$ 149,268

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements

Year ended December 31, 2020

The Corporation of the City of Vaughan Public Library Board (the "Library") is a local board of the Corporation of the City of Vaughan (the "City of Vaughan"). The Library is deemed to be a separate incorporated public library board established under the Public Libraries Act (Ontario) and is responsible for providing public library services that reflect the community's needs.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements of the Library are prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(b) Accrual basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become available and measurable; expenses are the costs of goods and services and are recognized when acquired in the year, whether or not payments have been made or invoices received.

(c) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are non-financial assets having physical substance that are not generally available to the Library for use in discharging its existing liabilities and are held for use in the provision of services. These assets are significant economic resources that are not intended for sale in the ordinary course of business and have an estimated useful life that extends beyond the current year.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, are amortized on a straight-line basis over their estimated useful lives as follows:

Books	7 years
Audiovisual materials	7 years
Digital resources	2 - 7 years
Furniture and fixtures	10 years
Equipment	5 - 10 years
Vehicle	7 years

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and recorded as revenue.

(iii) Works of art and cultural and historic assets:

The Library does not own any notable works of art and historical treasures at their branches. Typically, these assets are deemed worthy of preservation because of the social rather than financial benefits that they provide to the community. The historic costs of art and treasures are not determinable or relevant to their significance hence a valuation is not assigned to these assets nor would they be disclosed in the financial statements.

(iv) Leased tangible capital assets:

Leases which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(v) Land and buildings:

The land and buildings that the Library use are owned by the City of Vaughan and are not recorded as tangible capital assets in the Library's financial statements.

(d) Government transfers:

Government transfers are recognized in the financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

(e) Deferred revenue:

Contributions for which the related expenses have not been incurred are recorded as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.

(f) Vacation entitlements:

Vacation entitlements which have been earned but are untaken, form part of the employee future benefits in these financial statements.

(g) Pension and post-retirement non-pension benefits:

The Library accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Library actuarially determines the cost of the post-retirement non-pension benefits using the projected benefit method prorated on service and based on management's best estimated assumptions. Under this method, the projected post-retirement non-pension benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at date of hire; and ended at the earliest age the employee could retire and qualify for benefits. Compensated absence and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Library's implementation of the PSAB section 3150, Tangible Capital Assets, requires management to make estimates of useful lives of tangible capital assets. Actual results could differ from these estimates.

(i) Presentation of budget information:

The Library completes an operating budget review each year. The approved budget figures for 2020 are reflected on the statement of operations and accumulated surplus and in note 6. Actual revenue and expenses may differ significantly from annual budgets.

2. Employee future benefits:

(a) Pensions:

The Library provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan, which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by employees based on the length of credited service and average earnings. No past service liability exists.

Total OMERS contributions amounted to \$1,816,000 in 2020 (2019 - \$1,932,000), of which \$908,000 (2019 - \$966,000) represented the Library's portion.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Employee future benefits (continued):

(b) Post-retirement non-pension benefits:

The Library pays certain health, dental and life insurance benefits on behalf of its retired employees. The Library recognizes these post-retirement non-pension benefit costs in the year in which the employee rendered the services.

The accrued benefit liability for active employees and retirees at December 31, 2020 of \$6,687,000 (2019 - \$6,548,000) and the expense for the year ended December 31, 2020 of \$185,000 (2019 - \$244,000) was determined by actuarial valuation using a discount rate of 3% (2019 - 3.5%).

Information about the Library's defined benefit plan is as follows:

	2020	2019
Accrued benefit obligation, beginning of year	\$ 5,065,000	\$ 4,799,000
Actuarial gain	(590,000)	—
Service cost	194,000	205,000
Interest cost	139,000	173,000
Benefits paid	(46,000)	(112,000)
Accrued benefit obligation, end of year	4,762,000	5,065,000
Unamortized actuarial loss	1,925,000	1,483,000
Accrued benefit liability	\$ 6,687,000	\$ 6,548,000
Components of benefit expense:		
Service	\$ 194,000	\$ 205,000
Interest	139,000	173,000
Amortization of actuarial loss	(148,000)	(134,000)
Benefit expense	\$ 185,000	\$ 244,000

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Employee future benefits (continued):

Shown below are the components of the liability for employee future benefits:

	2020	2019
Post-retirement non-pension benefits	\$ 6,687,000	\$ 6,548,000
Vacation pay	472,000	417,000
	\$ 7,159,000	\$ 6,965,000

3. Tangible capital assets:

Cost	Balance, December 31, 2019	Additions	Disposals	Balance, December 31, 2020
Books	\$ 8,981,586	\$ 718,798	\$ 889,927	\$ 8,810,457
Audio visual materials	4,307,754	367,154	449,604	4,225,304
Digital resources	439,396	341,669	—	781,065
Furniture and fixtures	2,795,937	162,075	—	2,958,012
Equipment	1,696,821	48,558	—	1,745,379
Vehicle	55,175	—	—	55,175
	\$ 18,276,669	\$ 1,638,254	\$ 1,339,531	\$ 18,575,392

Accumulated amortization	Balance, December 31, 2019	Amortization expense	Disposals	Balance, December 31, 2020
Books	\$ 4,404,899	\$ 1,341,741	\$ 889,927	\$ 4,856,713
Audio visual materials	2,049,011	614,273	449,604	2,213,680
Digital resources	147,041	43,922	—	190,963
Furniture and fixtures	1,694,938	137,455	—	1,832,393
Equipment	1,037,642	159,490	—	1,197,132
Vehicle	5,256	7,882	—	13,138
	\$ 9,338,787	\$ 2,304,763	\$ 1,339,531	\$ 10,304,019

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Tangible capital assets (continued):

Net book value	2020	2019
Books	\$ 3,953,744	\$ 4,576,687
Audio visual materials	2,011,624	2,258,743
Digital resources	590,102	292,355
Furniture and fixtures	1,125,619	1,100,999
Equipment	548,247	659,179
Vehicles	42,037	49,919
	\$ 8,271,373	\$ 8,937,882

4. Accumulated surplus:

Accumulated surplus consists of the following:

	2020	2019
Surplus invested in tangible capital assets (note 3)	\$ 8,271,373	\$ 8,937,882
Unfunded employee benefits (note 2)	(7,159,000)	(6,965,000)
	\$ 1,112,373	\$ 1,972,882

5. Related party transactions and balance:

During the year, the Library received municipal contributions from the City of Vaughan of \$16,266,053 (2019 - \$19,230,195).

Amounts due from the City of Vaughan of \$3,314,869 (2019 - \$252,858) have no specific terms of repayment and the amounts do not bear any interest due from the City of Vaughan.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

6. Budget data:

The audited budget data presented in these financial statements is based upon the 2020 operating and capital budgets approved by the Library on September 17, 2019. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Revenue:	
Approved operating budget	\$ 18,775,736
Approved capital budget	7,441,560
	26,217,296
Less elimination of capital expense budget	7,441,560
Total revenue and expense	\$ 18,775,736

7. Financial risk management:

It is management's opinion that the Library is not exposed to significant liquidity, interest rate, credit, market, or cash flow risk. There has been no change to the risk exposure from 2019, except as noted below.

General economic risk:

During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods and social distancing.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in revenue and expenses.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

8. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**BOARD OF MANAGEMENT FOR
THE KLEINBURG BUSINESS
IMPROVEMENT AREA**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

To the Board Members of Kleinburg Business Improvement Area,
Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Vaughan

Opinion

We have audited the financial statements of the Board of Management for the Kleinburg Business Improvement Area (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2020, and its results of operations, its changes in net financial assets and its 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Financial Assets		
Cash	\$ 10,475	\$ 13,567
Taxes receivable	4,042	1,838
Accounts receivable	1,044	—
Accrued revenue (note 3)	9,054	—
	24,615	15,405
Financial Liabilities		
Accounts payable and accrued liabilities	1,423	6,763
Net financial assets	23,192	8,642
Non-Financial Assets		
Prepaid expenses	994	905
Accumulated surplus	\$ 24,186	\$ 9,547

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2020, with comparative information for 2019

	Budget 2020 (note 2(e))	Actual 2020	Actual 2019
Revenue:			
Kleinburg Business Improvement			
Area special area levy	\$ 52,250	\$ 52,250	\$ 47,500
Grants (note 3)	—	9,054	5,469
Other income	—	11,046	122
	52,250	72,350	53,091
Expenses:			
Outside contract services	22,000	24,009	23,989
Salaries	—	3,273	5,740
Special events	12,000	934	6,424
Chamber of Commerce partnership	—	—	4,070
Advertising and marketing	13,850	22,079	2,167
Miscellaneous	4,400	4,493	2,640
Insurance	—	1,593	1,548
Consulting fees	—	1,330	1,100
	52,250	57,711	47,678
Annual surplus	—	14,639	5,413
Accumulated surplus, beginning of year	4,134	9,547	4,134
Accumulated surplus, end of year	\$ 4,134	\$ 24,186	\$ 9,547

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Changes in Net Financial Assets

Year ended December 31, 2020, with comparative information for 2019

	Budget 2020 (note 2(e))	Actual 2020	Actual 2019
Annual surplus	\$ —	\$ 14,639	\$ 5,413
Acquisition of prepaid expenses	—	(89)	(166)
Increase in net financial assets	—	14,550	5,247
Net financial assets, beginning of year	8,642	8,642	3,395
Net financial assets, end of year	\$ 8,642	\$ 23,192	\$ 8,642

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 14,639	\$ 5,413
Change in taxes receivable	(2,204)	3,451
Change in accounts receivable	(1,044)	—
Change in accrued revenue	(9,054)	—
Change in prepaid expenses	(89)	(166)
Change in accounts payable and accrued liabilities	(5,340)	2,407
Increase (decrease) in cash	(3,092)	11,105
Cash, beginning of year	13,567	2,462
Cash, end of year	\$ 10,475	\$ 13,567

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements

Year ended December 31, 2020

1. Nature of operations:

The Board of Management for the Kleinburg Business Improvement Area (the "Board") was established by a City of Vaughan bylaw dated May 28, 1984. The principal purpose of the Board is to provide for beautification, maintenance and promotion of the Kleinburg Business Improvement Area.

The Board may not borrow money, and without the prior approval of Municipal Council, may not incur indebtedness beyond the current year.

2. Significant accounting policies:

(a) Basis of presentation:

The financial statements of the Board are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

(b) Accrual basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become available and measurable; expenses are the costs of goods or services and are recognized when acquired in the year, whether or not payments have been made or invoices received.

(c) Government transfers:

Government transfers are recognized in the financial statements as revenue in the year in which events giving rise to the transfer occur, provided the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

(d) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Significant accounting policies (continued):

(e) Budget information:

The audited budget information presented in these financial statements is based on the budget approved by City Council on January 28, 2020.

3. Accrued revenue:

During the year, the Board entered into a grant agreement with Central Counties Tourism ("CCT") to augment the Board's marketing program. CCT approved a total grant of \$9,000, which was received in 2021. An amount of \$6,366 was accrued and recognized as grant revenue in 2020 based on actual eligible expenditures. The remaining grant available of \$2,634 will be recorded in 2021 when earned.

4. Financial risk management:

It is management's opinion that the Board is not exposed to significant liquidity, interest rate, market, or cash flow risk. There has been no change to the risk exposure from 2019, except as noted below.

General economic risk:

During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have resulted in a decline in revenue due to the cancellation of events and lockdown measures.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in revenue and expenses.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN TRUST FUNDS**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The Corporation of the City of Vaughan Trust Funds (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations and changes in fund balance for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2020, and its results of operations 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

THE CORPORATION OF THE CITY OF VAUGHAN

TRUST FUNDS

DRAFT Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Financial Assets		
Cash	\$ 1,467,149	\$ 1,443,990
Due from The Corporation of the City of Vaughan (note 2)	104,445	7,615
	\$ 1,571,594	\$ 1,451,605
Fund Balance	\$ 1,571,594	\$ 1,451,605
	\$ 1,571,594	\$ 1,451,605

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

TRUST FUNDS

DRAFT Statement of Operations and Changes in Fund Balance

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Sources of funds:		
Capital receipts - sale of plots/markers (note 1(a))	\$ 119,989	\$ 39,645
Interest earned (note 1(a))	15,544	32,031
	135,533	71,676
Use of funds:		
Maintenance (note 1(a))	15,544	32,031
Net activity	119,989	39,645
Fund balance, beginning of year	1,451,605	1,411,960
Fund balance, end of year	\$ 1,571,594	\$ 1,451,605

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

DRAFT Notes to Financial Statements

Year ended December 31, 2020

1. Significant accounting policies:

(a) General:

These financial statements reflect the fund balance and operations of the trust funds administered by The Corporation of the City of Vaughan (the "City").

The City administers the Cemetery Perpetual Care Trust Fund in accordance with the provisions of the Cemeteries Act of Ontario.

(b) Basis of accounting:

Capital receipts and withdrawals on the statement of operations and changes in fund balance are reported on the cash basis of accounting. Other items are reported on an accrual basis.

2. Due from The Corporation of the City of Vaughan:

The balance due from The Corporation of the City of Vaughan is non-interest bearing and has no specific terms of repayment.

3. Financial risk management:

It is management's opinion that the trust funds are not exposed to significant liquidity, interest rate, credit, market, or cash flow risk. There has been no change to the risk exposure from 2019, except as noted below.

General economic risk:

During the year, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods and social distancing.

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Financial risk management (continued):

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in revenue and expenses.

Statement of Revenue and Expenditures and
Fund Balance of

**THE CORPORATION OF THE
CITY OF VAUGHAN**
MAYOR'S GALA AND GOLF EVENTS

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council of The Corporation of the City of Vaughan

Qualified Opinion

We have audited the statement of revenue and expenditures and fund balance of Mayor's Gala and Golf Events of The Corporation of the City of Vaughan (the Entity) for the year ended December 31, 2020, and notes to the statement, including a summary of significant accounting policies (Hereinafter referred to as the "statement").

In our opinion, except for the possible effects of the matter described in the ***"Basis for Qualified Opinion"*** section of our auditors' report, the accompanying statement for the year ended December 31, 2020 of the Mayor's Gala and Golf Events is prepared, in all material respects, in accordance with the financial reporting framework described in Note 1 to the statement.

Basis for Qualified Opinion

In common with many charitable organizations, the Entity derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the revenues and surpluses reported in the statements of revenue and expenditures and fund balance for the years ended December 31, 2020 and December 31, 2019
- the fund balances, at the beginning and end of the year, reported in the statements of revenue and expenditures and fund balance for the years ended December 31, 2020 and December 31, 2019

Our opinion on the statement for the year ended December 31, 2019 was qualified accordingly because of the possible effects of this limitation in scope.

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 Statement"** 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 statement 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 qualified opinion.

Emphasis of Matter - Financial Reporting Framework

We draw attention to Note 1 in the statement, which describes the applicable financial reporting framework and the purpose of the statement.

As a result, the statement may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Statement

Management is responsible for the preparation of the statement in accordance with the financial reporting framework described in Note 1 to the statement; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the statement as a whole is 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 statement.

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 statement, 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.
- 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Mayor's Gala Event		
Revenue:		
Revenue received by City, net of harmonized sales tax (note 4)	\$ –	\$ 716,757
Expenditures:		
Mayor's Gala Event	147	197,164
City administration recovery (note 2)	103	23,757
Professional fees	–	22,865
	250	243,786
Surplus (deficit) from Mayor's Gala Event	(250)	472,971
Mayor's Golf Tournament		
Revenue:		
Revenue received by City, net of harmonized sales tax (note 4)	–	220,628
Expenditures:		
Mayor's Golf Tournament	147	83,791
City administration recovery (note 2)	103	23,343
Professional fees	–	2,366
	250	109,500
Surplus (deficit) from Mayor's Golf Tournament	(250)	111,128
Total surplus (deficit) from Mayor's Gala Event and Mayor's Golf Tournament	(500)	584,099
Balance carried forward from previous years	473,617	601,188
Total funds available for distribution	473,117	1,185,287
City distributions to qualified recipients (note 3)	(158,059)	(711,670)
Fund balance, end of year	\$ 315,058	\$ 473,617

See accompanying notes to statement of revenue and expenditures and fund balance.

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Notes to Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2020

1. Basis of accounting:

The financial statement is prepared by management in a manner consistent with Canadian generally accepted accounting principles ("GAAP") for governments as recommended by the Public Sector Accounting Board. Management has interpreted GAAP to be the recognition and measurement principles for Public Sector Accounting Standards in the Chartered Professional Accountants of Canada Handbook. Recognition and measurement principles relate specifically to revenue and expenditures, and not the presentation principles or the presentation of all the financial statements and note disclosures required by Public Sector Accounting Standards for a complete set of financial statements.

The purpose of the financial statement is to report on the Mayor's Gala and Golf Events as directed by City Council.

2. City administration recovery:

The Corporation of the City of Vaughan ("City") charges the Mayor's Gala and Golf Events a set amount as recovery of internal labour costs spent on administering the Mayor's Gala and Golf Events.

3. City distributions to qualified recipients:

Under a resolution by City Council, recipients for the net proceeds raised from the Mayor's Gala and Golf Events include, but are not limited to, Vaughan-based charities, not-for-profit organizations, community groups and disaster relief assistance. During 2020, \$158,059 distributions (2019 - \$711,670) were made to these qualified recipients.

4. Impact of COVID-19:

In response to the COVID-19 pandemic, the 2020 Mayor's Gala and Mayor's Classic Golf events were postponed until safety protocols permit. Funds raised through sponsorships but not refunded in 2020, net of expenditures made in 2020 have been carried forward for use in subsequent Gala and Golf events and have not been presented within the financial statement for the year ended December 31, 2020.

Financial Statements of

**TOURISM VAUGHAN
CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Tourism Vaughan Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations and accumulated surplus for the year then ended
- the statement of change in net financial assets for the year then ended
- the statement of cash flows for the for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2020, and its results of operations and its 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 22, 2021

TOURISM VAUGHAN CORPORATION

DRAFT Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Financial Assets		
Due from the City of Vaughan (note 2)	\$ 1,130,479	\$ 891,624
Financial Liabilities		
Accounts payable and accrued liabilities	–	5,000
Deferred revenue (note 3)	166,537	–
	166,537	5,000
Net financial assets, being accumulated surplus	\$ 963,942	\$ 886,624

See accompanying notes to financial statements.

TOURISM VAUGHAN CORPORATION

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2020, with comparative information for the period from May 15, 2019 to December 31, 2019

	Budget	2020	2019
Revenue:			
Municipal accommodation tax transferred from the City of Vaughan	\$ 409,798	\$ 312,330	\$ 1,058,570
Provincial grants	426,625	217,425	–
	836,423	529,755	1,058,570
Expenses:			
Purchased services from the City of Vaughan	240,115	236,391	17,866
Professional fees	455,810	173,301	135,439
General operating expenses	200,000	34,649	2,579
Administration fees	40,292	8,096	16,062
	936,217	452,437	171,946
Excess (deficiency) of revenue over expense	(99,794)	77,318	886,624
Accumulated surplus, beginning of period	886,624	886,624	–
Accumulated surplus, end of period	\$ 786,830	\$ 963,942	\$ 886,624

See accompanying notes to financial statements.

TOURISM VAUGHAN CORPORATION

DRAFT Statement of Change in Net Financial Assets

Year ended December 31, 2020, with comparative information for the period from May 15, 2019 to December 31, 2019

	Budget	2020	2019
Excess (deficiency) of revenue over expenses	\$ (99,794)	\$ 77,318	\$ 886,624
Increase in net financial assets	(99,794)	77,318	886,624
Net financial assets, beginning of period	886,624	886,624	–
Net financial assets, end of period	\$ 786,830	\$ 963,942	\$ 886,624

See accompanying notes to financial statements.

TOURISM VAUGHAN CORPORATION

DRAFT Statement of Cash Flows

Year ended December 31, 2020, with comparative information for the period from May 15, 2019 to December 31, 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 77,318	\$ 886,624
Change in non-cash operating working capital:		
Due from the City of Vaughan	(238,855)	(891,624)
Accounts payable and accrued liabilities	(5,000)	5,000
Deferred revenue	166,537	—
Increase in cash, being cash and cash equivalents, end of period	\$ —	\$ —

See accompanying notes to financial statements.

TOURISM VAUGHAN CORPORATION

DRAFT Notes to Financial Statements

Year ended December 31, 2020

Tourism Vaughan Corporation (the "Corporation") is a municipal services corporation incorporated without share capital, pursuant to Ontario Regulation 599/06 - Municipal Services Corporations, a regulation under the Municipal Act, 2001.

The Corporation was established to promote and market the city of Vaughan as a leading destination for tourism, leisure and business travel. The Corporation is limited to providing services to owners or members of the Corporation on behalf of The Corporation of the City of Vaughan ("the City of Vaughan") in lieu of the municipality providing those services itself.

The City of Vaughan passed a by-law effective April 1, 2019 charging a 4% municipal accommodation tax levy on the purchase of transient accommodation such as hotels, motels and bed and breakfast establishments.

By regulation, 50% of this levy must be transferred from the City of Vaughan to the Corporation to expend for the purposes of expanding tourism in the City of Vaughan.

The Corporation's operations shall be conducted without the purpose of gain for its sole member, the City of Vaughan. Any profits will be used in promoting the objective of enhancing tourism in the City of Vaughan.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Corporation are as follows:

(a) Basis of accounting:

The Corporation follows the accrual method of accounting for revenue and expenses. Revenue is recognized in the year in which it is earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods and services and/or the creation of a legal obligation to pay.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of deposits in banks, certificates of deposits and investments with original maturities of three months or less.

TOURISM VAUGHAN CORPORATION

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(c) Government transfers:

Government transfers are recognized in the financial statements as revenue in the year in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be made.

(d) Financial instruments:

Financial instruments except freestanding derivatives, are initially recorded at fair value. Equity instruments are thereafter carried at cost. Interest bearing assets and liabilities are subsequently accounted for at amortized cost using the effective interest method.

When there is a loss in value of a financial asset that is other than temporary, the asset is written down and the loss is recorded in the statement of operations and accumulated surplus. The write-down is not reversed if there is a subsequent increase in value.

Freestanding derivatives are recorded at fair value with changes in fair value being recorded in the statement of operations and accumulated surplus.

Derivative financial instruments in an effective hedging relationship are accounted for using the accrual method.

No financial statement recognition is given to embedded derivatives or non-financial contracts with derivative characteristics.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

TOURISM VAUGHAN CORPORATION

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Due from the City of Vaughan:

The amount due from the City of Vaughan is as follows:

	2020	2019
Opening balance	\$ 891,624	\$ —
Municipal accommodation tax revenue	312,330	1,058,570
Provincial grants (note 3)	217,425	—
Deferred provincial grants (note 3)	166,537	—
Less cumulative amount of the Corporation's expenses paid by the City of Vaughan	457,437	166,946
	<u>\$ 1,130,479</u>	<u>\$ 891,624</u>

3. Deferred revenue:

The Corporation entered into a contribution agreement with Tourism Industry Association of Ontario ("TIAO") to promote and develop a strong and diversified Southern Ontario economy. TIAO approved a total grant of \$383,962, all of which was received by the City of Vaughan during the year. An amount of \$166,537 has been deferred to 2021 based on actual grant spending. The remaining grant receivable of \$217,425 is receivable from the City of Vaughan.

4. Fair value of financial assets and financial liabilities:

The fair value of the Corporation's accounts payable and accrued liabilities approximates its carrying amount due to the relatively short period to maturity of this financial instrument.

The fair value of the amounts due from the City of Vaughan are determinable and are transacted at fair market value.

TOURISM VAUGHAN CORPORATION

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Financial risk management:

It is management's opinion that the Corporation is not exposed to significant liquidity, interest rate, credit, market, or cash flow risk. There has been no change to the risk exposure from 2019, except as noted below:

General economic risk:

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods and social distancing. The City of Vaughan suspended collection of municipal accommodation tax until September 1, 2020, which impacted the allocation of revenue that the Corporation received during the year.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on operations is not known at this time. These emergency measures and economic impacts could include potential future decreases in revenue and expenses.

The Corporation of the City of Vaughan

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared May 6, 2021

Presented May 31, 2021

kpmg.ca/audit



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Our refreshed Values

What we believe



We do what is right.



We never stop learning
and improving.



We think and act boldly.



We respect each other
and draw strength from
our differences.



We do what matters.

How do we deliver audit quality?

Transparency report



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**.



Doing the right thing. Always.

Executive summary

Purpose of this report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements (the “financial statements”) of the Corporation of the City of Vaughan (the “City”) as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to you on January 25, 2021.

What’s new in 2020

There have been significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – see page 6
- New CAS auditing standards – see page 8

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:

- Completion of audit quality control procedures
- Completing subsequent events procedures, up to the date of approval of the financial statements, including receipt of the final legal enquiry letter
- Receipt of the signed management representation letter (dated upon City Council approval of the financial statements)
- Completing our discussions with the Audit Committee
- Obtaining evidence of City Council’s approval of the financial statements.

We will update the Audit Committee, 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 attached to the draft financial statements, will be dated upon the completion of any remaining procedures.

Change from Audit Planning Report

We updated our audit materiality calculation from what was reported to you in our Audit Planning Report. This update was based on actual total revenue for the year ended December 31, 2020, which came in higher than the estimated balances during planning stage. Final materiality used for the audit is \$14 million (2019 - \$17 million). Audit Misstatement Posting Threshold for the audit is \$700,000 (2019 - \$850,000).

Adjustments and differences

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.

See page 17 for additional information.

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.

¹ This Audit Findings Report is intended solely for the information and use of Management, the Audit Committee, and City Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this 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 (continued)

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We do, however, provide our observations and recommendations on leading practices on page 16.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework of Public Sector Accounting Standards (PSAS).

Independence

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

What's new in 2020

COVID-19 pandemic

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
City's financial reporting impacts	<ul style="list-style-type: none"> — We considered impacts to financial reporting due to COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements. — In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by management to derive the accounting estimates, and their related financial statement disclosures were still appropriate in accordance with the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty. — The areas of the financial statements most affected included: <ul style="list-style-type: none"> ○ Government Transfers (i.e., the Safe Restart Agreement) – See page 12 under Audit Risk and Results – other areas of focus. ○ Impairment of Tangible Capital Assets – No triggers for impairment were identified; assets continue to provide economic benefit to the City. ○ Disclosures – Management's disclosures were reviewed in the context of the pandemic and determined to be adequately described. The City has included disclosures on the impact of the COVID-19 pandemic in the notes to the financial statements.
City's internal control over financial reporting	<ul style="list-style-type: none"> — Along with the City's remote working environment, the financial reporting impacts above necessitated certain changes to the City's internal control over financial reporting. — As a result of the changes to internal control over financial reporting due to the COVID-19 pandemic, we: <ul style="list-style-type: none"> ○ evaluated the design of the new relevant controls implemented in the control environment, the entity's risk assessment process, information and communication, and monitoring components of internal control over financial reporting. ○ we found that changes to internal controls due to the COVID-19 pandemic were not significant. This included certain changes from manual to digital approval for review and approval of different processes and transactions. We were able to review approvals and authorizations completed in a digital manner using digital authentication tools.

COVID-19 pandemic

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
Materiality	<ul style="list-style-type: none">— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements.— Materiality has been increased from the amount calculated at the planning stage as a result of actual results being higher than expectation. Planning materiality was set at a lower amount to be conservative and to address uncertainty related to expected total revenue due to the pandemic. We updated our audit response to the risks of material misstatement as a result of this change.— Final materiality of \$14 million was used compared to the planning materiality of \$12 million communicated in our audit planning report.
Risk Assessment	<ul style="list-style-type: none">— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).— We did not identify additional risks of material misstatement as a result of impacts of the COVID-19 pandemic to financial reporting.
Working remotely	<ul style="list-style-type: none">— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.— We used secure and innovative technologies to conduct walkthroughs and perform tests of controls.— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and Supervision of the audit	<ul style="list-style-type: none">— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the City's financial reporting and changes in the City's control environment.— The manager and partner implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

New auditing standards

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

Standard	Key observations
CAS 540, Auditing Accounting Estimates and Related Disclosures	<ul style="list-style-type: none">— The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”.— The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.— We performed more granular risk assessments based on the elements making up <u>each</u> accounting estimate such as the method, the assumptions used, the data used and the application of the method.— We considered the potential for management bias.— We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed.— Based on our audit procedures performed, we concluded that management's estimates and judgements were reasonable.

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.

Fraud risk from revenue recognition	New or changed?	Estimate?
This is a presumed fraud risk. The identified fraud risk is over revenue recognition related to revenue transactions that are not in the normal course of business and deferred revenue. The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business as well as management's calculation of the deferred revenue – obligatory reserve funds.	Same as prior year	No significant estimates noted.

Our response

- In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing revenue, including:
- evaluated the design and implementation of selected relevant controls over journal entries and other adjustments for revenue transactions.
 - evaluated the design and implementation of selected relevant controls, including those relating to the tracking and reporting of obligatory reserves revenue recognition.

Significant findings

- We tested journal entries that are susceptible to manipulation through management override and unusual journal entries. See further details on page 24.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end) and analyzed spent obligatory reserve funds for which corresponding revenues are recognized.
- We obtained and reviewed the continuity for deferred revenue prepared by management. We selected a sample of the increases (cash receipts) and decreases (revenue recognition) for deferred revenue during the current year.
- In testing recognition of revenue, we assessed if original development charges received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation. Based on our procedures, we conclude that the development charges and other restricted grants recorded as revenue in fiscal 2020 were used to fund eligible capital projects.

We did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

Fraud risk from management override of controls	New or changed?	Estimate?
Management override of controls is a presumed significant risk as prescribed by professional auditing standards.	Same as prior year	No significant estimates noted.

Our response

- The risk resides with management’s ability to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have utilized Data & Analytics (“D&A”) in order to enhance the quality and effectiveness of the audit, specifically with respect to testing journal entries. Using extractions of all journal entries recorded during the year, we selected samples and verified if they were supported by proper documentation and followed the journal entry initiation and approval controls and processes in place.
- We also evaluated the reasonableness of estimates. We found that management’s process for identifying accounting estimates is adequate.
- We evaluated the business rationale of significant unusual transactions.
- Additionally, we incorporated an element of unpredictability whereby we perform an unpredictable procedure, or make changes to a standard procedure, to address the potential risk of fraud and management override.

Significant findings

- We did not note any significant control deficiencies in our evaluation of the design and implementation and testing of operating effectiveness of selected relevant controls over financial reporting.
- We tested journal entries and other adjustments by using D&A routines. See page 24 for further details in this area.
- We did not identify any issues or concerns after performing our review of estimates. See pages 11 for further details in this area.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.
- We did not identify any issues after completing our element of unpredictability.

Audit risks and results – other areas of focus

Employee Future Benefits	New or changed?	Estimate?
<p>During the year, the City engaged an external actuarial consultant (the “Actuary”) to undertake a valuation of the City’s post-retirement non-pension benefits and WSIB liabilities as at January 1, 2020. A valuation update was performed to determine the liability as reported in the City’s 2020 financial statements. The employee benefit liabilities as at December 31, 2020 are outlined in note 5 to the financial statements.</p> <p>A discount rate of 3.0% (2019 – 3.5%) was used for the determination of the liability.</p>	<p>Same as prior year, new valuation was completed during the current year.</p>	<p>Yes, there is estimation uncertainty due to assumptions used by the actuary to calculate the liability for the Employee Benefits.</p>
<h2>Our response</h2> <ul style="list-style-type: none"> – We performed attribute testing over the participant data supplied by management to the Actuary to ensure the completeness and accuracy of this data. – We obtained the actuarial valuation report and assessed the data, method and assumptions applied in the valuation and performed trend analysis on the liability. – We evaluated the discount rate in comparison with rates issued by the Canadian Institute of Actuaries (“CIA”) and KPMG LLP. – We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards. – We assessed the disclosures in the financial statements against the requirements of the public sector accounting standards. 		
<h2>Significant findings</h2> <ul style="list-style-type: none"> – We did not note any issues in attribute testing of participant data that was used by the Actuary to develop this estimate. – Based on our review of the memo prepared by the Actuary, we noted that the method applied for the estimate is acceptable per CIA and PSAB 3250 <i>Retirement Benefits</i>. – We assessed the key assumptions used by the Actuary in light of the City’s financial results. We noted that the significant assumptions are reflective of current economic and demographic trends compared to the previous valuation report. We also performed a sideways glance to compare the assumptions used by the Actuary for the City with other Ontario municipalities and did not note any significant differences. – We noted that the discount rate used by the Actuary is a key assumption. We evaluated the discount rate used by the actuary against the discount rate curve issued by different reliable sources including CIA, FIERA and KPMG LLP. Based on this evaluation, we concluded that the discount rate used is reasonable. – The disclosures included in the financial statements are in accordance with the requirements of the public sector accounting standards. – Based on the audit work performed, we did not note any issues related to the calculation of the City’s post-retirement non-pension benefits and WSIB liabilities as at December 31, 2020. 		

Audit risks and results – other areas of focus

Revenues	New or changed?	Estimate?
The City recognizes revenue from the different streams including taxation, user charges, water and sewer, funding transfers and government grants, investment income, penalties and interest on taxes, other fees and services, contributions from developers, and contributed assets. Management follows the revenue recognition policies reported in note 1 to the financial statements to recognize revenue in accordance with PSAS.	Safe Restart grant is a new revenue stream for the City as a result of COVID-19.	No significant estimates noted.
Our response <ul style="list-style-type: none"> – We substantively tested revenues (both recognized and amounts held as deferred at year end) using various sampling techniques. – We obtained and vouched to the funding agreements from the provincial government for the amounts received as part of the Safe Restart Program, amongst other grants. – We reviewed recognition considerations for the other revenue streams. 		
Significant findings <ul style="list-style-type: none"> – We noted that the City received funding as part of the Safe Restart Program from the provincial government to support operations in light of COVID-19. The total Safe Restart grant pertaining to 2020 and recognized as revenue is \$6.1M, which was appropriately recognized fully during the year. – Based on the audit work performed, we did not note any issues related to revenue recognized and related disclosures for the City. 		

Audit risks and results – other areas of focus

YMCA Project	New or changed?	Estimate?
In 2017, the City entered into an arrangement with YMCA of Greater Toronto Area (“YMCA”) and Penguin Calloway Vaughan Partnership for the construction of a YMCA and City Facility (together, “facility”) that is within a mixed use building being developed in the Vaughan Metropolitan Centre. The City is funding a significant portion of the construction costs and is guarantor to the YMCA’s share of financing.	Same as prior year.	No significant estimates noted.

Our response

- We obtained and reviewed relevant agreements related to this facility between the City and other parties.
- We reviewed the detail of costs related to this facility that were incurred during 2020.
- We obtained direct confirmation from YMCA of the long-term debt and repayment schedule owing to them, including confirmation that YMCA has not defaulted on their loan with Ontario Infrastructure and Lands Corporation (OILC) as at December 31, 2020, and confirmed with management subsequently up to the date of this report.

Significant findings

- The facility will be shared between the City and YMCA for occupancy whereby the City will use 30% of the facility and YMCA will use the remaining 70%.
- The City is funding its 30% share of the facility and 2/3 of YMCA’s 70% share of the facility.
- YMCA entered into a financing agreement with OILC to obtain a construction loan of up to \$66M, which the City has guaranteed. In the event of default by YMCA, the City is required to assume all liabilities and take first right to ownership of all assets related to the facility.
- As at December 31, 2020, the City has incurred a cumulative \$64.1M (2019 - \$53.0M) on the project, comprising:

(millions)	<u>2020</u>	<u>2019</u>
Land	\$11.0	\$11.0
Land transfer tax	1.5	1.5
The City’s portion of the facility	19.8	15.6
The YMCA’s portion of the facility	<u>31.8</u>	<u>24.9</u>
	\$64.1	\$53.0

- The City has reported the \$64.1M (2019 - \$53.0M) as assets under construction as part of its tangible capital assets. A total of \$16.8M (2019 - \$11.4M) has been paid by the City with a remainder of \$47.3M (2019 - \$41.6M) recorded as long-term debt.
- These transactions are described in note 7 to the financial statements, including the repayment schedule of debt payments owing to YMCA.
- We did not note any issues with management’s accounting, and we find the measurement and disclosures related to this project to be appropriate.

Audit risks and results – other areas of focus

Vaughan Holdings Inc.	New or changed?	Estimate?
<p>Vaughan Holdings Inc. (“VHI”), a significant component of the City’s consolidated financial statements, is accounted for on a modified equity basis. VHI, together with its holdings in Alectra Inc. (“Alectra”) and other entities, is referred to as Hydro Vaughan Corporations.</p>	<p>Same as prior year.</p>	<p>No significant estimates noted.</p>
Our response		
<ul style="list-style-type: none"> – We verified the transactions between each of the City, VHI, and Alectra and performed a reconciliation of the amounts reported in the financial statements of the respective entities as at December 31, 2020. 		
Significant findings		
<ul style="list-style-type: none"> – The City recognizes its investment in Hydro Vaughan Corporations using the modified equity method. Using the criteria under Public Sector Accounting Standards, PS 3070 – Investment in Government Business Enterprises, we determined that the City’s investment in Hydro Vaughan Corporations continues to meet the criteria of the standard, and therefore it is appropriate to continue to record the investment using the modified equity method of accounting. – In 2020, the City’s share of Hydro Vaughan Corporations’ net income and dividends paid out totalled \$16.1M and \$13.1M, respectively (2019 - \$10.8M and \$14.3M, respectively). – VHI received a \$1.7M (2019 - \$1.9M) return of capital from Alectra, which was recorded as a reduction to VHI’s investment in Alectra. VHI issued an equivalent return of capital of \$1.7M to the City. – These transactions are described in note 4 to the financial statements. – Based on our audit, we conclude that management has appropriately recorded and presented its investment in Hydro Vaughan Corporations using the modified equity accounting. 		

Audit risks and results – other areas of focus

Contingent liabilities	New or changed?	Estimate?
<p>PSAS 3300 <i>Contingent Liabilities</i> 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.”</p> <p>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, etc.</p>	Same as prior year	<p>Estimation uncertainty exists related to the likelihood and measurement of contingent liability.</p> <p>However, this estimation uncertainty does not result in a risk of material misstatement.</p>
Our response <ul style="list-style-type: none"> – We obtained and evaluated the City’s assessments and claims listing that are used to develop and record these estimated liabilities. – We obtained a legal confirmation from, and held discussions with, internal legal counsel and evaluated the assessments made by internal legal counsel on the pending legal matters in terms of determination of likelihood and measurability. 		
Significant findings <ul style="list-style-type: none"> – We reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, 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. – We did not note any issues in the City’s assessment of contingent liabilities and amount of related liabilities that were recorded and reported for the year ended December 31, 2020. 		

Other matters

Professional standards require us to communicate to the Committee other matters. We highlight the following that we would like to bring to your attention:

Matter	Comments
Vacation accrual	<p>Disclosed in the financial statements is vacation entitlements liability (see note 5(c)), which is \$9.4M in 2020 (2019 - \$7.6M). The City's various collective agreements, Management bylaw and other HR policies permit certain maximum days to be carried over if unused. As reported in our audit results of 2019, we continue to note that there is an upward trend in this accrual over the past several years and we understand that this increase is due to factors such as compensation increases and increased number of unused days carried over.</p> <p>Consistent with the prior year, we note that there are several risks associated with maintaining high levels of vacation accruals, for example, the cost of those vacation entitlements become increasingly more expensive as compensation levels increase, it can be potentially disruptive to the City's operations in the case where employees are granted extended leaves, and the financial impact to the City's financial position becomes less favourable as more reliance is placed on reserves or future funding in order to fund this liability.</p> <p>In line with leading practices, we recommend that management carefully assess vacation entitlements, enforce any plans in place to draw down on entitlements in order to better manage this liability and avoid servicing it at a higher cost than necessary. We note that in 2021, this liability may continue to rise as employees continue to defer vacation plans in light of COVID-19 and associated travel restrictions. We understand that senior management will further enhance enforcement efforts of carry-forward policies with a specific objective of drawing down the liability.</p> <p>Additionally, as another leading practice and as a fraud prevention measure, we note that management should ensure that staff take annual vacations and that another employee perform their work in their absence. This cost-efficient control is one of the most effective methods of identifying any potential irregularities in performance. It also provides cross training for succession planning purposes.</p>

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

Professional standards require that we request of management and the Audit Committee that all identified differences be corrected.

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

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

Appendices

Content

Appendix 1: Other Required Communications

Appendix 2: Current Developments

Appendix 3: Technology in the Audit

Appendix 4: Audit and Assurance Insights



Appendix 1: Other Required Communications

Report	Engagement terms
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated November 9, 2020 as provided by management.
Report to the Audit Committee	Representations of management
This report.	We will obtain from management certain representations at the completion of the audit.
Audit Quality in Canada	Control deficiencies
<p>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:</p> <ul style="list-style-type: none"> • CPAB Audit Quality Insights Report: 2020 Interim Inspection Results • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results <p>Visit our Audit Quality Resources page for more information including access to our Transparency report.</p>	None noted.

Appendix 2: Current Developments

Public Sector Accounting Standards

Standard	Summary and implications
Impact of COVID-19	<ul style="list-style-type: none"> – In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19. The dates noted below reflect the new revised dates.
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's fiscal year starting on January 1, 2023. – 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: <ul style="list-style-type: none"> ○ 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.
Revenue	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's fiscal year starting on January 1, 2024. – 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.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> — The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's fiscal year starting on January 1, 2023. — 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 <i>Financial Instruments</i> 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 <i>Financial Instruments</i>. The exposure drafts were released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	<ul style="list-style-type: none"> — PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan. — PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> 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.

Standard	Summary and implications
Public Private Partnerships ("P3")	<ul style="list-style-type: none"> PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB is in the process of reviewing feedback provided by stakeholders on the exposure draft. The exposure draft proposes 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 exposure draft proposes that the public sector entity recognize 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. The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023 or the City's year ending December 31, 2024.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. PSAB has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021. PSAB is proposing a revised, ten-chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. 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: <ul style="list-style-type: none"> 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.

Standard	Summary and implications
International Strategy	<ul style="list-style-type: none"> PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021. An exposure draft to modify the GAAP hierarchy was issued and public comments were accepted up to February 15, 2021.
Purchased Intangibles	<ul style="list-style-type: none"> 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 (City's year ending December 31, 2024) with early adoption permitted. Application may be retroactive or prospective.

Appendix 3: Technology in the audit

We have utilized technology to enhance the quality and effectiveness of the audit as noted below.



Areas of the audit where Technology and D&A routines were used

Tool / Audit Area	Our results and insights
Journal Entry Analysis	<p>We utilized our proprietary D&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.</p> <p>We did not identify any issues with completeness through our roll-forward procedures.</p> <p>We are satisfied with the results of our testing of specific relevant journal entries, which were identified for testing using the computer assisted auditing techniques.</p>
Tangible Capital Assets	<p>WIP transfers to asset additions: We utilized IDEA to ensure that asset additions to tangible capital assets recorded in the Citywide database transferred from work in progress are removed from work in progress completely.</p> <p>We compared the asset additions listing to transfers out of work in progress and we investigated any significant asset additions that are not completely removed from work in progress. We did not identify any issues with the completeness of transfers out of work in progress as any remaining items were supported.</p> <p>Disposals: We utilized IDEA to verify that assets that were disposed of during the year were completely removed from the register of assets in the Citywide database.</p> <p>Our comparison of the disposals listing to the asset register continued to include assets that were disposed of, however, consistent with our findings in the past, they were identified with unique asset IDs and were all reported at nil cost values, which results in effective elimination of costs from the assets reported in the Citywide database.</p> <p>Depreciation expense: We utilized IDEA to analyze depreciation expense on an asset level. We replicated the formula used to determine individual assets' annual amortization expense and recalculated an expected amount after verifying the appropriate inputs were used.</p> <p>We did not find any issues in our recalculation of amortization expense compared to the amounts recorded by the City.</p>

Holdback Completeness

We utilized D&A to evaluate whether construction holdbacks liabilities have been completely and consistently recorded for significant projects in work in progress at year-end.

We obtained the asset register for work in progress by project ID and the listing of contractor expenditures by business unit. We compared the holdbacks details from these two listings to identify significant projects that did not include a holdback.

We did not find any issues with the completeness of holdbacks liabilities.

Cash Deposits Deferred Revenue

We utilized D&A to evaluate the year-over-year change (on a project level) for 100% of the population of projects for which cash deposits have been collected in the current and prior year.

We used the cash deposits reconciliation listing for current year and prior year. We extracted cash receipts details from the prior year listing and compared them to cash on hand in the current year listing to determine if the deferred revenue roll-forward was complete and accurately calculated.

There were no issues with the completeness of prior year deposits in the records of the current year.

Appendix 4: Audit and Assurance Insights

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

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada.	<u>Learn more</u>
The business implications of coronavirus (COVID-19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<u>Learn more</u>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<u>Learn more</u>
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	<u>Learn more</u>
Accelerate 2020	Perspective on the key issues driving the audit committee agenda.	<u>Learn more</u>
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<u>Sign-up now</u>
PSAB resources	KPMG resources for the new developments and trends in the public sector.	<u>Learn more</u>
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US.	<u>Learn more</u>
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	<u>Learn more</u>



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



Audit Committee Report

DATE: Monday, May 31, 2021

WARD(S): ALL

TITLE: 2020 INTERNAL AUDIT ANNUAL REPORT

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

This report outlines the activities of the Internal Audit Department for the period January 1 through December 31, 2020. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.

Report Highlights

- The Internal Audit Department provides independent, objective assurance and consulting activity designed to add value and improve the City's operations.
- Internal Audit helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- Internal Audit's functional reporting relationship to Council helps ensure that the department is free to work independently and objectively.
- The Internal Audit Department continues to be able to carry out its activities free from interference and remains organizationally independent.
- Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of Council should it occur.

Recommendations

1. That the attached report, Internal Audit Department 2020 Annual Report be received.

Background

In accordance with the City's Internal Audit Policy, an annual report shall be submitted to the Audit Committee outlining the annual activities of the Internal Audit Department.

Previous Reports/Authority

Not applicable.

Analysis and Options

The report covers several topics, including:

- An overview of the Internal Audit Department's purpose, governance structure and organizational interrelationships.
- An update on the Department's status as it relates to completing the projects on the 2020 Internal Audit Risk Based Work Plan, staffing, meeting deliverables and performance management.
- An analysis of common themes and issues from prior audit reports.
- The annual update on the status of completed and outstanding management action plans to address audit report recommendations.
- The Anonymous Reporting System annual update, including a summary of the issues raised, trend analysis and performance comparison against the NAVEX Benchmark.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The Internal Audit Department continues to be able to carry out its activities free from interference and remains organizationally independent.

Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of Council should it occur.

In 2021, Internal Audit will conduct the scheduled engagements as per the Council approved 2021 Internal Audit Risk Based Work Plan, which provides a combination of risk and control advice and assurance designed to add value and improve the City's operations.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. 2020 Internal Audit Annual Report
2. Presentation Material – 2020 Internal Audit Annual Report

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293

Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit



INTERNAL AUDIT

Annual Report:

January 2020 – December 2020

May 2021

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PURPOSE OF INTERNAL AUDIT

The Internal Audit Department provides independent, objective assurance and consulting activity designed to add value and improve the City's operations. The Department helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The department's core responsibilities are to conduct risk based operational and compliance audits and provide advisory services.

The Internal Audit Department's activities support the City's Term of Council Service Excellence Strategic Priority of "Good Governance".

INTERNAL AUDIT – GOVERNANCE STRUCTURE

Internal Audit reports functionally to Council through the Audit Committee and administratively to the City Manager.

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Audit (Attribute Standards 1110 - Organizational Independence), the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. Appropriate reporting lines are critical to achieve the independence, objectivity, and organizational stature for an internal audit function necessary to effectively fulfill its obligations. Reporting lines are also critical to ensuring the appropriate flow of information and access to key executives and managers.

Functional Reporting Relationship:

The functional reporting relationship to Council through the Audit Committee helps ensure that the Internal Audit Department is free to work independently and objectively and is ultimately responsible for ensuring that Internal Audit has the resources and access to information to enable it to fulfil its mandate. These functional responsibilities include:

- Approving the Internal Audit Charter and Internal Audit Risk Based Work Plan.
- Ensuring that Internal Audit is appropriately resourced and has sufficient authority and standing to carry out its tasks effectively.
- Making appropriate inquiries of management and the Director of Internal Audit to determine whether there are inappropriate scope or resource limitations.
- Ensuring that the Director of Internal Audit has direct access to the Audit Committee Chair and committee members and is accountable to the Committee.
- Receiving communications from the Director of Internal Audit on the Department's activities relative to its risk-based work plan and other related matters.
- Reviewing and monitoring management's responsiveness to audit findings and recommendations.

- Monitoring and assessing the quality and effectiveness of Internal Audit, and its role in the overall context of the City's governance framework.
- Approving decisions regarding the appointment and removal of the Director of Internal Audit.
- Approving the compensation of the Director of Internal Audit.

The Director of Internal Audit assists Council in fulfilling their functional responsibilities by:

- Reviewing the Internal Audit governance structure and attesting to the Department's organizational independence on an annual basis.
- Providing feedback on the sufficiency of internal audit resources through the Internal Audit Risk Based Work Plan and through participation in the City's annual budgeting process.
- Providing briefing sessions to the Mayor and Members of Council on emerging risks.
- Presenting reports related to the Department's activities through the Audit Committee.
- Providing an annual update on the status of all outstanding management action plans so that Council can review and monitor management's responsiveness.
- Providing an annual update on the effectiveness of the City's Anonymous Reporting System.
- Reporting annually on the Department's performance. This information can be used by Council to gauge the quality, efficiency and effectiveness of the Internal Audit Department.

Administrative Reporting Relationship:

The administrative reporting relationship to the City Manager helps facilitate the day-to-day operations of the Internal Audit Department. This includes:

- Providing appropriate office space, supplies and equipment.
- Human Resources, Information Technology, and Purchasing support.
- Internal communications and information flow.
- Administration of the Internal Audit activity's policies and procedures.

Internal Audit Policy:

The Internal Audit Charter was developed and approved by Council in October 2012. The Charter was revised and renamed the Internal Audit Policy and approved by Council in June 2014. The Policy was further revised last year and approved by Council on June 29, 2020.

The Internal Audit Policy is a formal document that defines the Internal Audit Department's purpose, authority, and responsibility. It establishes the Internal Audit Department's position within the City, including the nature of the functional reporting relationship with Council; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

The policy requires that it be reviewed at least once a year to ensure that it is up-to-date and effective. Based on the review Internal Audit conducted in December 2020, the policy remains up-to-date and effective, and no further revisions are recommended at this time.

Annual Declaration of Organizational Independence:

According to both the City's Internal Audit Policy and IIA Attribute Standards 1110 - Organizational Independence, the Director of Internal Audit must confirm to the Audit Committee at least annually, the organizational independence of the internal audit activity. In addition, IIA standard 1110.A1 states that the "internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications."

This statement confirms that the Internal Audit Department has been able to carry out its activities free from management interference and remains organizationally independent.

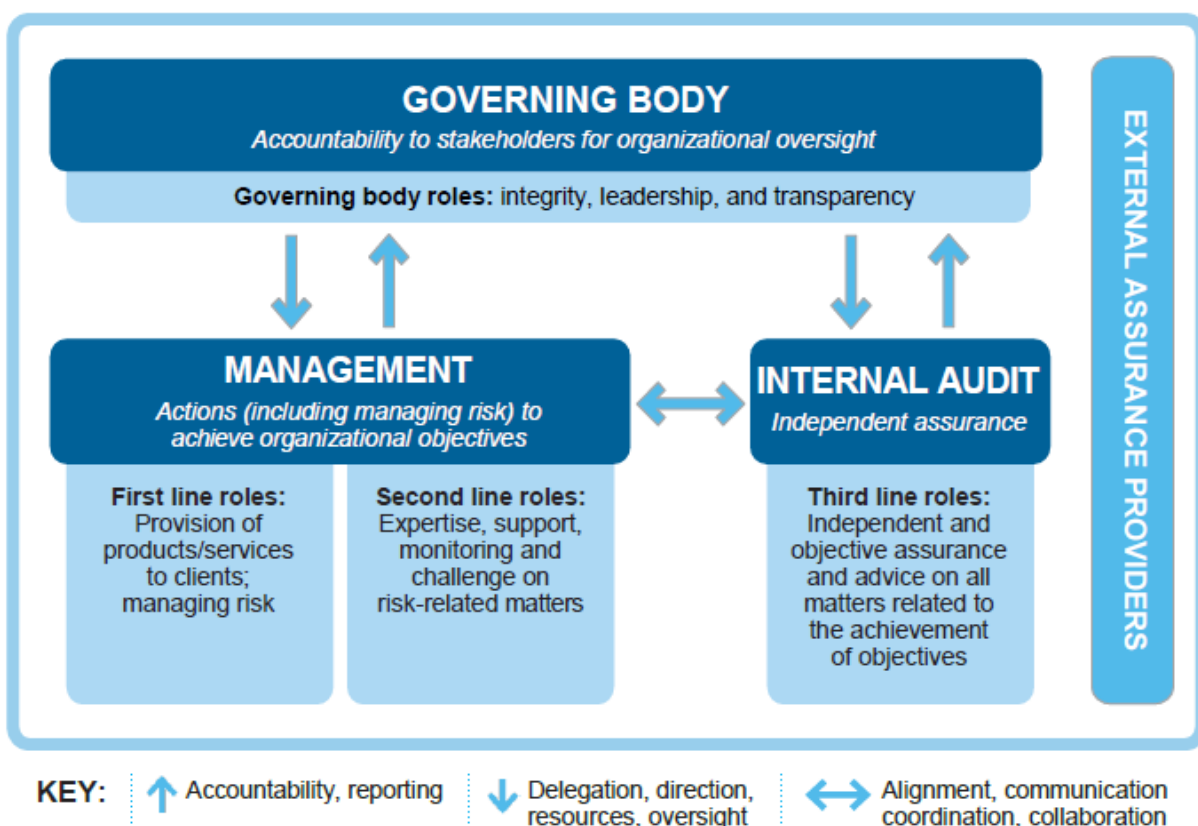
Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of Council should it occur.

The IIA's Three Lines Model:

In 2020, the IIA updated the Three Lines Model. The updated model helps organizations better identify and structure interactions and responsibilities of key stakeholders toward achieving more effective alignment, collaboration, accountability and objectives.

The model adopts a six-step, principles-based approach. It outlines the roles of various leaders within an organization, including oversight by the board or governing body, management and operational leaders including risk and compliance (first- and second-line roles), independent assurance through internal audit (third line) and it addresses the position of external assurance providers. The model applies to all organizations, regardless of size or complexity.

The IIA's Three Lines Model



The governing body, management, and Internal Audit have their distinct responsibilities, but all activities need to be aligned with the objectives of the organization. The basis for successful coherence is regular and effective coordination, collaboration, and communication.

The Three Lines Model is most effective when it is adapted to align with the objectives and circumstances of the organization. How an organization is structured and how roles are assigned are matters for management and the governing body to determine. The governing body may establish committees to provide additional oversight for particular aspects of its

responsibility, such as audit, risk, finance, planning, and compensation. Within management, there are likely to be functional and hierarchical arrangements and an increasing tendency toward specialization as organizations grow in size and complexity.

Functions, teams, and even individuals may have responsibilities that include both first and second line roles. However, direction and oversight of second line roles may be designed to secure a degree of independence from those with first line roles — and even from the most senior levels of management — by establishing primary accountability and reporting lines to the governing body. The Three Lines Model allows for as many reporting lines between management and the governing body as required.

Second line roles may include monitoring, advice, guidance, testing, analyzing, and reporting on matters related to the management of risk. Insofar as these provide support and challenge to those with first line roles and are integral to management decisions and actions, second line roles are part of management's responsibilities and are never fully independent from management, regardless of reporting lines and accountabilities.

A defining characteristic of third line roles is independence from management. The Principles of the Three Lines Model describe the importance and nature of internal audit independence, setting internal audit apart from other functions and enabling the distinctive value of its assurance and advice. Internal audit's independence is safeguarded by not making decisions or taking actions that are part of management's responsibilities (including risk management) and by declining to provide assurance on activities for which internal audit has current, or has had recent, responsibility.

The governing body in the municipal sector is Council. Council relies on reports from management (comprising those with first and second line roles), internal audit, and others in order to exercise oversight and achievement of its objectives, for which it is accountable to stakeholders. Management provides valuable assurance on planned, actual, and forecast outcomes, on risk, and on risk management by drawing upon direct experience and expertise. Those with second line roles provide additional assurance on risk-related matters.

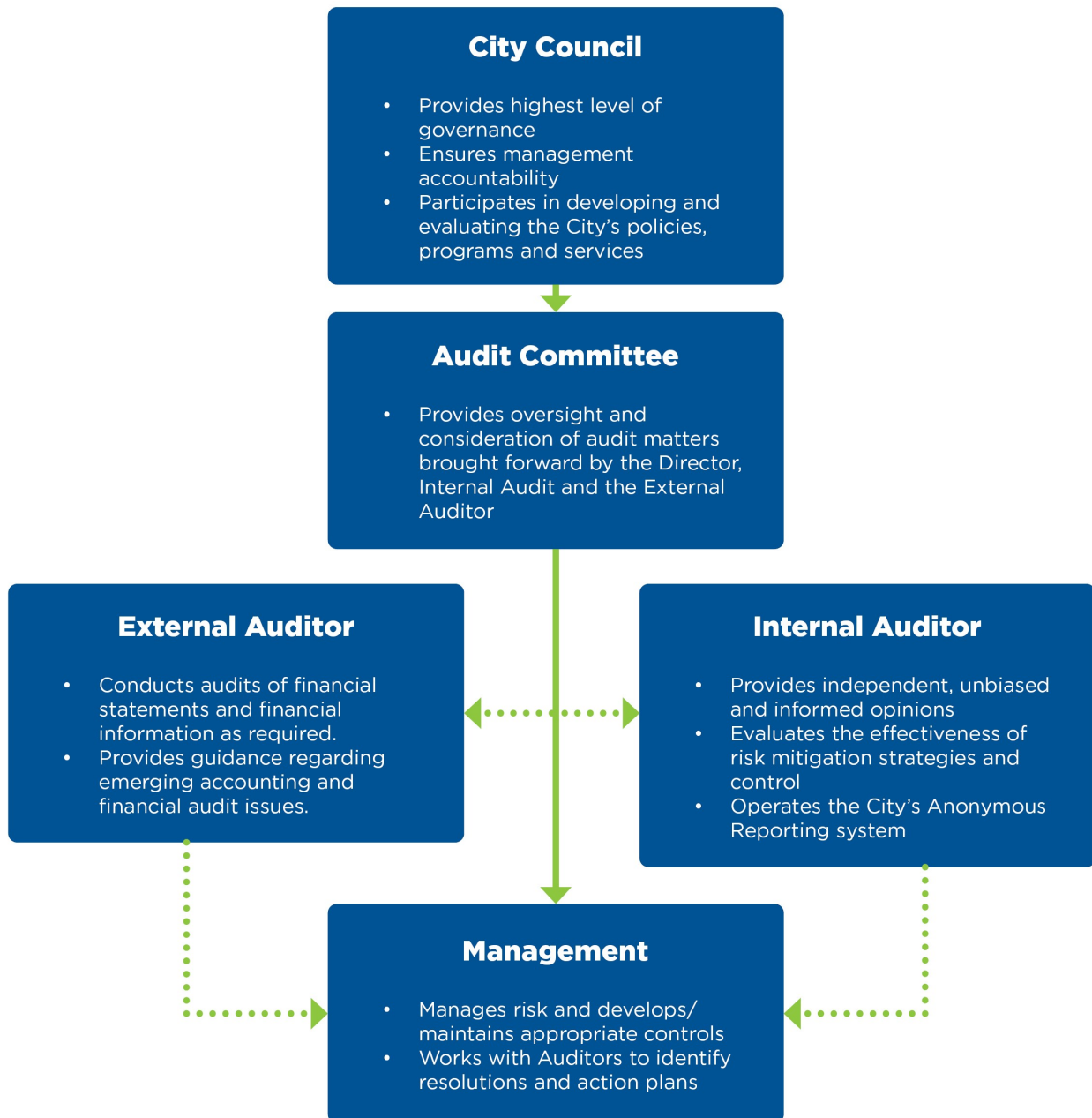
Due internal audit's independence from management, the assurance it provides carries the highest degree of objectivity and confidence beyond that which those with first and second line roles can provide to the governing body, irrespective of reporting lines. Further assurance may also be drawn from external providers.

Effective governance requires appropriate assignment of responsibilities as well as strong alignment of activities through cooperation, collaboration, and communication. Council seeks confirmation through internal audit that governance structures and processes are appropriately designed and operating as intended¹.

¹ Extract from [The IIA's Three Lines Model: An Update of the Three Lines of Defence](#)

Governance Interrelationships:

The diagram below provides a high-level overview of the roles, responsibilities and the interrelationships of City Council, the Audit Committee, Management, Internal Audit and the External Auditor. Each group, both individually and collectively supports the City in effectively meeting its goals while providing assurance that City operations are being managed under the principles of good governance, effective risk management relevant and value-added controls and cost effectiveness.



ROLE AND EXPECTED OUTCOME OF A FULL SERVICE INTERNAL AUDIT FUNCTION

The following are the expected outcomes for a well-functioning internal audit function:

- Providing assurance that key risks that could harm the City are effectively managed.
- Providing assurance that key controls function as intended and support value to the City.
- Providing advice to City departments to help them develop risk mitigation strategies to better serve the public in service delivery.
- Providing education to support other departments in establishing and maintaining good governance, accountability and control.
- Supporting the City in its objective to maintain transparency and openness.

Internal Audit achieves these outcomes through two primary roles:

1. **Assurance Services Role** – These are engagements and projects designed to provide reasonable assurance, through review of existing operations and processes, that the City is managing resources effectively and efficiently, is in compliance with policies and legislation and that controls are properly functioning as intended.
2. **Consulting Services Role** – This role is proactive and forward thinking consisting of engagements and projects that focus on strategic and operational risk and control. These are primarily advisory assignments that offer a better opportunity to serve the changing needs of the City and help support better management of organizational risk.

MEASURING PERFORMANCE

The following table outlines the Internal Audit Efficiency and Effectiveness Performance Metrics:

Performance Measurement Category	Measures of Efficiency	Measures of Effectiveness	Measures of Efficiency and Effectiveness
Service to Stakeholders	<ul style="list-style-type: none">• Number of internal audit reports issued vs. planned engagements (100% initiation rate)• Anonymous Reporting System annual median case closure time (equal to or less than the NAVEX Global median average)• Average actual hours vs. budgeted hours, by project (target within 10%)	<ul style="list-style-type: none">• Percentage of audit recommendations accepted by management (100% target)• Review of Internal Audit governance structure (annual)• Acknowledgement of organizational independence (annual)• Successfully passing the Institute of Internal Auditors Quality Assurance and Improvement Program External Assessment (every 5 years)	<ul style="list-style-type: none">• Client survey scores (positive average result)
Technical Development		<ul style="list-style-type: none">• Number of hours spent in industry or other specialized training (minimum of 40 hours for Certified Internal Auditors and 20 hours for Certified Fraud Examiners)• Percent of auditors involved in professional organizations (100% target).	
Staff Development	<ul style="list-style-type: none">• Tracking of development plan (plan vs. actual, on an annual basis)	<ul style="list-style-type: none">• Percentage of auditors with professional certifications (100% target)	

Internal Audit should effectively demonstrate its value as a key component of the City's governance framework and lead by example with strong, relevant and reliable performance measures. To maintain and enhance Internal Audit's credibility, its effectiveness and efficiency should be evaluated.

Both qualitative and quantitative metrics are important in demonstrating Internal Audit's performance.

Quantitative performance metrics are often based on existing or obtainable data and are easily understood. They often require less effort to collect and are readily comparable, year over year.

Qualitative metrics are often based on the collection of unique information through more time intensive methods such as survey research or interviews. They offer a broad view of performance on a range of topics that can provide depth to quantitative metrics.

Service to Stakeholders:

There are eight metrics under the Service to Stakeholders Performance Measurement category. Three of them are efficiency measures, four are effectiveness measures and one measures both efficiency and effectiveness.

Number of Internal Audit Reports Issued vs. Planned Engagements (100% Initiation Rate)

The Internal Audit Risk Based Work Plan for 2020 was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

Sources for determining risk and plan priorities included discussions with senior management, insight from Council, financial significance, current and emerging risks in the local government sector, high profile issues in other municipalities, staff requests, themes from previous audits and investigations and significant change initiatives.

As internal auditing is a year-round activity, it is to be expected that some projects starting in the latter half of the year will extend into the next calendar year. However, it is expected that all projects will commence in the year that they are scheduled.

At the January 25th 2021 Audit Committee, the Director of Internal Audit presented a report entitled, "2020 Internal Audit Risk Based Work Plan Status Update". The report outlined changes that were made due to the COVID-19 pandemic. Although changes were made to the original 10 scheduled engagements, 10 projects were initiated in 2020. A total of nine reports were presented to the Committee of the Whole and approved by Council.

Anonymous Reporting System Annual Median Case Closure Time (Equal to or Less than the NAVEX Global Median Average)

In 2020, reports were investigated and closed nearly five weeks faster than the Global Benchmark. The ability to investigate and close cases in a timely fashion helps foster a culture where concerns are taken seriously and builds organizational trust in the system.

Actual Hours vs. Budgeted Hours, by Project (within 10% variance)

Budgeted project hours are based on best estimates and reflect historical experience. Risk based Internal Audits require significant client participation to identify risks, agree on issues and develop relevant and feasible management action plans.

Internal Audit has a time docketing process that effectively tracks engagement hours by project, by activity type.

In 2020, the average budgeted time allocated to a project was 435 hours. Actual average time allocated to a project was 541.8 hours, a difference of 24.54% or 3 weeks. The reason for the above target variance was mostly related to the Consulting Services Audit. Based on initial findings, the scope of work needed to be expanded to reflect additional risk factors uncovered during the course of the audit.

Percentage of Audit Recommendations Accepted by Management (100% Target)

This metric helps demonstrate the collaborative nature of a risk based internal audit. Internal audit engagements can be deemed successful when management participates in the process, concurs with the observations and recommendations, and is committed to addressing them through management action plans.

In 2020, Internal Audit achieved a 100% acceptance rate for all audit recommendations.

Review of Internal Audit Governance Structure and Acknowledgement of Organizational Independence (Annual)

Ensuring that the Internal Audit Department can perform its duties independently is vital to the effectiveness of the function. Further information on this topic can be found on pages 3 – 8 of this report.

Successfully Passing the Institute of Internal Auditors Quality Assurance and Improvement Program External Assessment (Every 5 Years)

Internal Audit conforms to the International Standard for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the IIA, as well as the City's Code of Conduct and the Internal Audit Procedure Manual.

As part of conformance, the Director of Internal Audit is responsible for developing and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity. It is designed to enable an evaluation of the internal audit activity's conformance with the IIA Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The quality assurance and improvement program must include both internal and external assessments.

Internal assessments are conducted by the Director of Internal Audit and are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal

audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

On January 25, 2021, the Audit Committee approved the recommendations from the report entitled, "Request for Approval of a Single Source Procurement for an External Quality Assessment", permitting the Institute of Internal Auditors to conduct the City's first external assessment in 2021, utilizing the self-assessment with independent validation approach. Under this approach, Internal Audit is responsible for completing a self-assessment per the IIA's Quality Assessment Manual for the Internal Audit Activity. IIA Quality Services, then provides independent validation services delivered by a qualified internal audit professional. This independent assessor will review the self-assessment, substantiate the work completed by Internal Audit, make an on-site visit, interview senior management, and either co-signs Internal Audit's report regarding conformance to the Standards or issues a separate report on the disparities.

The IIA's external assessor is tentatively scheduled to begin advanced preparation in August. Their proposed-on site work is tentatively scheduled for late October. This work might be performed virtually instead, depending on the evolving conditions due to the COVID-19 pandemic. The final report would tentatively be complete in December 2021, with presentation to the Audit Committee in January 2022.

Audit Client Survey Scores (Positive Average Result)

Surveys are an important tool that can be used to assess proficiency in certain skills, competencies, or knowledge exhibited by the Internal Audit Department staff. Survey feedback is an important element of our Quality Assurance and Improvement Program and helps measure satisfaction with the quality of services delivered and identify potential opportunities for improvement.

After the completion of each audit project, members of the management team directly involved in the audit process are asked to complete an Audit Client Survey. The 15-question survey asks for feedback on our performance and to identify areas where we can improve our operations. The survey focuses on how well we communicated throughout the audit, our understanding of the client's issues, the professionalism of our audit staff, and the quality of our findings. The survey results help Internal Audit determine whether the goals and objectives of the audit were met and measure client satisfaction with the quality of services delivered.

Internal Audit distributed a total of eight audit client surveys for the Construction Audit of Fire Station 7-4: Phase 2 - Construction Phase, Consulting and Professional Services Audit, VBEC Audit and By-Law & Compliance, Licensing & Permit Services Audit: Phase 1 - Policy & Business Planning. We received 100% participation. Out of the 15 questions, 14 received 100% positive scores, while the remaining question received an 88% score. This is a very

strong indicator that Internal Audit is effectively delivering value added services to the organization. The detailed results of this survey are summarized in Appendix A, which can be found at the end of the report.

Technical Development:

There are two effectiveness metrics under the Technical Development Performance Measurement category.

Number of Hours Spent in Industry or Other Specialized Training (Minimum of 40 Hours for Certified Internal Auditors and 20 hours for Certified Fraud Examiners)

Currently, Internal Audit staff possess one or more of the following professional certifications:

- Certified Internal Auditor (CIA)
- Certification in Risk Management Assurance (CRMA)
- Certified Fraud Examiner (CFE)
- Chartered Professional Accountant (CPA)

The IIA oversees several well-respected auditing certifications including the CIA designation. The CIA designation is the only globally accepted certification for internal auditors and remains the standard by which individuals demonstrate their professionalism in the internal audit field.

The CRMA is designed for internal auditors and risk management professionals with responsibility for and experience in providing risk assurance, governance processes, quality assurance, or control self-assessment. It demonstrates an individual's ability to evaluate the dynamic components that comprise an organization's governance and enterprise risk management program and provide advice and assurance around these issues.

Individuals who have achieved the CIA and/or any other IIA designation are required to complete a minimum of 40 hours of Continuing Professional Education (CPE) every year. Of these 40 hours, 2 must relate directly to ethics.

The CFE credential denotes proven expertise in fraud prevention, detection and deterrence. CFEs are trained to identify the warning signs and red flags that indicate evidence of fraud and fraud risk. CFEs around the world help protect the global economy by uncovering fraud and implementing processes to prevent fraud from occurring in the first place. On an annual basis, CFE's must obtain a minimum of 20 credit hours of CPE; at least 10 of these must relate directly to the detection and deterrence of fraud and 2 must relate directly to ethics.

The CPA designation was created by the unification of Canada's three independent legacy accounting professions (CA, CGA and CMA) into the CPA, now Canada's only business and accounting profession. Working in collaboration with its provincial member organizations, the CPA supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs. It also provides a range of member services and professional literature; undertakes research and development of intellectual property; issues guidance on risk management and governance; and fosters relationships with key stakeholders nationally and internationally. CPA and its provincial member organizations mandate is to protect the public interest by setting and enforcing the highest professional and ethical standards, to ensure that members

are recognized as Canada's preferred financial leaders and advisors, and to support its members in their efforts to enhance their capabilities.

CPA's are required to complete a minimum of 20 hours of Continuing Professional Development (CPD) a year. The CIA CPE requirements fulfil the CPA CPD requirements.

Percent of Auditors Involved in Professional Organizations (100% Target)

In addition to the professional organizations mentioned above, all members of the City of Vaughan's Internal Audit Department are members of the Municipal Internal Auditors Association (MIAA). The purpose of MIAA is to provide a professional forum for the purposes of networking, continuing education and exchanging ideas and best practices with other municipal internal auditors. MIAA hosts educational events twice a year.

The completion of the yearly CPE requirements and maintaining active membership in the associated professional organizations helps ensure that the City's Internal Audit Department staff remain up to date on the latest municipal, business, auditing, risk management, fraud prevention and detection techniques and trends.

In 2020, all Internal Audit staff met their respective CPE/CPD requirements and all members are in good standing with their respective professional organizations.

Staff Development:

There are two metrics under the Staff Development Performance Measurement category. One is an efficiency measures and one is an effectiveness measure.

Tracking of Development Plan (Plan vs Actual, Annual Basis)

The Director of Internal Audit is responsible for evaluating staff performance on an annual basis, using the City's existing Halogen Talent Management Program. The City's Halogen Talent Management System integrates employee goals, competencies, performance feedback, appraisal, and learning and development. It provides integrated and timely information, feedback, communication and reporting. Through the performance planning and evaluation process, Internal Audit aligns work activities to the Department's Risk Based Work Plan while developing and monitoring individual performance, achievements, competencies and opportunities for development.

Percent of Auditors with Professional Certifications (100% Target)

All Internal Audit staff are required to possess at least one certification. Through the City's Halogen Talent Management Program, staff are encouraged to continue to explore development opportunities and additional certifications.

COMMON THEMES AND ISSUES – ANALYSIS OF 2020 INTERNAL AUDIT REPORTS

Individual internal audit reports can be useful in advising management and Council on risk and control issues that may affect the successful operation of a program, process or department. Individual reports, however, do not always address broader risk and control themes. Similar issues may arise over a series of reports that could point to a more systemic or reoccurring set of issues requiring a more organizational or holistic perspective of risk and control. Identifying themes and addressing them holistically helps better address systemic causes.

A total of nine reports were completed, presented and approved by Council in 2020.

The top themes that emerged are:

1. Developing processes to periodically evaluate direction, strategy, programs and service delivery to ensure efficient and effective deployment of resources to achieve the City's Term of Council Priorities and Strategic objectives.
2. Improving budgeting and forecasting processes to better align Council directives and corporate strategy with resource allocation.
3. Improving project management, contract administration and management oversight.
4. Updating the content of City policies, procedures and guidelines while providing more clarity on roles, responsibilities and expectations of stakeholders.

It should be noted that these top four themes were also the same common themes identified in last two annual reports.

Internal Audit will continue to report on reoccurring themes on an annual basis, as per the City's Internal Audit Policy.

ANONYMOUS REPORTING SYSTEM – ANNUAL UPDATE

Background and Purpose:

The City's Anonymous Reporting System was implemented on April 15, 2014 as an additional mechanism for employees to confidentially and anonymously report suspected fraud and code of conduct violations.

Report intake is operated independently by a third party and is accessible by internet and toll-free phone number. It is available 24 hours a day, 7 days a week.

An employee who chooses to file a report is asked to create a password and is provided with a unique case tracking number so that they can log back into the system to follow the progress of their report, provide further details and to answer any questions posed by the investigator, a member of the City's Internal Audit team. Depending on the nature of the issue, management may be required to assist Internal Audit with an investigation.

The City's service provider, NAVEX Global, anonymizes the hotline data collected through their hotline and incident management systems every year and creates an annual Risk and Compliance Hotline Benchmark Report. For statistical accuracy, the analysis includes only those organizations that received 10 or more reports in 2020. The resulting database includes 3,027 customers that received a total of over 1.3 million individual reports.

Due to having the world's largest and most comprehensive database of reports and outcomes, the City can trust the NAVEX Global benchmarks. Comparing the City's anonymous reporting use to the NAVEX Database is a good indicator to help gauge the success of the City's program and opportunities for improvement.

Performance Criteria:

Overall, staff use of the Anonymous Reporting System continues to meet expectations based on the measurement criteria used to benchmark the City's use to the NAVEX Database.

The criteria include:

- Report Volume per 100 Employees
- Report Allegation Categories and Substantiation Rates
- Reporter Follow-up Rate
- Anonymous vs Named Reporters
- Case Closure Time

Report Volume per 100 Employees

Report volume per 100 employees is a measurement that enables the City to estimate the number of potential reports it will receive in a given year.

In 2020, the NAVEX Database median reports per 100 employees dropped from 1.4 in 2019 to 1.3 in 2020. Based on this statistic and the number of full-time employees in the City of Vaughan and Vaughan Public Libraries [approximately 1500], we would have required approximately 20 reports in 2020 to be at the median.

The City received a total of 6 reports in 2020, down 20 reports from the 26 reports we received in 2019. Since the system was introduced, we have received a total of 127 reports, which averages to approximately 18 reports a year.

NAVEX has hypothesized that the drop in report volume seen across all sectors is due to the COVID-19 pandemic. The impact of the pandemic on anonymous reporting is an issue that will need to be monitored closely as the pandemic enters its second year.

Report Allegation Categories and Substantiation Rates

Allegation category reporting helps identify themes and trends. Comparing the results to those of the NAVEX Database helps determine if the City has different themes that might point to specific issues. Receiving below typical volumes could speak to a need for more training or awareness, while receiving above typical volumes could indicate an area where there is risk to be addressed.

Substantiation Rate is a measurement that reflects the rate of allegations made which could be determined to have at least some merit. At the City, all allegations are initially considered to have merit until they have been reviewed and concluded. During the investigation process, some reporters may not have provided enough information or not responded to questions posed by the investigator. This may shift the allegation to the unsubstantiated category. In addition, if the conclusion does not support the allegation, then the case is considered unsubstantiated.

Based on the 6 reports received:

- None of the reports received were related to accounting, auditing and financial reporting issues such as financial misconduct, internal controls and expense reporting. The 2020 NAVEX Database median comparison for this category is 3%. The 2020 NAVEX Database substantiation rate for this category is 50%.
- Two reports (or 33%) related to business integrity issues such as conflict of interest, policy violation and vendor/customer issues. The 2020 NAVEX Database median comparison for this category is 19%. One (or 50%) of these reports was substantiated. The 2020 NAVEX Database substantiation rate for this category is 50%.
- None of the reports received were related to HR, diversity and workplace respect issues such as hiring irregularities, discrimination, harassment and favouritism. The

2020 NAVEX Database median comparison for this category is 63%. The 2020 NAVEX Database substantiation rate for this category is 40%.

- Three reports (or 50%) received were related to environmental, health and safety. The 2020 NAVEX Database median comparison for this category is 11%. One (or 33%) of these reports was substantiated. The 2020 NAVEX Database substantiation rate for this category is 46%.
- One report (or 17%) related to the misuse or misappropriation of corporate assets including theft and time abuse. The 2020 NAVEX Database median comparison for this category is 4%. This report was substantiated. The 2020 NAVEX Database substantiation rate for this category is 50%.

In 2020, three (or 50%) of the six reports received were substantiated. The 2020 NAVEX Database overall substantiation rate comparison is 42%. Our overall substantiate rate since the system was implemented is 23.6%.

It should be noted that not all substantiated reports reflect unethical conduct. It may reflect the absence of or non-enforcement of policy/procedure or improper application of a business process. In addition, an unsubstantiated report does not necessarily mean that the report was without merit. For a majority of the unsubstantiated cases, we were unable to substantiate the report due to insufficient details or evidence. An unsubstantiated report can still highlight potential risks and control weaknesses that may need to be addressed.

Reporter Follow-up Rate

Another measurement that has a direct impact on Substantiation Rates is the Reporter Follow-up Rate. This rate indicates the percentage of reporters who followed-up on their report submission. There is a greater risk that cases will be deemed unsubstantiated when reporters do not follow up on their reports, as specific detail that may be required to conduct a thorough investigation may inadvertently be withheld. In 2020, 83% of all reporters followed up on their report. This compares favorably to the 2020 NAVEX Database rate of 33%.

Anonymous vs Named Reporters

The Anonymous vs Named Reporters rate shows the percentage of all reports submitted by individuals who chose to withhold their identity.

The trend of reporters choosing to remain anonymous continues as 5 of the 6 (or 83%) reporters chose to remain anonymous. The 2020 NAVEX Database rate is 58%. Factors influencing anonymity include the level of trust participants have that their information will remain confidential, the significance of the issue being reported and the confidence that the report will be acted on. The preference for anonymity illustrates that without access to an Anonymous Reporting System, there is increased risk that staff may not report important issues such as code of conduct violations, suspected fraud or misappropriation, privacy issues and inappropriate relationships between employees and contractors/vendors.

Case Closure Times

Case Closure Time is the number of calendar days it takes an organization to complete an investigation and close a case.

Earning employee trust is not a simple task, especially when it comes to many of the sensitive topics that are reported. Ensuring that employees know their concerns are important and are being seriously considered is a vital step towards that task. If months go by without resolution, or weeks go by without indication of action, reporters can feel that their concerns are not being heard and the credibility of the program can be damaged or lost.

In 2020, our median case closure time was one day. This compares favourably to the 2020 NAVEX Benchmark median case closure time of 39 days. It should be noted that our median case closure time is unusually low. This was the result of a majority of the reporters providing sufficient information and responding instantaneously through the anonymous two-way chat feature. This enabled us to investigate and resolve the concern on 5 of the 6 reports within 24 hours. The ability to investigate and close cases in a timely fashion helps foster a culture where concerns are taken seriously and builds organizational trust in the system.

STATUS OF MANAGEMENT ACTION PLANS - ANNUAL UPDATE

Background and Purpose:

Follow up of Internal Audit recommendations through Management Action Plans (MAPs) is performed to ensure that management actions have been effectively implemented and appropriate controls and processes have been put in place to mitigate risks identified during the audit.

For every recommendation, management provides Internal Audit with the name of the individual who is accountable and responsible for implementing the MAPs and an estimated completion date. Internal Audit assesses the estimated completion date for reasonableness and timeliness of the action, based on the assessed risk.

The individual who is accountable for implementing the MAPs provides Internal Audit with a written update on their progress shortly before the implementation deadline approaches. The update includes whether each MAP has been completed, is still in progress, or is not yet started. If a MAP has been completed, Internal Audit will verify that the action plan addresses the risk outlined in the report.

Management provides a detailed explanation if an action plan is still in progress or not yet started and provides a new estimated completion date. Internal Audit assesses the new estimated completion date for reasonableness and timeliness, based on the assessed risk.

Council requested that Internal Audit provide an annual report on the status of completed and outstanding management action plans to address audit report recommendations.

Scope:

The scope of this update includes 16 audit reports containing 104 recommendations approved by Council from March 2015 through December 2020. As of May 17, 2021, management has fully implemented 59 of those MAPs, or 57%. A total of 45 MAPs, or 43% are in progress. A table summarizing the number of audits completed and recommendations issued by report is included as Appendix B, which can be found at the end of the report.

The following are comments regarding those MAPs that are in progress:

RECREATION AND CULTURE REVENUE AUDIT

The Recreation and Culture Revenue Audit report was presented to FA&A on March 9, 2015. The report contained twelve recommendations.

One (or 8%) of the audit recommendations remain outstanding.

According to the Director of Financial Services and Deputy Treasurer, the Assistant Controller meets quarterly with the Client Services Manager of Recreation Services to review the aging report produced by CLASS to assess collectability. Any accounts deemed uncollectible are handed over to Financial Services for further action. This may include the use of a collection agency and thereby ensures that we are using one agency. Recreation Services accounts submitted for collection have been of minimal dollar amounts. Financial Services has been consolidating collection activities and will review, establishing a collection agency policy once consolidation has been completed. Consolidation was expected to be completed in 2019,

however, 2019 staffing changes and a new tax system discovery/implementation and delays due to COVID-19 have deferred this.

Staff from A/R have begun the transition into the Property Tax department Collections area in April 2021. Currently there is a new system implementation whereby recreation is transitioning from the CLASS system to the Perfect Minds solution. As a result, a collections policy will not be completed until the system is fully transitioned and we have a full understanding of the Perfect Minds system. Please note that the pandemic has lengthened timelines. Further, collection activities in non-recreation items are taking precedence due to the pandemic and its impact with respect to collections.

ROAD OPERATIONS AUDIT

The Road Operations Audit report was presented to FA&A on September 8, 2015. The report contained seven recommendations.

Five (or 71%) of the audit recommendations remain outstanding.

According to the Director of Transportation and Fleet Management Services:

Recommendation No. 1 – Occupational Health and Safety Training

The management actions under this recommendation are underway. The Corporate Training Database (Halogen) has been created and all training records were uploaded in February 2020. Development of three training checklists (Health and Safety, Equipment, and Job Specific) are underway and are expected to be completed in Q1, 2022.

Recommendation No. 2 – Implementation of Route Patrol Manager System

The management actions under this recommendation are underway. Working closely with staff from OCIO, TFMS staff have evaluated market ready technologies for Road Patrol Compliance through an RFI process. Using data collected during the RFI, an RFP is being developed and implementation of the selected solution planned for Q3, 2022.

Implementation of the new Road Patrol solution will help staff to track legislative Patrol and Repair Standards in accordance with MMS. Available (and customized) reporting functions within the solution provides front line supervisors with up to date information to monitor defects and schedule repairs. This will allow the City to continue to meet prescribed timelines and reducing the risk of claims against the City.

Recommendation No. 3 – Work Order Administration

The management actions under this recommendation are underway. Implementation of the Corporate CRM solution is underway. Integration between the Road Patrol solution and the CRM will improve efficiencies while providing a more robust means of tracking, closing and monitoring road maintenance activities. With full implementation of both these solutions, it is expected that administrative burden will be reduced while improving responsiveness.

Recommendation No. 5 – Vehicles, Motorized Equipment and Inventory Use

Management actions under this recommendation are underway. A new Fleet Manager began with the City in December 2020. With a new perspective, he will be reviewing current equipment inventory, needs and utilization and developing (or amending) practices to provide efficiencies in the procurement, rental/leasing, maintenance and retirement of equipment throughout the City. Completion of this recommendation was planned for the end of 2020.

Leading up to the end of 2020, work was deferred as the opportunity to recalibrate the way fleet is managed, unfolded. Committed completion timelines will be set in the coming months.

Recommendation No. 7 – Policies and Procedures

Management actions under this recommendation are underway. Winter SOPs have been completed as part of the Winter Maintenance Manual and have been implemented. Remaining SOPs will be completed once a specialized resource is hired to support their development with anticipated completion date of Q2 2022.

CORPORATE OVERTIME AUDIT

The Corporate Overtime Audit report was presented to FA&A on February 1, 2016. The report contained five recommendations.

Three (or 60%) of the audit recommendations remain outstanding.

According to the Chief Human Resources Officer, a Time & Attendance project is currently in progress which includes a plan to upgrade the current Enterprise Resource Program (JD Edwards) with time entry and employee self-service features. The current timeline of this project implementation is anticipated for the end of 2022. Once this project is finalized, the system will provide data on overtime costs that will help us understand what drives overtime costs and the impact on service delivery. Currently, departments continue to review their overtime usage and impacts on costs and service delivery and continue to make appropriate operational or scheduling changes to address such.

As the City of Vaughan continues to respond to the COVID-19 pandemic, citizen and staff health and safety remain the priority. In particular, the Office of the Chief Human Resources Officer has focused a lot of effort on employee wellness throughout 2020. Throughout 2020, a comprehensive Wellness strategy entitled “Wellness@Vaughan” has been developed and approved and is officially being launched in May 2021 during North American Occupational Safety and Health (NAOSH) Week, more recently known as Safety and Health Week. Wellness@Vaughan captures each of the total health pillars – physical, mental, social and financial – through a lens of health equity that is embedded into the wellness strategy.

ANONYMOUS REPORTING SYSTEM ANNUAL REPORT - 2016

The Anonymous Reporting System annual report was presented to FA&A on May 30, 2016. The report contained three recommendations.

Two (or 66%) of the audit recommendations remain outstanding.

According to the Chief Human Resources Officer, several activities have taken place over the past few years to enhance the City’s corporate governance, accountability and transparency framework. A draft ethics and compliance framework was submitted to the Senior Management Team for consideration in April 2019. Due to changes in the senior leadership team and the COVID-19 pandemic, these initiatives have been put on hold. Management will revisit how best to implement a formal ethics and compliance framework during the next Term of Council.

Providing an anonymous reporting mechanism to the public, including Vaughan residents, vendors and visitors, is an approach that may help mitigate the risk of unethical behaviour and would reiterate the City's commitment to corporate governance, accountability and transparency. The Director of Internal Audit was tasked with doing further research into the possibility of expanding the Anonymous Reporting System to the public and bring back a report during this Term of Council on the best practices in other jurisdictions and a recommended approach. Internal Audit has completed the research on this topic and concludes that the City should expand this program to the public. However, due to the COVID-19 pandemic, the Director of Internal Audit recommends that the report with these findings and recommendations for implementation be deferred to the next Term of Council.

SOCIAL MEDIA AUDIT

The Social Media Audit report was presented to FA&A on March 6, 2017. The report contained four recommendations.

One (or 25%) of the audit recommendations remain outstanding.

According to the Director of Corporate and Strategic Communications, a social media policy and framework have been drafted and further updated. The policy is currently being reviewed by key stakeholders. Additional next steps on how to best move forward with the policy and framework will be determined by Q3 2021.

EVENT MANAGEMENT AUDIT

The Event Management Audit report was presented to FA&A on June 6, 2017. The report contained nine recommendations.

Two (or 22%) of the audit recommendations remain outstanding.

According to the Director of Recreation Services, several improvements to address the recommendations have been implemented. As it is a Strategic Priority, Recreation has been reporting an update every quarter. With regards to developing an Events Strategy and Implementation Plan as of Q3 2020, the project has been redefined. The initial scope will focus on the Intake Process for Events.

As of Q4 2020, the scope for Phase 1 of the Intake Process has been confirmed as follows:

- a. to centralize and formalize the intake of external and internal application requests for hosting an event in the City of Vaughan; and
- b. to streamline and improve the ease of navigation on our website for potential event organizers, ensuring that event organizers engage us early enough in the process to avoid challenges with last-minute applications.

The Events Intake Process is underway.

In addition, the Acting DCM, CS and Director, By-Law and Compliance also confirmed that a new Special Events By-law was enacted in 2018, including consolidation into the City's current enhanced and standardized by-law format and enhancement in the language through some technical amendments, making it more legible and understandable to stakeholders and citizens; specifically providing greater clarity/transparency with respect to permit eligibility.

CONSTRUCTION AUDIT OF FIRE STATION 7-4: PHASE 1

The Construction Audit of Fire Station 7-4: Phase 1, was presented to FA&A on June 6, 2018. The report contained seven recommendations.

Three (or 43%) of the audit recommendations remain outstanding.

According to the Director, Facility Management, a city-wide approach to Project Management and Change Management is underway with a significant mandate change within the Office of Transformation and Strategy (OTS). OTS is now working collaboratively across the organization to roll-out and implement the framework and provide standardized project management and change management governance. Facility Management is contributing to the PMO in creating, standardizing and implementing the Project Management Framework and Procedures.

All new and active capital projects for Infrastructure Delivery have been reviewed and updated to:

- Reflect current funding requirements, including cash-flow projections.
- Identify planned timelines for delivery, and
- Further refine project deliverables.

A standard business case template is being developed and incorporated in the Project Management and Procedures Manual. Business cases are being developed in collaboration with stakeholders for all significant, new capital projects.

The development of the General Design & Construction Standards is well underway with ongoing stakeholder consultations. In collaboration with the Consultants, Facility Management has established the preliminary framework for a final report.

FORESTRY AND HORTICULTURAL OPERATIONS AUDIT

The Forestry and Horticultural Operations Audit report was presented to FA&A on June 6, 2018. The report contained six recommendations.

Four (or 67%) of the audit recommendations remain outstanding.

According to the Director of Parks, Forestry and Horticulture Operations, a comprehensive asset management plan, that include tree maintenance program (as part of the life cycle maintenance) will allow the City to strengthen the resiliency of the urban forest. Staff are on track to deliver this plan to council, which is in alignment with Ontario Regulation 588/17, in Q2 (June) 2021. This will include the seven-year lifecycle street tree pruning plan, which is in line with arboricultural best practices.

Forestry has introduced improvements to several processes, including tree maintenance, tree planting contracts, and pest management. SOP are targeted for completion by Q4 2021. This will include at minimum (1) payment processing, (2) invoice reconciliation, (3) work order administration and (4) private tree permit inspection process.

The implementation of the CRM will generate additional benefit with streamlining the private tree inspection process, and is currently targeted for Q1, 2022.

WINTER MAINTENANCE AUDIT

The Winter Maintenance Audit report was presented to FA&A on June 6, 2018. The report contained seven recommendations.

One (or 14%) of the audit recommendations remain outstanding.

According to the Director of Transportation and Fleet Management Services, Public Works management continues to work with a consultant to close out the Winter Service Level Review, which examined budget alignment (Salt Reserves), sustainability of existing winter service levels and a comparative scan of winter service levels of neighboring municipalities. We expect to report back with the Service Level Review findings by no later than Q4, 2021. Through a positive budget variance in 2020, a \$2.5M contribution was made into the Winterization Reserve (Salt Reserve) account.

LEGAL SERVICES AUDIT

The Legal Services Audit report was presented to FA&A on March 14, 2019. The report contained seven recommendations. In response, thirty action items have been proposed and approved by Council in June 2019. Approximately 87% these action items have now been fully implemented by management with the remaining items in progress.

According to the Director of Legal Services and Deputy City Solicitor, Litigation & Municipal Law, the remaining actions to be completed include:

- All of the job descriptions for the Legal Assistant, Law Clerk and Paralegal roles have been drafted, approved, and implemented. The only job descriptions outstanding are those for the lawyer positions and they are all nearing completion. The delay associated with the completion of this deliverable is related to workload capacity issues created by COVID.
- The evaluation of the proposals submitted in response to the External Counsel RFP are well underway, and the evaluation process is over 50% completed. It is anticipated that the evaluations will be completed before the end of May and that the awards for VOR will be completed before the end of Q2. The delay associated with the completion of this deliverable is related to workload capacity issues created by COVID.
- Legal Services continues the work to implement a Document Management System and anticipate a 'Go Live' date in the near future.

WATER, WASTEWATER & STORMWATER OPERATIONS AUDIT

The Water, Wastewater & Stormwater Operations Audit report was presented to FA&A on June 5, 2019. The report contained fourteen recommendations.

Nine (or 36%) of the audit recommendations remain in progress.

According to the Director of Environmental Services:

Recommendation No. 1 – Water Sampling Policies, Procedures and Practices

All management actions have been completed. Council approved staff recommendation to establish a single source relationship with the Regionally owned and operated York-Durham Environmental Laboratory (YDEL). Staff have negotiated mutually agreeable contractual terms and pricing with YDEL. The contract term is set from November 2020 – November 2025.

Recommendation No. 2 - Ensure that the Catch Basin Inspection and Cleaning Program Complies with the City's and York Region's Sewer By-Law

All management actions were completed in 2020. A multi-year term contract established through a competitive procurement process was awarded in March 2020. Establishing a longer-term relationship with the vendor has provided the vendor to purchase and amortize specialized equipment to service this program, leading to lower costs and more efficient implementation. In 2020, all catch basins planned for cleaning in 2020 were complete by June 2020, well ahead of schedule.

Recommendation No. 3 - Ensure the Hydrant Inspection and Maintenance Program Complies with the Ontario Fire Code

All management actions are complete. All fire hydrants in the City were inspected in 2020 and contracts are in place to continue with this work annually. Communication protocols between Environmental Services and Vaughan Fire and Rescue Services have been developed and will continue to evolve as the partnership continues.

Recommendation No. 4 - Re-establish the Valve Turning Program

All management actions have been completed. All planned valve turning work was complete in 2020 and a five-year contract with a maintenance contractor was awarded in 2020. This was a performance-based contract, setting out specific requirements for valve turning, record keeping and this issuance of work tasks. While data is being collected through this program, Environmental Services has been challenged in implementing a software solution to allow better access to data and complete more advanced analytics. Work continues in collaboration with OCIO, Procurement Services and Finance to implement the appropriate solution.

Recommendation No. 5 - Implement a Risk Based Preventative Maintenance Program

This recommendation has yet to be fully implemented. Environmental Services has adjusted its focus from ad hoc management of its assets to build the comprehensive Asset Management Plans for each core asset Water, Wastewater and Stormwater Infrastructure. Leveraging the Corporate Asset Management initiatives, being led by IPCAM, a draft AMP for the City's Water assets is complete and in compliance with Provincial Legislation (O.Reg 588/17). The AMP, when completed for all three asset areas, will help inform prioritize asset investments.

Recommendation No. 6 - Implement the Recommendations for Improving the Maintenance Conditions of Water and Wastewater Facilities

Of the three recommendations, two are in progress and one has been completed. Correlating with recommendations from the Facilities Audit, Staff in Facilities Management and Environmental Services have determined the allocation of work and, beginning in Q1, 2021, the changed allocations have begun. For example, Environmental Services has integrated hydrant inspections at facilities into its ongoing programs with Facilities taking on condition assessments for the building envelopes for pumping stations.

Implementation of e.Ris software was completed and work to develop real-time dashboards to monitor facility operations are underway and will be implemented in the next year. In addition to using data from the City's SCADA system, Staff have negotiated a data sharing agreement with the Region, providing a holistic view of the combined City and Regional systems. This is the first agreement between the Region and one of its local municipalities to provide this type of information sharing, for the mutual benefit of both City and Regional operators.

Recommendation No. 7 - Ensure the Recommendations for Improving the City's Emergency Response Plan are Implemented

The consultants' recommendations were integrated into the Public Works Response Escalation Plan, Business Continuity plans and the Water Services Emergency Plan as required by DWQMS element 18, setting a base plan.

Throughout the COVID-19 crisis, Environmental Services has implemented its emergency plans and continued to adjust, accommodating the changing conditions of the pandemic, while maintaining 100% Regulatory Compliance and maintaining service levels expected by the City's residents and business owners.

Recommendation No. 8 - Improve Asset Management Planning, Project Management, Contract Administration and Procurement Practices

All items under this recommendation are complete. Reliance on low dollar value purchase orders (LDMs) continue to decline, building on longer term contracts established in 2019. Additional tenders are being developed and awarded, which will provide additional reductions.

Working with Procurement Services, Environmental Services developed a Vendor of Record for emergency and scheduled water and sewer work. It establishes a roster of three contractors where staff can request quotations to complete scheduled work, based on ongoing needs with pricing parameters set for emergency work, such as responding to watermain breaks. This innovative approach provides the City with established pricing parameters, while maintaining flexibility to allow the team to respond to unplanned work, maintaining levels of service, and minimizing service disruptions all in a fiscally responsible way.

Environmental Services has established a minor capital program (in conjunction with ID management), with the recruitment of a project manager. Through these discussions, projects included in the minor capital program are smaller in magnitude and typically are limited to projects that can be designed, tendered, and constructed within 12 months. Where projects don't fall directly into this definition, discussions between ES and ID management take place to determine which area is best equipped to complete the work, these discussions form part of the quarterly partnership meetings and on an ad-hoc basis.

Recommendation No. 9 - Perform an Operational Health and Safety and Public Hazard Risk Assessment

Two of the three of these actions are complete with the last one in progress. Work to address the job hazard analysis recommendation from the audit is closely related to a corporate wide initiative that is currently underway. Although Environmental Services staff are working closely with Corporate Health and Safety on this project and will be one of the first areas that are evaluated on this corporate initiative, delays in the project have occurred with additional progress expected in Q2 2021.

Recommendation No. 10 - Fully Operationalize the SCADA System

All actions under this recommendation are complete. Front-line operators all have access to SCADA and are able to use SCADA to make initial operational decisions when alarms take place. Initial triaging of the alarms using SCADA empower front-line operators to address issues efficiently and within minutes as opposed to the need to visit a facility and investigate alarms every time. Building on the core SCADA system being used today, a longer-term vision for the City's SCADA system is being built through the development of a SCADA Master Plan.

Recommendation No. 11 – Leverage Advances in Technology to Improve Business Processes

All of the items are complete. Staff have acquired bluetooth enabled Chlorine meters used to measure chlorine residuals throughout the City's water system. This technology avoids manual entry and tracking of chlorine residuals, providing more efficient and accurate data management.

Recommendation No. 12 - Update Development Agreements to Clarify Timing of Payment Requirements for New Watermain Connections

These items remain in progress and Environmental Services continues to work closely with Development Engineering. Discussions continue to ensure that the requirements for watermain connections, construction water and payments for the same are integrated into new development agreements. For agreements that are already in place, payments/invoices are requested regularly. Formalization of the discussions and processes are progressing and remain to be completed.

Recommendation No. 13 - Provide Greater Oversight of the Main Flushing and Closed-Circuit Television (CCTV) Programs

InfoAsset Manager was fully implemented in Q3, 2020 as planned. This software solution modernized these processes, with data being collected to help inform condition assessments. This data, along with work order and customer complaints, will be used to prioritize the programs into the future and will feed into asset management planning efforts.

Building on the base work completed as the MAPs were complete, over the course of 2021 and 2022, access to InfoAsset Manager is anticipated to be extended to all front-line operators, supervisors, and customer service focused roles. This will provide all of these individuals with the information they need to complete work efficiently and avoiding the potential source of error that comes with manually entering asset maintenance and repair data, along with providing a record of customer issues, to improve responsiveness, should another issue arise.

Recommendation No. 14 - Analyze Insurance claims

All actions under this recommendation are complete. Risk Management continues to share information on claims with Environmental Services. An example would be the claims related to locate requests which is shared on an annual basis to showcase satisfaction levels of excavators. Close collaboration between the departments and management staff continues as the partnership continues to evolve.

FACILITY MANAGEMENT AUDIT

The Facility Management Audit report was presented to CW2 on November 19, 2019. The report contained five recommendations.

Three (or 60%) of the audit recommendations remain outstanding.

According to the Director, Facility Management, a department reorganization has been completed that better aligns the department to support and advance corporate objectives. Administration for all leases of City owned buildings has been transferred to the Real Estate department. Maintenance programs have been reviewed with service contracts consolidated with other City departments. Service Level Agreements have been completed for several departments and others are in development. These agreements clarify roles, responsibilities and outline service levels provided by Facility Management.

Risk based preventative, predictive and demand maintenance programs have been developed and continue to be implemented. These programs are based in industry best practices and driven by asset management principles. The department continues to work with the asset management group to leverage technology to deliver these important maintenance programs.

Facility staff at the community centres were transferred back to Facility Management in order to centralize all facility services with one department. A new operating model was developed and implemented to improve management of operations.

CONSTRUCTION AUDIT OF FIRE STATION 7-4: PHASE 2

The Construction Audit of Fire Station 7-4: Phase 2, was presented to CW2 on January 21, 2020. The report contained four recommendations.

Two (or 50%) of the audit recommendations remain outstanding.

Changes are required to the Corporation's Supplemental General Conditions document to strengthen the link between the Certificate for Payment and an updated construction schedule/recovery plan. These requirements that are currently being undertaken jointly with the office of the City Solicitor and Procurement Services.

Early last year, Procurement Services acquired the Contract Management and Vendor Performance modules in Bids and Tenders. These modules provide a centralized location for easy access to contracts and allow a more robust on-line evaluation tool, helping client departments more effectively manage their contracts and vendor performance assessments.

In a memo sent to the Senior Leadership Team and Managers on February 24th and a follow-up memo on November 12th, 2020, the Director of Procurement Services communicated the implementation of the on-line Vendor Performance Evaluation Program. The November 12th memo highlighted the collective responsibilities with respect to the Vendor Performance Program as outlined in the Corporate Procurement Policy, Section 8, Vendor Performance.

FM conducted the "interim" vendor performance evaluations for Consultant Contracts during the implementation of the Project. This approach helped inform the final vendor performance evaluation report for the Consultants. FM has also completed a "final" vendor performance

evaluation for the General Contractor for Fire Station 7-4 in support of the Formal Project Quality Review Program.

The Vendor Performance Program is in its early stages of capturing contract performance and no recurring marginal and/or unacceptable vendor performance assessments have been identified by client departments to date that require decisions leading to a suspension. However, Procurement Services will maintain an up-to-date and current list of all suspended vendors, retaining all original Performance Evaluation Reports, including any information captured in the Vendor Performance module in Bids & Tenders.

Procurement Services is working with Legal Services to revise the composition of the Appeal Review Committee (ARC) in PP-14 and plans to present the program to SLT-E in Q2 2021 to ensure program awareness and clarify client department responsibilities to evaluate and improve the vendor performance of all awarded contracts.

CONSULTING SERVICES AUDIT

The Consulting Services Audit report was presented to CW2 on May 20, 2020. The report contained six recommendations.

Two (or 33%) of the audit recommendations remain outstanding.

According to the Director of Transformation and Strategy, due to COVID-19 and the need to refocus resources on the pandemic response, the Contract Management and Administration Framework project was delayed in 2020. The project started in January 2021 with executive sponsorship by the DCM Corporate Services & CFO and the DCM Administrative Services & City Solicitor. In addition, this project has been prioritized as a key Service Excellence initiative with the Term of Council Strategic Plan. The immediate focus for the project will be on Consulting Services Contracts with project completion targeted for Q4 2021. Following the first phase on Consulting Services contracts, the project will be expanded in 2022 to address all other types of contracts.

BY-LAW & COMPLIANCE, LICENSING & PERMIT SERVICES AUDIT: PHASE 1

The first phase of the By-law & Compliance, Licensing & Permit Services Audit report was presented to CW2 on September 22, 2020. The report contained six recommendations with sixteen action items. Management actions are progressing as per the planned remediation dates. Although all six recommendations remain in progress, five of the sixteen action items have now been nearly or fully implemented by management.

According to the Director of By-Law and Compliance, Licensing & Permit Services, a review of the current By-law Strategy framework is in progress and expected to be complete by June 2021. PBP has also developed a By-law Consolidation guide to ensure by-laws are consolidated, as well as by-law and report templates, to ensure reports and by-laws are reviewed, developed and structured consistently, and clearly connect with current Term of Council priorities. These will be reviewed and implemented for use by all PBP staff. These and other common templates are currently being reviewed and are expected to be completed by June 2021.

Staff are in the final stage of adding all current parking permit types to the current system and anticipate launching in May. Staff are in the process of developing a Request for Proposal (RFP) to procure a new/upgraded system parking and ticketing systems, pending budget approval. The interdepartmental working group are exploring the City's major parking-related issues, concerns and opportunities that the City should explore, and initiatives that are currently underway or anticipated where parking is a key component.

BCLPS will be developing a multi-year risk based strategic plan to identify and optimize automation opportunities for licenses and permits that will efficiently and effectively enhance service delivery, working in collaboration with OCIO.

BCLPS has partnered with City Solicitor and Legal Services in their review of administrative and quasi-judicial/adjudication processes associate with the Administrative Monetary Penalty program, as part of a corporate wide review.

PBP will be producing an annual end-of-year report which will including use of MBNCanada benchmarking and/other inter-municipal comparisons, which will evolve over time as new systems enable to BCLPS to better leverage information.

BCLPS is establishing an SOP management team comprised of subject matter experts from each unit, who have the responsibility of reviewing SOPs on an annual basis, which are then reviewed, revised and approved by members of the management team.

VAUGHAN BUSINESS ENTERPRISE CENTRE AUDIT

The Vaughan Business Enterprise Centre Audit report was presented to CW2 on November 10, 2020. The report contained two recommendations. Both are still in progress.

According to the Director of Economic and Cultural Development, progress is being made to formalize standard operating procedures and develop a contingency plan for VBEC operations. However, with a vacancy in the Manager's position currently being recruited, the target date for management action plan completion will need to be adjusted from Q3 2021 to the end of Q4 2021.

CONCLUSION

Internal Audit will continue to followup on management action plans to determine if they have been implemented, and will continue to partner with management in their efforts to address audit observations as planned. When plans cannot be completed as originally intended, audit staff will work with management to obtain updated achievable implementation dates.

2020 INTERNAL AUDIT WORK PLAN STATUS AND SCHEDULE

The 2020 Internal Audit Risk Based Work Plan was developed using a risk assessment process that combined financial, reputational, compliance and operational criteria.

Internal Audit has a professional responsibility to develop an audit work plan that focuses on the key risks in the City. The work plan should be dynamic and flexible. Changes to the work plan may be required occasionally to reflect emerging risks and changes in strategic objectives.

At the January 25th 2021 Audit Committee, the Director of Internal Audit presented a report entitled, "2020 Internal Audit Risk Based Work Plan Status Update". The report outlined changes that were made due to the COVID-19 pandemic. The table below provides a further update to the table presented in the January 25th report.

Audit Project	Rationale and Risks	Status and Reporting Date
Information Technology Security Audit	<p>Rationale: Securing computerized data and information is important for several reasons, but principally as a means of keeping information safe. The importance of computer security lies in how harmful it can be if data or information is lost.</p> <p>The City stores a lot of data, some of it very sensitive, including payment information, staff records, e-mails, citizen information and extensive corporate documents, both finished and those in progress.</p> <p>Risk: In addition to security breaches by outsiders, there is also an increasing risk that data and systems can be compromised by staff inside organizations. As part of their daily responsibilities, staff have access to data and information that those outside of the organization typically do not. Although not a risk unique to computerized information, the ease of availability and accessibility to computerized information may increase the likelihood of a security breach.</p>	Complete. Presented to the Audit Committee on May 31, 2021
IT Governance Audit [Consulting]	<p>Rationale: IT governance provides a structure for aligning IT strategy with business strategy. It provides a framework of best practices and controls. By following a formal framework, the City can produce measurable results toward achieving the Term of Council Priorities and strategic objectives.</p> <p>Risk: The City requires sufficient, competent and capable IT resources in order to help the City deliver on the Term of Council Priorities and execute on the activities required to meet current and future strategic objectives. The absence of effective administration, stewardship and metrics to track initiatives can result in lost opportunities and reputational damage to the City.</p>	Ongoing

Audit Project	Rationale and Risks	Status and Reporting Date
<p>Financial Planning & Budgeting Process</p> <p>[Consulting]</p>	<p>Rationale: Having an effective financial planning and budgeting process in place is necessary in order to achieve organizational goals in the shortest time possible with a minimum of resources and funding. Developing a long-range fiscal plan and forecast and refining fiscal framework policies to support financial sustainability is a part of the Term of Council Service Excellence Strategic Plan.</p> <p>Risk: An ineffective financial planning & budgeting process may pose several significant short- and long-term risks to the City and may impact decision making as it relates to service levels, priorities and funding allocations.</p>	<p>Complete</p>
<p>Vendor Master File Audit</p>	<p>Rationale: The vendor master file is a key foundation for payment processing and contains information about vendors the City does business with. The file generally includes the vendor's name, address and contact information. An adequately designed vendor master file program ensures that the City's purchases and expenses are accurately recorded and that these expenditures are paid on a timely basis.</p> <p>Risk: It is essential that effective management and administration over the file is in place to reduce the risk of unauthorized or inappropriate activity. Ineffective controls over the vendor master file can lead to inaccurate, incomplete, or unauthorized vendor records. This could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse.</p>	<p>In Progress. It is anticipated that this report will be presented to Audit Committee in September, 2021</p>
<p>Municipal Accommodation Tax Audit</p>	<p>Rationale: The City of Vaughan has approved a four per cent Municipal Accommodation Tax (MAT) on hotels, lodges, bed and breakfasts and motels effective April. 1, 2019. Pending the establishment of a planning and regulatory framework, the City is also considering applying the MAT to short-term rentals, including online home-sharing platforms. The 4% municipal accommodation tax rate applied to hotels and short-term rentals has been projected to generate \$2.4 million revenues in 2019 (April to December), increasing to \$4.4 million full year revenue by 2023.</p> <p>Risk: MAT revenues are remitted by transient accommodation providers to the City on a monthly basis. Without effective controls in place, there is a risk that accommodation providers will not remit the correct amount owing on a timely basis.</p>	<p>Cancelled and replaced with the work required to establish the City's Audit Committee</p>

Audit Project	Rationale and Risks	Status and Reporting Date
Building Standards Audit	<p>Rationale: The Building Standards department issues permits for the construction, renovation, demolition and re-zoning of buildings. They also issue permits for the installation, alteration, extension or repair of onsite sewage systems, plumbing systems and mechanical systems such as heating, ventilation and air conditioning (HVAC).</p> <p>Risk: It is essential that effective management and oversight over the review and issuance of building permits is in place to ensure buildings are safe and that they meet the Ontario Building Code, the City's Zoning By-law, and other planning controls and laws.</p>	<p>In Progress. It is anticipated that this will be presented to Audit Committee in November, 2021</p>
Human Resources Audit	<p>Rationale: The Office of the Chief Human Resources Officer (HR) partners with City departments to hire and retain talented individuals to be part of this dynamic workplace. This includes providing information and resources on new employee onboarding, benefits and compensation, health, safety and wellness, and accessibility and diversity.</p> <p>HR also manages and evaluates pay, develops recommendations about policies and procedure and ensures compliance with relevant legislation, such as the Employment Standards Act and the Pay Equity Act.</p> <p>Risk: HR's services and programs should be tied to the needs of the organization and support the City's Term of Council Service Excellence Strategic Plan. The absence of effective administration and metrics to track initiatives may weaken the City's ability to attract and retain qualified employees and remain competitive in the labour market.</p>	<p>Cancelled and replaced with VFRS Consulting engagement</p>
Construction Audit of Fire Station #7-4: Phase 3	<p>Rationale: Individual Capital Projects can represent a significant investment for the City. Large projects are managed from a variety of aspects including financial, timeliness and meeting deliverables. Audits of individual projects can provide assurance that risks are properly managed.</p> <p>Risk: If projects are not properly managed the greatest risk is they do not meet their deliverables either by not being on time or on budget. Projects that are late or over budget can lead to financial loss, quality reduction and erosion of public trust.</p>	<p>Complete. Presented to the Audit Committee on April 27, 2021</p>

Audit Project	Rationale and Risks	Status and Reporting Date
<p>General Internal Audit Follow-up Program</p>	<p>Rationale: As part of the Internal Audit reporting process, Internal Audit and clients agree on action plans to address issues identified in the report. Follow-up is done to determine if the action plans have been implemented.</p> <p>Risk: If action plans are not followed up there is the risk they may not implemented. Risk and control exposures could be still be outstanding that could have a negative impact on the City. There is also the risk that initial action plans may not have been suitable. Internal audit can work with clients to develop more suitable plans if follow-up is done.</p>	<p>Annual update included as part of the Internal Audit Department Annual report, which was presented at CW2 on June 16, 2020</p>
<p>Internal Audit Department Annual Report</p>	<p>Rationale: In accordance with the City's Internal Audit Policy, an annual report shall be submitted to the Committee of the Whole outlining the annual activities of the Internal Audit Department.</p> <p>This report will outline the activities of the Internal Audit Department for the period January 1 through December 31, 2019. It is not a report on the results of the audits conducted, as this information is presented separately throughout the year.</p>	<p>Presented at CW2 on June 16, 2020</p>
<p>Anonymous Reporting System Administration</p>	<p>Rationale: The City's Anonymous Reporting System was implemented on April 15, 2014 as an additional mechanism for employees to confidentially and anonymously report suspected fraud and code of conduct violations.</p> <p>Report intake is operated independently by a third party and is accessible by internet and toll-free phone number. It is available 24 hours a day, 7 days a week.</p> <p>An employee who chooses to file a report is asked to create a password and is provided with a unique case tracking number so that they can log back into the system to follow the progress of their report, provide further details and to answer any questions posed by the investigator, a member of the City's Internal Audit team. Depending on the nature of the issue, management may be required to assist Internal Audit with an investigation.</p>	<p>Annual update included as part of the Internal Audit Department Annual report, which was presented at CW2 on June 16, 2020</p>

2020 Audit Client Survey Results

#	Statement	Positive	Negative	N/A	Strongly Agree	Agree	Disagree	Strongly Disagree	N/A
1	Internal Audit explained the audit process steps (i.e. audit planning stage to presentation at FA&A) at the commencement of the audit.	100%	0%	0%	50.00%	50.00%	0.00%	0.00%	0.00%
2	The audit took an acceptable amount of time to complete.	100%	0%	0%	62.50%	37.50%	0.00%	0.00%	0.00%
3	The disruption of daily activities was minimized as much as possible during the audit.	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
4	Internal Audit exhibited a good understanding of the goals, objectives, strategy, and processes to effectively plan the audit.	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
5	Internal Audit demonstrated the technical proficiencies required to perform this audit.	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
6	My business concerns and perspective on key business risks were adequately considered.	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
7	The audit objectives and scope were clearly communicated to me.	100%	0%	0%	50.00%	50.00%	0.00%	0.00%	0.00%
8	Internal Audit staff were:								
	Professional	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Objective	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Positive	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Willing to Listen	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Determined to Build Rapport	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Courteous	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
	Constructive	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
9	Status updates and communication while the audit was ongoing was:								
	Timely	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
	Adequate	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
	Useful	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
10	I was provided opportunities to provide feedback while the audit was ongoing.	100%	0%	0%	100.00%	0.00%	0.00%	0.00%	0.00%
11	The audit report observations were:								
	Accurate	100%	0%	0%	62.50%	37.50%	0.00%	0.00%	0.00%
	Clearly Written	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
	Presented with Appropriate Context	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
12	I was given the opportunity to provide explanations and responses to the audit observations contained in the draft report.	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
13	Internal Audit's recommendations:								
	Were Constructive	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
	Were Feasible	100%	0%	0%	75.00%	25.00%	0.00%	0.00%	0.00%
	Will Improve Operations/Processes	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
	Will Provide Value to the City	100%	0%	0%	87.50%	12.50%	0.00%	0.00%	0.00%
14	From my perspective, the audit objectives were achieved.	100%	0%	0%	62.50%	37.50%	0.00%	0.00%	0.00%
15	Overall, the audit added value to the City by enhancing our understanding of risks and/or improving our approach to managing key risks.	88%	13%	0%	62.50%	25.00%	12.50%	0.00%	0.00%

Appendix B

List of Completed Audit Projects and Status of Management Action Plans (MAPs)

Agenda Date	Audit Report	Year	Outstanding Recommendations	# of Recommendations in the Audit Report	# of Recommendations Completed	# of Recommendations In Progress
09-Mar-15	Recreation & Culture Revenue	2015	Accounts Receivable - Collections & Write-offs	12	11	1
08-Sep-15	Road Operations	2015	Occupational Health and Safety Training	7	2	5
			Implementation of the Route Patrol Manager System			
			Work Order Administration			
			Vehicles, Motorized Equipment and Inventory Use			
01-Feb-16	Corporate Overtime	2016	Policies & Procedures	5	2	3
			Automate the Time and Labour Management Process			
			Understand What Drives Overtime Costs & Impact on Service Delivery			
30-May-16	Anonymous Reporting System Annual Report	2016	Examine the Impact of Overtime on Employee Wellness	3	1	2
			Enhance the City's corporate governance, accountability and transparency framework by developing a comprehensive ethics and compliance program designed to prevent, detect and respond to fraud and misconduct.			
			Internal Audit be tasked with doing further research into the possibility of expanding the Anonymous Reporting System to the general public and, in consultation with senior management, report back to Council on the best practices in other jurisdictions and a recommended approach.			
06-Mar-17	Social Media Audit	2017	Develop a Comprehensive Social Media Governance Framework	4	3	1
06-Jun-17	Event Management Audit	2017	Develop a Formal Event Strategy for the City	9	7	2
			Develop a Clearly Defined Special Events Permit Process and Mechanism to Monitor Compliance with Permits Issued			
06-Jun-18	Construction Audit of Fire Station 7-4: Phase 1	2018	Establish a Standardized Project Management Framework	7	4	3
			Enhance the Budgeting and Estimation Process for Capital Projects			
			Develop General Design and Construction Standards for Reoccurring Projects			
06-Jun-18	Forestry & Horticulture Operations Audit	2018	Develop a Formal Strategic Plan to Manage Existing and Future Activities and Service Levels	6	2	4
			Provide Greater Oversight over Contract Administration			
			Enhance Monitoring and Oversight Over Work Order Administration			
			Improve the Private Tree Permit Inspection Process			
06-Jun-18	Winter Maintenance Audit	2018	Reevaluate the City's Winter Maintenance Strategy and Service Standards	7	6	1
14-Mar-19	Legal Services Audit	2019	Determine the Optimal Level of Resources, Staff Complement and Composition of the Legal Services Department	7	4	3
			Acquire the Appropriate Tools and Resources to Improve Department Planning, Business Processes and Service Delivery			
			Establish Department Policy and Procedures and Update Job Descriptions			

2020 INTERNAL AUDIT ANNUAL REPORT

List of Completed Audit Projects and Status of Management Action Plans (MAPs)

Agenda Date	Audit Report	Year	Outstanding Recommendations	# of Recommendations in the Audit Report	# of Recommendations Completed	# of Recommendations In Progress
	Water, Wastewater and Stormwater Operations Audit		Implement a Risk Based Preventative Maintenance Program	14	9	5
			Implement the Recommendations for Improving the Maintenance Conditions of Water and Wastewater Facilities			
			Ensure the Recommendations for Improving the City's Emergency Response Plan are Implemented			
			Perform an Operational Health and Safety and Public Hazard Risk Assessment			
			Update Development Agreements to Clarify Timing of Payment Requirements for New Watermain Connections			
12-Nov-19	Facility Management Audit	2019	Develop and Implement a Risk Based Preventative and Predictive Maintenance Program	5	2	3
			Improving the Management and Administration of Lease and License Agreements at City Owned Facilities			
			Enhance Oversight Over Contract Administration			
21-Jan-20	Construction Audit of Fire Station 7-4: Phase 2	2020	Ensure the Construction Schedule and Recovery Schedule are Realistic, Complete and Timely	4	2	2
			Implement a Formal Project Quality Review Program			
20-May-20	Consulting Services Audit	2020	Establish a City-wide Contract Management and Administration Framework	6	4	2
			Establish a City-wide Contract Management and Administration Framework			
			Standardize Procurement Templates			
22-Sep-20	By-Law & Compliance, Licensing & Permit Services Audit: Phase 1	2020	Reevaluate and Update the By-law Strategic Framework, Principles and Deliverables to Ensure They Remain Realistic and Achievable	6	0	6
			Ensure Parking Permit Processes Comply with the City's Parking By-Law 064-2019			
			Continue to Integrate Licensing, Permit and Enforcement Systems and Enable Automated Data Sharing			
			Improve Oversight Over the Administrative Monetary Penalty Process			
			Develop Key Performance Indicators (KPIs)			
			Ensure SOP's Remain Relevant and Current			
10-Nov-20	Vaughan Business Enterprise Centre Audit	2020	Develop Contingency Plans for Continued Operation in the Event that Funding for the SBEC Program is Reduced	2	0	2
			Develop SOPs To Provide More Clarity To Staff On How To Execute Program Guidelines and Requirements			
Total	16 Reports	-		104	59	45

2020 Internal Audit Annual Report

Audit Committee Presentation – Monday May 31, 2021

Today's Presentation

- Internal Audit Governance Structure
- Common Themes and Issues
- Anonymous Reporting System Annual Update
- Questions

Internal Audit's Purpose

- Provides independent, objective assurance and consulting activity designed to add value and improve the City's operations
- Systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- Term of Council Priority of "Good Governance"

Functional Reporting To Council – Council Responsibilities

- Approving Audit Charter and Risk Based Work Plan
- Ensuring that Internal Audit has sufficient authority and standing to carry out its tasks effectively
- Making appropriate inquiries to determine whether there are inappropriate scope or resource limitations
- Providing direct access to the Audit Committee Chair and Audit Committee members
- Reviewing and monitoring management's responsiveness to audit findings and recommendations

Director of IA assists Council by:

- Reviewing the Internal Audit governance structure
- Annual declaration of organizational independence
- Providing feedback on the sufficiency of internal audit resources
- Presenting reports related to the Department's activities through the Audit Committee
- Providing annual updates on ARS, outstanding management action plans and Internal Audit Performance

Annual Declaration of Independence

The Internal Audit Department has been able to carry out its activities free from management interference and remains organizationally independent.

Any threats to the Internal Audit Department's independence or objectivity, whether perceived or actual, will be managed at the individual auditor, engagement, functional, and organizational levels, and be brought to the attention of the Audit Committee should it occur.

Common Themes and Issues

1. Developing processes to periodically evaluate direction, strategy, programs and service delivery to ensure efficient and effective deployment of resources.
2. Improving budgeting and forecasting processes to better align Council directives and corporate strategy with resource allocation.
3. Improving project management, contract administration and management oversight.
4. Updating the content of City policies, procedures and guidelines while providing more clarity on roles, responsibilities and expectations of stakeholders.

ARS Results – Trends & Themes

1. Report Volume Per 100 Employees

- We received a total of 6 reports in 2020, down 20 reports from 2019.

2. Substantiation Rates:

- 3 of the 6 reports (50%) received in 2020 were substantiated. The Global Benchmark substantiation rate was 42%. Our overall substantiation rate since the system was launched is 23.6%.

3. Reporter Follow-up Rate:

- In 2020, 83% of all reporters logged back into follow-up on their report. The Global Benchmark Rate is 20%.

4. Anonymous vs Named Reporters

- In 2020, 83% of reporters chose to remain anonymous. The Global Benchmark is 58%.

Questions?

Audit Committee Report

DATE: Monday, May 31, 2021

WARD(S): ALL

TITLE: WATER SAMPLING FOLLOW-UP AUDIT

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

To communicate the findings from the Water Sampling Follow-up Audit.

Report Highlights

- The Environmental Services department is responsible for providing water, wastewater and stormwater services to more than 335,000 residences and more than 11,900 businesses in the City of Vaughan.
- Since 2019, Environmental Services management have made progress developing and implementing new policies and procedures and applying measures that have improved the water sampling program.
- In June of 2020, management acquired technology to improve management oversight over the water sampling process. However, this technology was not fully implemented until April 2021.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.
- Internal Audit will follow up with management and report on the status of management action plans at a future Audit Committee meeting.

Recommendations

1. That the Internal Audit Report on the Water Sampling Follow-up Audit be received.

Background

The Environmental Services department is responsible for providing water, wastewater and stormwater services to more than 335,000 residences and more than 11,900 businesses in the City of Vaughan.

The provincial government implemented the Municipal Drinking Water Licensing Program in 2007 as a result of the Walkerton Inquiry. The Ministry of Environment, Conservation, and Parks (MECP) developed the Drinking Water Quality Management Standard (DWQMS) that applies to owners and operating authorities for municipal drinking water systems. The implementation of the DWQMS is mandated by the provincial government through the Safe Drinking Water Act.

The Corporation of the City of Vaughan is considered the owner of the City's water distribution system and works with York Region to ensure access to safe drinking water. The Water division of Environmental Services is responsible for providing assurances that the drinking water is properly sampled for safety and quality.

The objective of this audit is to evaluate the adequacy and effectiveness of the internal controls, processes, and procedures in place to mitigate the business risks associated with water sampling.

The audit approach included assessing:

- Policies and procedures are appropriately and consistently applied, ensuring compliance with governing legislation.
- Health and safety controls are in place, protecting City employees and the public.
- There is adequate monitoring, measurement, and reporting, ensuring the proper execution of the City's Water Sampling program.
- Information Technology systems are being leveraged and used to their maximum capabilities.

The scope of the audit reviewed water sampling activities for the period of January 2020 to March 2021.

Previous Reports/Authority

[Water, Wastewater and Stormwater Operations Audit](#)

Analysis and Options

Regulation of the drinking water distribution system is enforced by the MECP. In accordance with the Safe Drinking Water Act, the City of Vaughan's (COV) Water division is required to be compliant to the DWQMS policy and develop an operational plan. Part of this plan requires an annual audit be performed by the Water division, an external audit performed every three years, meeting permit requirements and a MECP inspection, at least once a year.

Although the City has passed these MECP evaluations without incident, the 2019 Water, Wastewater, and Stormwater Audit highlighted some significant concerns with the water sampling process. The 2019 audit noted that:

- COV Policy & Procedures related to Water Sampling Collections were lacking detail and did not outline roles, responsibilities, and accountability of all those involved in the process.
- There was an absence of management oversight over the process, such as implementing assurance controls to confirm that samples were being collected as per legislative and COV requirements and ensuring documentation on the chain of custody forms were complete and accurate.
- Rather than entering the chain of custody forms into the WaterTrax system daily, residual results were not entered into the system until management knew the MECP inspection was imminent.
- The quantity of water samples collected by staff significantly exceeded the monthly statutory requirement by approximately 40%, without any apparent justification or added value.
- The City did not have a contract in place, outlining pricing and service levels with the lab that performs the microbiological analysis of the water samples.
- The City did not have designated water sampling stations and many of the sampling sites were in close proximity to each other. 90% of the samples were collected from schools and private business' kitchens and bathrooms, which are susceptible to bacteria and other contaminants, which may increase the risk of a false reading.
- Water sampling results were recorded manually on chain of custody forms. However, the existing WaterTrax Data Management software provided features including a mobile app, which could have been used by Water Operators to enter water sampling results directly into the system. However, this technology had not been fully explored by management.

Since 2019, Environmental Services management have made progress developing and implementing new policies and procedures and applying measures that have improved the water sampling program.

The focus of the Water Sampling Follow-up Audit was verifying the effectiveness and efficiency of these improvements.

Internal Audit reviewed the actions management has implemented to address the 2019 water sampling audit findings. The following was noted:

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- Internal Audit reviewed all the revised policies and procedures for water sampling. The revised sampling standard operating procedure (SOP) follows the corporate SOP structure of outlining the purpose, the scope, responsibilities, and procedures. It is a comprehensive SOP that prescribes procedures for microbiological sampling, collection of chlorine residual measurements, lead sampling, and responding to adverse water sampling results. Procedures for adverse sampling results were further enhanced by the issuance of Responding to Adverse Water Quality SOP and a revised After-Hours Procedures SOP which identifies possible scenarios and provides procedures for each.
- In June 2020, management procured new DR 300 HACH units with Bluetooth capabilities. These new units can be paired with the Claros App, which was downloaded onto the Water Operator's phones in July 2020. The Claros App has GPS, which captures the date, location, and time the water samples are taken. The HACH unit also sends the chlorine residual readings to the app. This feature provides assurance that the regulatory water sampling measurements are accurate. Water Operators were instructed to start using the new features. The Director of Environmental Services only realized in November 2020 that the Water Operators were still not using the features, as this was the first time management had looked to review the data being captured through the Claros App. After discussion with the Water Operators, management discovered that the Water Operators were resistant to use the new features and requested further training by HACH. After additional training was provided, management made the use of these new features mandatory as of April 2021.
- It was determined that water sampling information collected on the paper based chain of custody forms is input into the Watertrax system in a timely manner.
- For the current population of approximately 335,590 served by the City of Vaughan's water system, the MECP indicates 134 samples are to be collected monthly and analyzed for microbiological parameters. MECP inspectors report that the City collects samples in excess of the required amount. Although still in excess of the required, 146 is a progressive reduction from more than 160 samples taken monthly in 2019.
- In October 2020, the City entered into a formal agreement with the York Durham Environmental Laboratory. The agreement outlines obligations of the client and the provider and includes a set schedule of sampling analysis packages. The provider agrees to pick up samples in York Region's designated locations at 12:00 noon, every Tuesday and Thursday. Prices for packages are based on number of samples, the combination of tests, and the frequency of submissions.
- Since 2019, Environmental Services installed 108 designated water sampling stations. Sampling stations provide optimal water quality readings for many reasons, including less risk of contamination, provides accurate readings of the

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City's drinking water quality and avoids risks associated with entering public and private locations. An additional 38 sampling stations will be installed in the second quarter of 2021.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The Water Sampling Follow-up audit found that management has made progress with the water sampling program. In particular, the development and communication of new policies and procedures are not only adequate but greatly improved. The effectiveness and efficiency of water sampling activities have been improved by timely reporting, proper use of resources and executing a formal agreement with the York Durham Environmental Laboratory. Environmental Services recognized the benefits of sampling from designated water sampling stations and have installed 108 stations with plans to continue the installation program.

Although there is evidence that management oversight over the administration of the water sampling program has improved, the observations regarding the use of the new DR 300 HACH and the Claros App has raised concerns that management may still not be as diligent as they could be in overseeing aspects of the water sampling program.

It is recommended that:

- Management ensure that the Water Operators use the new DR 300 HACH and the Claros App when collecting regulatory water samples.
- Further management oversight processes be developed to ensure that water samples are being collected as per legislative and COV requirements.

Management agrees with the recommendation and has drafted the following action plans

Management will continue to implement the use of the DR300 HACH units and the Claros App and will increase oversight, ensuring that all regulatory samples are recorded using the technology.

Management is investigating the feasibility to integrate data collected through the Claros App into the Department's business intelligence dashboards. If feasible, it is expected that automated alerts can be created to provide additional insight into sampling anomalies. When implemented, this will further improve oversight, while finding ways to perform the reviews efficiently.

Management has reviewed the current management oversight processes for reviewing regulatory samples and has evaluated their frequency, the data reviewed and how results are reported to Top Management. Adjustments to the oversight processes have been made and will be implemented immediately.

For more information, please contact Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

Not applicable.

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293

Rebecca Burchert, Audit Project Manager, extension 8124

Approved by

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Kevin Shapiro, Director of Internal Audit

Audit Committee Report

DATE: Monday, May 31, 2021

WARD(S): ALL

TITLE: INFORMATION TECHNOLOGY SECURITY AUDIT

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

To communicate the findings from the Information Technology (IT) Security Audit.

Report Highlights

- The Office of the Chief Information Officer (OCIO) is responsible for managing the effective delivery of technologies and services to achieve the organization's objectives. The Office is responsible for the engineering, architecting, security, maintenance, implementation and support of city-wide technology and communications infrastructure.
- The Facility Management Department is responsible for managing the physical security controls around the computing facilities in the City Hall and the Joint Operations Centre.
- While OCIO has made significant progress on several initiatives over the past number of years, further improvements will be required to ensure risks related to the vulnerabilities and deficiencies uncovered in the audit are mitigated.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.
- Internal Audit will follow up with management and report on the status of management action plans at a future Audit Committee meeting.

Recommendations

1. That the Internal Audit Report on the audit of Information Technology Security be received.

Background

The Office of the Chief Information Officer (OCIO) is responsible for managing the effective delivery of technologies and services to achieve the organization's objectives. The Office is responsible for the engineering, architecting, security, maintenance, implementation and support of city-wide technology and communications infrastructure. OCIO's vision is "Making Vaughan Better for People in our Digital Age". The Facility Management Department is responsible for managing the physical security controls around the computing facilities in the City Hall and the Joint Operations Centre.

Securing computerized data and information is important for several reasons, but principally as a means of keeping information safe. The importance of computer security depends on how harmful it can be if data or information is lost. The City stores a lot of data, some of it very sensitive, including payment information, staff records, e-mails, citizen information and extensive corporate documents, both finished and those in progress.

In addition to security breaches by outsiders, there is also an increasing risk that data and systems can be compromised by staff inside organizations. As part of their daily responsibilities, staff have access to data and information that those outside of the organization typically do not. Although not a risk unique to computerized information, the ease of availability and accessibility to computerized information may increase the likelihood of a security breach.

The objective of the audit is to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the management and administration of IT Security.

This audit was co-sourced. Internal Audit worked with iPSS incorporated (iPSS), who were the successful bidder after a competitive procurement process.

Internal Audit assessed that cyber security awareness programs are implemented and operating effectively.

iPSS assisted Internal Audit in assessing that:

- The City's IT network and systems are secure and physical security controls are implemented and operating effectively, through a penetration testing exercise.
- Effective security controls and configuration changes have been put in place to remediate vulnerabilities discovered during penetration testing previously performed by the City.
- The City's computing environment, processes and documentation are compliant with leading industry framework.

- Technology supporting other critical infrastructure is secure and effective.

Previous Reports/Authority

Not applicable.

Analysis and Options

In fulfillment of *RFQ Q20-276-IT Security Testing and Assessment for the City of Vaughan*, iPSS Inc., performed an external and internal network penetration test and red-team exercise, external wireless assessment, physical security assessment, compliance assessment, critical infrastructure assessment and remediation retesting of past results over the course of January 2021 to March 2021.

The results of these activities were captured in a series of reports issued to Internal Audit and OCIO as outlined below.

- Compliance Assessment Report
- Penetration Test and Red Team Exercise Report
- Critical Infrastructure Assessment Report - Wastewater Management SCADA Infrastructure Report
- Remediation Retests Results Report

iPSS has also prepared an executive summary highlighting their key findings and recommendations. It has been provided to the Audit Committee as Confidential Attachment 1, as the information within deals with matters related to the security of the property of the municipality. Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report. The action plans have been provided to the Audit Committee as Confidential Attachment 2, as the information within deals with matters related to the security of the property of the municipality.

In addition to the work performed by iPSS, Internal Audit assessed the City's cyber security awareness programs. While conducting the Information Technology Risk Assessment in 2019 and during the early stages of this audit, it was identified that there were opportunities for improvement to enhance the City's cybersecurity awareness programs. An active security awareness program can greatly reduce the risk of cyber related incidences by addressing the behavioral element of security through education and consistent application of awareness techniques.

OCIO has since implemented a formal cyber security awareness and education program during the course of the audit. With proper security awareness training and clear communication of data and device use policies, users can become the first line of defense against cybersecurity incidents.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

While OCIO has made significant progress on several initiatives over the past number of years, further improvements will be required to ensure risks related to the City's IT security framework are mitigated.

The audit has identified high-risk vulnerabilities, which if not addressed could result in the compromise of the City's information technology environment. Multiple opportunities for remediation and improvement have been highlighted in the confidential report.

Improving security is an ongoing activity that needs to be well planned based on risk and cost. OCIO is currently engaged in this process. Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.

The audit also identified several processes that can be identified as key strengths. These include:

- Strong use of security awareness efforts through social engineering and phishing campaigns.
- Strong overall cyber security tooling capabilities.
- Strong capabilities in the use of central log management for monitoring and use of analytic tools that are scalable and can be automated.
- Strong possibilities to fully leverage security playbook capabilities from Microsoft Azure to augment current teams existing efforts.
- Strong use of tooling for DNS filtering protections against malware and C2 traffic.
- Automated ports scans are performed.
- Backups are regularly performed, and data recovery capabilities are in place to help protect against potential data loss.
- Good use of local administrator credential management on Windows (LAPS).

- Effective WPA2 Enterprise implementation for corporate wireless.

Internal Audit will follow up with management and report on the status of management action plans at a future Audit Committee meeting.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. Confidential Attachment 1 – Overall Executive Summary
2. Confidential Attachment 2 – Management Action Plans

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293
Hemingway Wu, Audit Project Manager, ext. 8350

Approved by

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Kevin Shapiro, Director of Internal Audit