ATTACHMENT 3

The Corporation of the City of Vaughan

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

Licensed Public Accountants

May 13, 2019

kpmg.ca/audit

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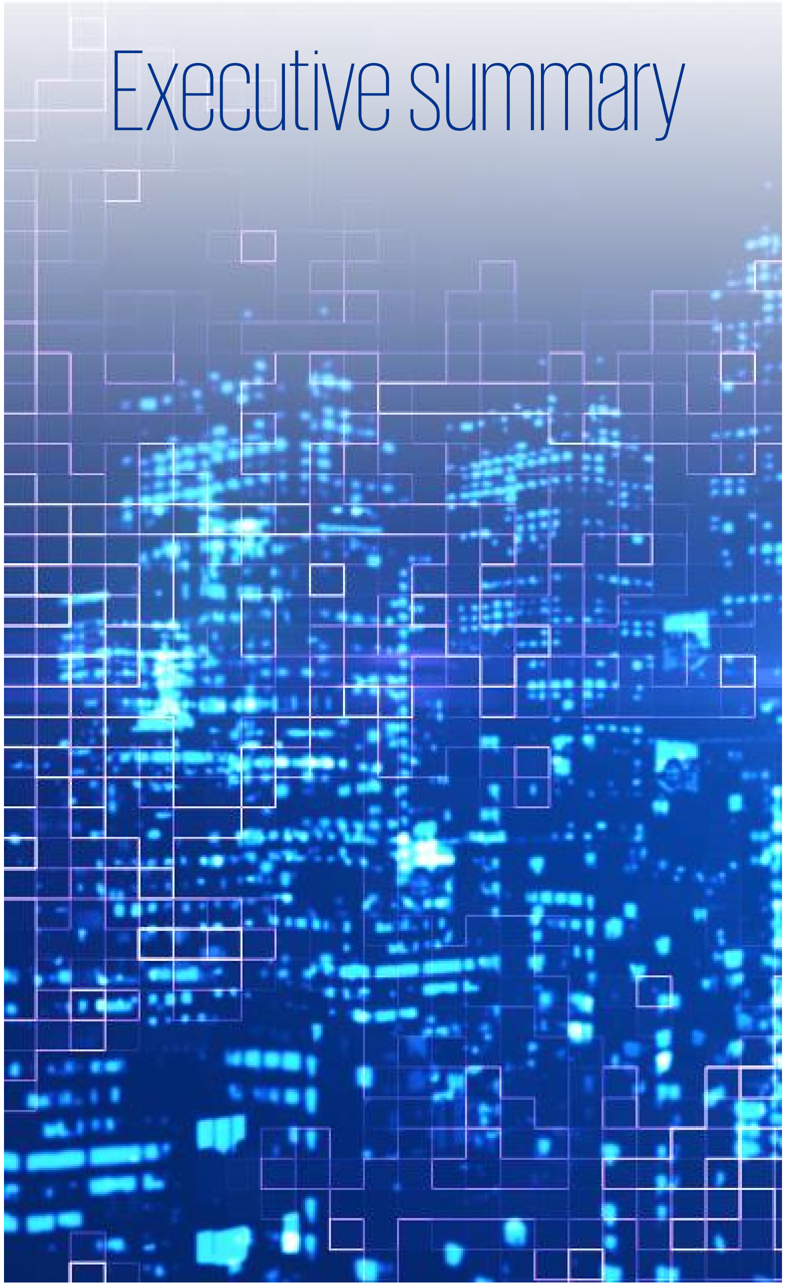
Executive summary



Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance, Administration and Audit Committee, in your review of the results of our audit of the consolidated financial statements of the City of Vaughan as at and for the year ended December 31, 2018.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report.

Finalizing the audit

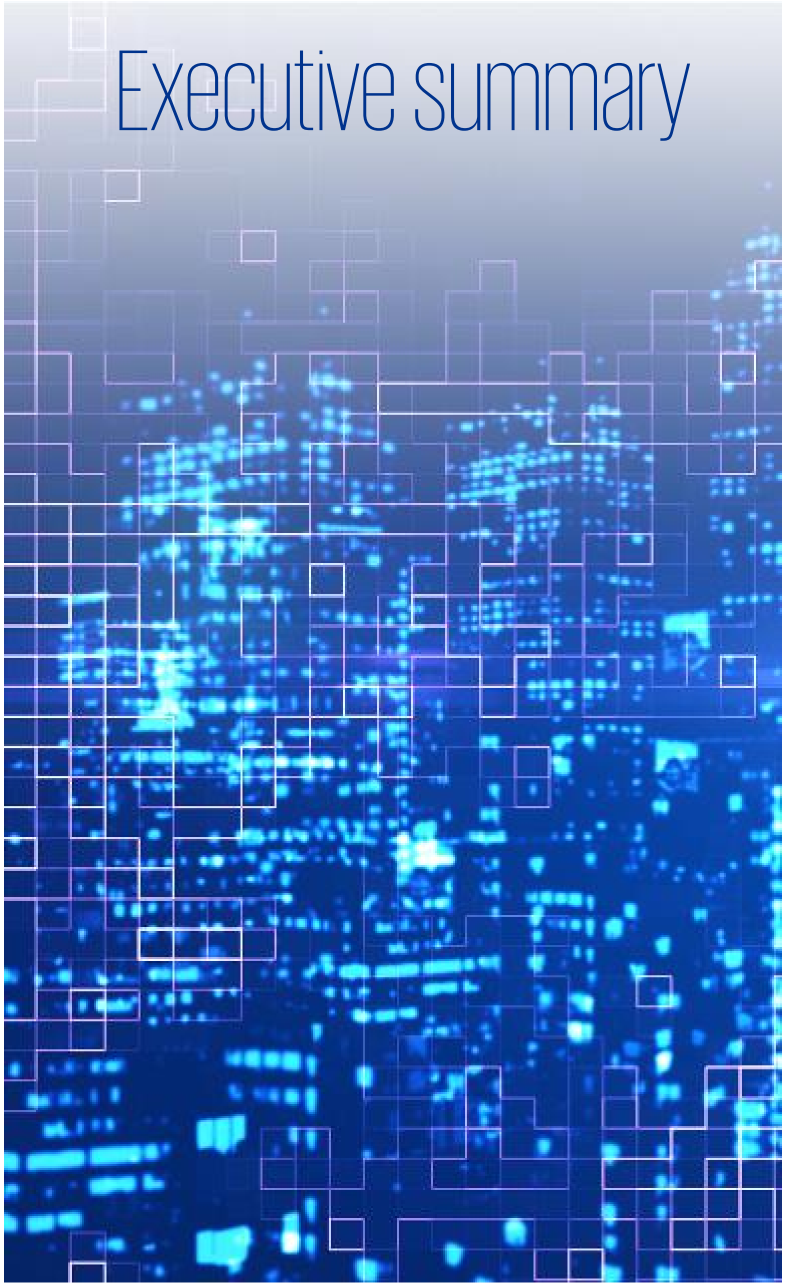
As of May 13, 2019, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of signed management representation letters (to be signed upon City Council approval of the consolidated and related entity financial statements);
- updating our discussions regarding subsequent events, including receipt of the final legal enquiry letter;
- completing our discussions with the Committee;
- obtaining evidence of City Council's approval of the financial statements.

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

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

Executive summary



Adjustments and differences

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.

Significant accounting policies and practices

The City adopted 5 new public sector accounting standards in the current year. See page 10 for considerations regarding the implementation of the new standards in the current year financial statements.

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.

Control and other observations

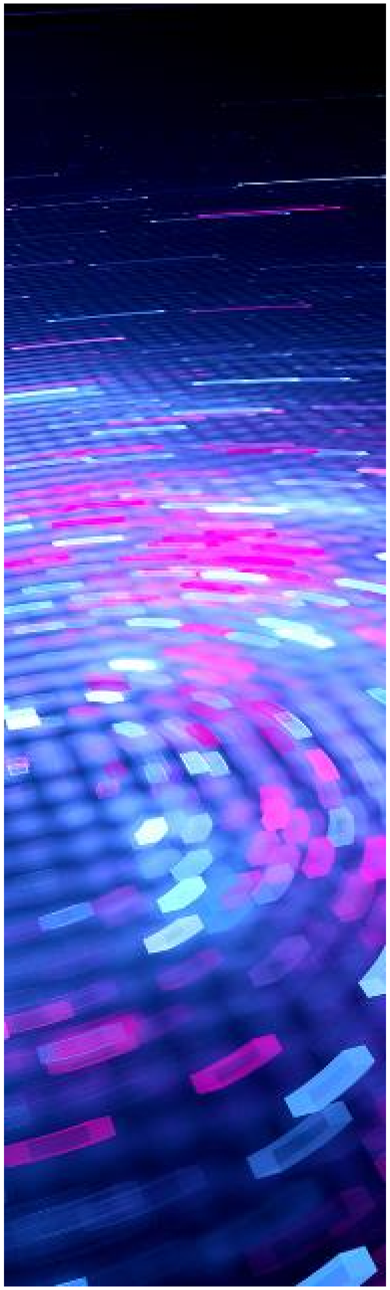
We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial report (ICFR).

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates.

We believe management's process for identifying critical accounting estimates for these balances to be adequate. We did not identify any indicators of possible management bias. See page 13.

Accounting estimates are disclosed as such in note 1(n) to the financial statements.



Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why
Fraud risk from revenue recognition	This is a presumed fraud risk. The risk resides with development charges revenue, particularly with respect to revenue recognition on an accrual basis and cut-off of fiscal periods.

Our response and significant findings

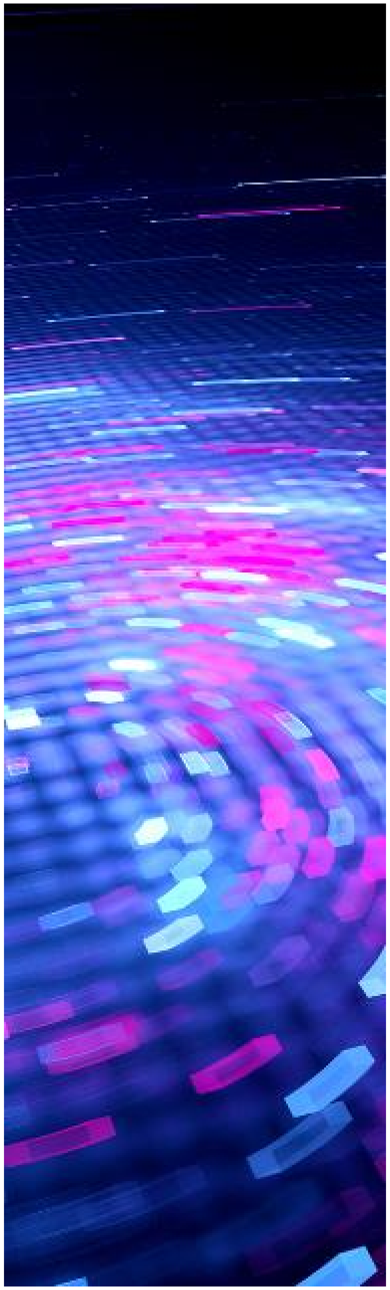
In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing development charges revenue, including:

- Evaluated the design and implementation and tested the operating effectiveness of selected relevant controls, including those relating to the tracking and reporting of capital project expenditures.

Other audit procedures included:

- Tested development charges cash receipts and their deferral.
- Obtained the deferred revenue, obligatory reserve fund continuity schedule and selected samples for testing to determine if the 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 recorded as revenue in fiscal 2018 were used to fund capital projects.
- Reviewed recognition considerations for the other revenue streams.

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



Audit risks and results

Significant financial reporting risks	Why
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

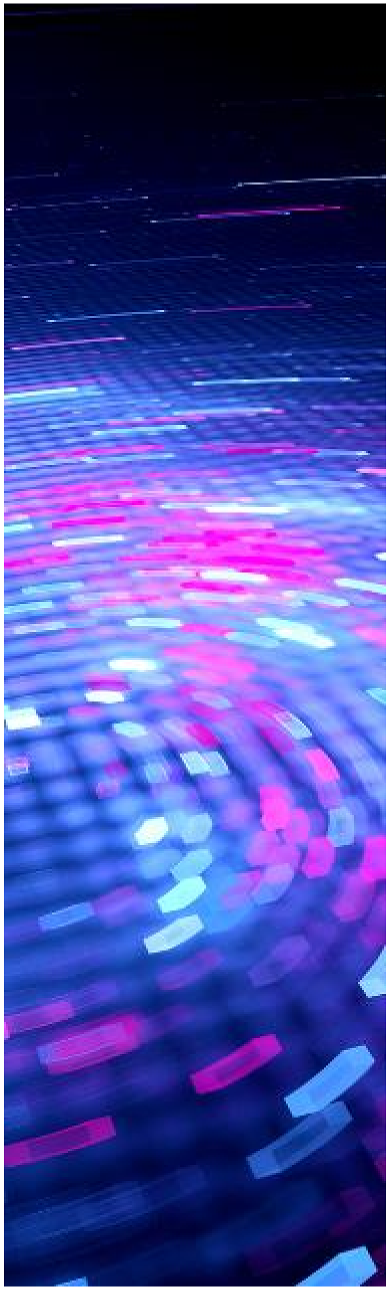
Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.

– Using our Data & Analytics software, we tested manual and automated journal entries by extracting all journal entries recorded in the general ledger system and other adjustments. Please see page 14 for details and results.

– We evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is considered adequate.

– 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 related to fraud risk associated with management override of controls.



Other areas of focus

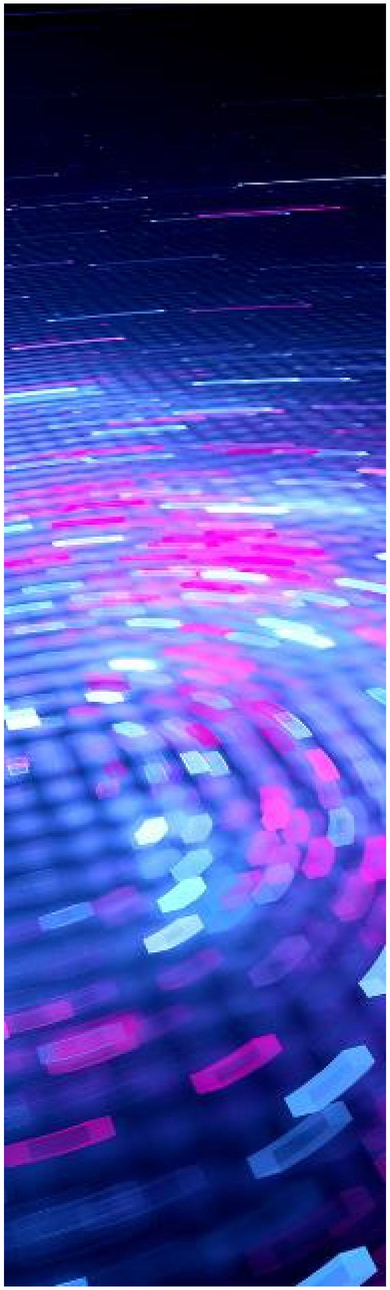
Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus

Vaughan Holdings Inc.

Our response and significant findings

- Vaughan Holdings Inc. (“VHI”) is considered a significant component of the City’s consolidated financial statements.
- The City recognizes its investment in Hydro Vaughan Corporations using the modified equity method. We reviewed the criteria under Public Sector Accounting Standards (“PSA Standards”) PS 3070 – Investment in Government Business Enterprises and noted that the City’s investment in Hydro Vaughan Corporations continues to meet all criteria of the standard and therefore it is appropriate to continue to record the investment using the modified equity method of accounting.
- In 2018, the City’s share of VHI’s net income and dividends paid out totalled $25.2M and $12.7M, respectively (2017 - $12.6M and $5.8M, respectively).
- VHI received a $2.2M (2017 - $1.8M) capital dividend from Alectra, which was recorded as a reduction to VHI’s investment in Alectra. VHI issued a similar capital dividend of $2.2M to the City.
- These transactions are described in note 4 to the financial statements.
- We verified the transactions between each of the respective entities, and performed a reconciliation of the amounts reported in the financial statements of the City, VHI, and Alectra as at December 31, 2018.
- **Based on our audit, we conclude that management has appropriately recorded and presented its investment in Hydro Vaughan Corporations using modified equity accounting.**
- There was a subsequent event on January 1, 2019 relating to an amalgamation of Alectra with Guelph Hydro Electric Systems Inc. As a result of the amalgamation, VHI’s investment in Alectra effectively changed from 21.49% to 20.5%. This has been described in note 18 to the financial statements.



Other area of focus

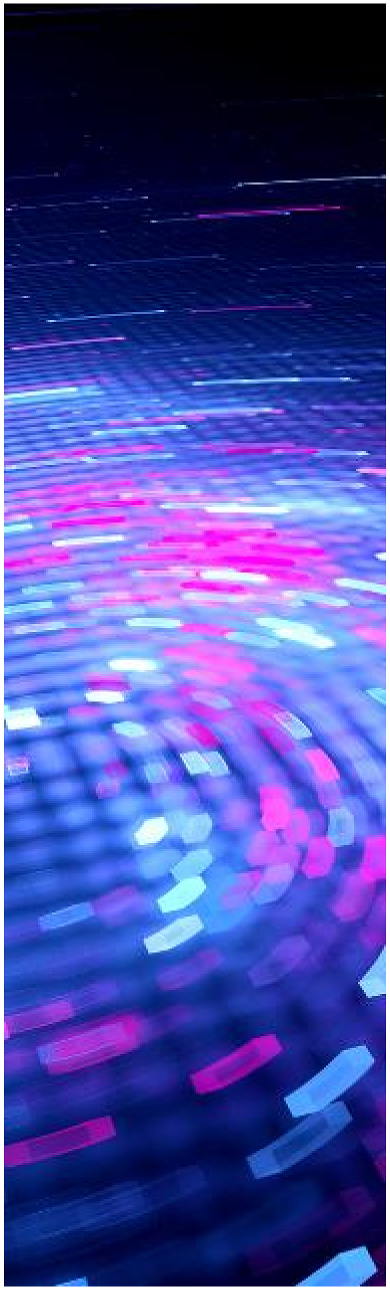
YMCA Project

Our response and significant findings

- In 2017, the City entered into an arrangement with YMCA Toronto (“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 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%. It is intended that the City will enter into a lease to use this 30% portion of the facility for a nominal rent of $1 per year.
- YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation (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 part of this transaction.
- As at December 31, 2018, the City has spent a cumulative $40.5M (2017 - $24.5M) on the project, comprising:

(millions)	2018	2017
Land	$11.0	$11.0
Land transfer tax	1.5	1.5
The City’s portion of the facility	10.8	4.6
The YMCA’s portion of the facility	17.2	7.4
	$40.5	$24.5

- The City has reported the $40.5M (2017 - $24.5M) as assets under construction as part of its tangible capital assets. A total of $11.4M (2017 - $11.4M) has been paid by the City with a remainder of $29.3M (2017 - $13.2M) 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 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 2018. We obtained a direct confirmation from YMCA of the long term debt and repayment schedule owing to them.
- We did not note any issues with management’s estimates and assumptions and we find the measurement and disclosures related to this project to be appropriate.



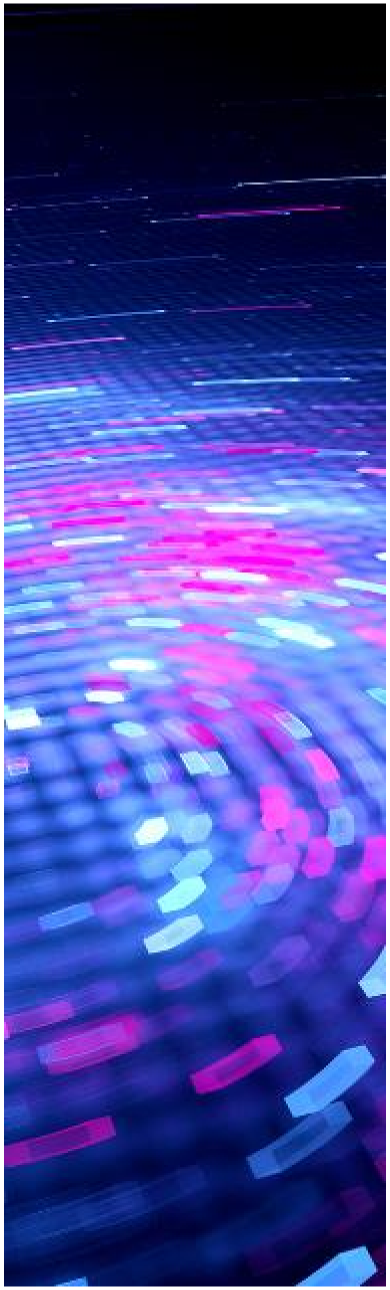
Other area of focus

Adoption of public sector accounting standards

Our response and significant findings

Beginning in fiscal 2018, the City is required to adopt the following new public sector accounting standards (PSAS) :

- **PS 2200 – Related Party Disclosures**
  - This standard defines related parties and requires disclosure of material transactions occurring between related parties at a value that is different from that which would have been arrived at if the parties were unrelated.
  - The City has internal policies over procurement and conduct that address conflicts of interest and transactions with individuals or parties at non-arms' length. We held discussions with management who informed us that there were no material related party transactions that were not at fair value during the year. Our findings from our review of Council and committee meeting minutes were consistent in this regard. At the completion of the audit (upon Council approval of the financial statements), we will obtain from management a signed representation letter indicating that there were no related parties or transactions not identified to us or disclosed in the financial statements.
- **PS 3420 – Inter-Entity Transactions**
  - These are transactions occurring between commonly controlled entities. There are no inter-entity transactions to consider as there are no commonly-controlled entities to the City.
- **PS 3380 – Contractual Rights**
  - Contractual rights, which are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future, must be disclosed and described. As at December 31, 2018, there were a number of contracts and commitments for funding support, shared services, and leases. The aggregate amounts for each of these types of arrangements are disclosed in note 15 to the financial statements.
  - For a sample of contracts and commitments, we verified the maximum amount available to the City, ensured that amounts are to be earned in future periods, and recalculated the future portions by deducting actual revenues earned to date on the contracts.
- **PS 3320 – Contingent Assets**
  - Contingent assets, which exist when an unresolved existing condition exists and an expected future event will resolve that uncertainty as to whether an asset exists, must be disclosed. Management has considered a number of circumstances, including litigation where the City is the plaintiff and situations with the potential for recoveries. Management has not identified any contingent assets, which is supported by the City Solicitor. No disclosures are required.
- **PS 3210 – Assets**
  - Items meeting the expanded definition of assets must be recorded as assets in the statement of financial position. The City has recorded all such assets. This standard does not have a significant impact on the financial statements.



Other area of focus

Employee Future Benefits

Our response and significant findings

- Employee future benefits provided by the City, which will require funding in future periods, include post-retirement non-pension benefits and WSIB.
- The post-retirement non-pension benefits include certain health, dental and life insurance benefits for retired employees. WSIB benefits include benefits under the Workplace Safety and Insurance Board Act.
- The liability of these future benefits has been determined by two separate actuarial valuations:
  - **Post-retirement non-pension benefits:** A full actuarial valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019.
  - **WSIB**: A valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019.
- We reviewed the 2018 projections made in the 2017 actuarial valuation reports. We obtained written confirmation from management's experts (the actuaries), and performed an evaluation of the competence, capabilities, and objectivity of the actuaries, as required by professional standards when using their work as audit evidence.
- Our procedures included an assessment of management's estimates and assumptions used in determining the valuation of the liability, including management's best estimates over inflation rate, discount rate, benefit cost trend rates, retirement age and expected average remaining service life.
- The details related to employee future benefits are described in note 5 to the financial statements.
- **We did not note any issues with management's estimates and assumptions and we find the measurement and disclosures of post-retirement non-pension benefits and WSIB liability to be appropriate.**

Critical accounting estimates

Under Public Sector (PS) Accounting Standards, management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas.

Asset / liability	KPMG comments
Employee Future Benefits	– We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports. – We recalculated the accruals based on the information noted above and did not identify any discrepancies.
Contingent Liabilities	– PSAS section PS3300 - Contingent Liabilities requires that the City recognize a liability when “it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements, and the amount can be reasonably estimated.” – At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as collectability of certain accounts receivable, legal claims, contract settlement accruals, etc. – KPMG has reviewed the City’s assessments of contingent liabilities, including evaluation by the City Solicitor thereon, 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 believe management’s process for identifying critical accounting estimates is considered adequate.

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) and other technology to enhance the quality and effectiveness of the audit.

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

Area	Our results and insights
Journal entry testing	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. — We did not identify any issues with completeness through our roll-forward procedures. — 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.
Tangible capital assets	**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. — 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. **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. — Our comparison of the disposals listing to the asset register continued to list 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. — We did not identify any issues with the overstatement of assets being retained on the books for disposed assets. **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. — We did not find any issues in our recalculation of amortization expense compared to the amounts recorded by the City.

Holdback completeness	We utilized IDEA 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 IDEA 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 or 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 accurately calculated. – There were no issues with the completeness of prior year deposits in the records of the current year.
Vendor files	We utilized D&A to perform routines over procurement and vendor set-up to identify unusual vendor/payment activity, specifically: — We identified a number of vendors with blank addresses, which were identified as employees receiving reimbursements, parties receiving refunds, or vendors being paid for less than $5,000. — New vendors created in 2018 for which there was no payment activity, which were attributed to reasons such as recent setups for quote submissions or payments due later upon completion of long-term projects. We shared the findings with management and understand that these findings are in the normal course of business and are within the City's procurement protocols. There were no issues with vendor set-up.

Adjustments and differences

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

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

Corrected adjustments

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

Uncorrected difference

We did not identify differences that remain uncorrected.

Audit trends

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

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
Audit Quality 2018	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report
Cyber defense in depth	High walls alone won't defend the castle. Assume that you have been compromised and work on what needs to be done to address it.	Link to report

The 2018 Auditors' Report

Highlights of changes to your 2018 auditors' report

- Re-ordering of the auditors' report including moving opinion to the first section.
- Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.
- Separate section on "Other Information" (e.g. Annual Report).
- Expanded descriptions of management's responsibility, including those related to assessing the Entity's ability to continue as a going concern.
- New description of responsibilities of those charged with governance.
- Expanded descriptions of management's, those charged with governance and auditors' responsibilities.

Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.

Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.

Current developments

Public Sector Accounting Standards

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

Standard	Summary and implications
Asset Retirement Obligations	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021 (the City's 2022 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: • 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	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end). – The new standard 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, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021 (the City's 2022 year-end). – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of 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. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in December 2018. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The SOP 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 SOP proposes 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, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.

Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018 and has closed. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before 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). • 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.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.

Appendices

Appendix 1: Required communications

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

These include:

Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements.

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.

Audit findings report

As attached.

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our audit quality report, Audit quality: Our hands-on process.

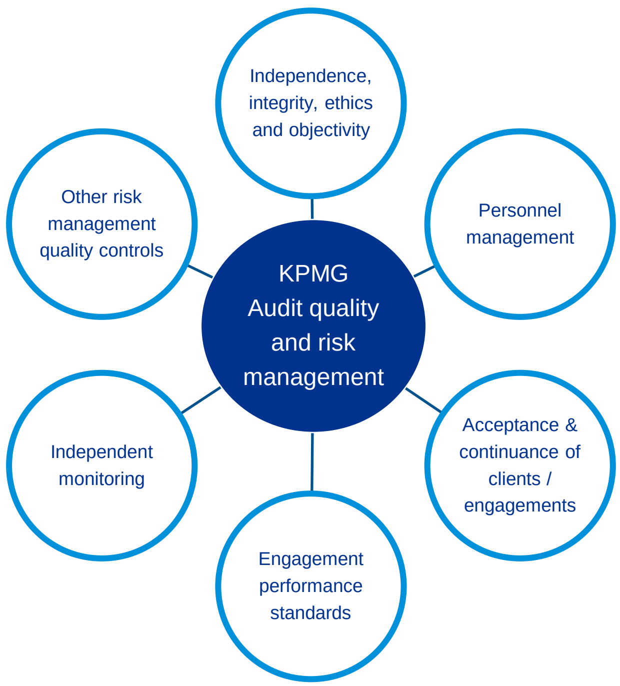
Other controls include:

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

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

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

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



We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

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

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

Appendix 3: KPMG's audit approach and methodology

This year expanded our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

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

Issue identification

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

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

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

Reporting

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

Appendix 4: Background and professional standards

Internal control over financial reporting

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

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

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

Documents containing or referring to the audited financial statements

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

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

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