AGENDA
MIDDLESEX-LONDON BOARD OF HEALTH
Finance & Facilities Committee

Microsoft Teams
Thursday, July 7, 2022 at 9:00 a.m.

1. **DISCLOSURE OF CONFLICTS OF INTEREST**

2. **APPROVAL OF AGENDA –** July 7, 2022

3. **APPROVAL OF MINUTES –** June 2, 2022

4. **CONFIDENTIAL**

The Middlesex-London Board of Health (Finance and Facilities Committee) will move into a confidential session to discuss matters which pertain to one or more of the following, as per section 239(2) of the *Municipal Act, 2001, S.O. 2001, c. 25*:

(a) the security of the property of the municipality or local board;

(b) personal matters about an identifiable individual, including municipal or local board employees;

(c) a proposed or pending acquisition or disposition of land by the municipality or local board;

(d) labour relations or employee negotiations;

(e) litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or local board;

(f) advice that is subject to solicitor-client privilege, including communications necessary for that purpose;

(g) a matter in respect of which a council, board, committee or other body may hold a closed meeting under another Act;

(h) information explicitly supplied in confidence to the municipality or local board by Canada, a province or territory or a Crown agency of any of them;

(i) a trade secret or scientific, technical, commercial, financial or labour relations information, supplied in confidence to the municipality or local board, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization;

(j) a trade secret or scientific, technical, commercial or financial information that belongs to the municipality or local board and has monetary value or potential monetary value; or

(k) a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board.

5. NEW BUSINESS

5.1 2021 Draft Financial Statements (Report No. 13-22FFC)

6. OTHER BUSINESS

6.1 Next meeting: To be called

7. ADJOURNMENT

PUBLIC MINUTES
FINANCE & FACILITIES COMMITTEE
Microsoft Teams
Thursday, June 2, 2022 at 9 a.m.

MEMBERS PRESENT: Mr. Mike Steele (Chair)
Mr. Matt Reid
Ms. Kelly Elliott
Ms. Maureen Cassidy
Mr. Selomon Menghsha

OTHERS PRESENT: Ms. Stephanie Egelton, Senior Executive Assistant to the Medical Officer of Health (Recorder)
Dr. Alexander Summers, Medical Officer of Health
Ms. Emily Williams, Chief Executive Officer
Mr. David Jansseune, Assistant Director, Finance
Mr. Pat Harford, Manager, Information Technology
Ms. Carolynne Gabriel, Communications Coordinator and Executive Assistant to the Board of Health
Ms. Mary Lou Albanese, Director, Environmental Health and Infectious Diseases
Ms. Mariam Hamou, Board Member

At **9:01 a.m.,** Chair Mike Steele called the meeting to order.

DISCLOSURES OF CONFLICT OF INTEREST

Chair Steele inquired if there were any disclosures of conflict of interest. None were declared.

APPROVAL OF AGENDA

It was moved by **Ms. Maureen Cassidy, seconded by Mr. Matt Reid,** *that the* ***AGENDA*** *for the June 2, 2022 Finance & Facilities Committee meeting be approved.*

Carried

APPROVAL OF MINUTES

It was moved by **Mr. Reid, seconded by Ms. Cassidy,** *that the* ***MINUTES*** *of the April 7, 2022 Finance & Facilities Committee meeting be approved.*

Carried

CONFIDENTIAL

At **9:01 a.m.,** it was moved by **Mr. Reid, seconded by Ms. Cassidy,** *that the Finance & Facilities Committee move into a confidential session to consider matters regarding litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or local board and to receive advice that is subject to solicitor-client privilege, including communications necessary for that purpose.*

Carried

At **9:11 a.m.,** it was moved by **Ms. Cassidy, seconded by Mr. Reid,** *that the Finance & Facilities Committee rise and return to public session from closed session.*

Carried

NEW BUSINESS

Information Technology Services - Asset Management Update (Report No. 11-22FFC)

Ms. Emily Williams, Chief Executive Officer, introduced Mr. Pat Harford, Manager, Information Technology for the report on MLHU's Asset Management Update.

In March 2020, staff were asked to work remotely, and removed various pieces of equipment from their desks to support their work at home. During the pandemic, MLHU implemented a new Asset Management System to track all Information Technology Services (ITS) Assets including, but not limited to, monitors, laptops, cellular devices and tablets. This also included an acknowledgement form that staff sign and provide back to MLHU's ITS team, which is also kept in the individual's employee file.

It was further noted that:

- MLHU staff are 96% in compliance with the acknowledgement of property forms, with all new hires and existing staff being aware and part of this acknowledgment.
- There are 20 staff currently not in compliance, and IT is working with them to coordinate assets which they have in their possession.
- No equipment has been disposed of, per the current work with Greentech Recycling (Report No. 23-21FFC).
- MLHU is tracking pieces of equipment that are valued at over $100.
- IT is continuing to track and identify equipment that employees are using.

It was moved by **Ms. Cassidy, seconded by Ms. Kelly Elliott**, *that the Finance & Facilities Committee make a recommendation to the Board of Health to receive Report No. 11-22FFC, re: Information Technology Services - Asset Management for information.*

Carried

Q1 Financial Update and Factual Certificate (Report No. 12-22FFC)

Ms. Williams introduced Mr. David Jansseune, Assistant Director, Finance for the report on MLHU's Q1 Financial Update and Factual Certificate.

Mr. Jansseune noted before the Committee reviewed this report that it uses a new reporting style that the Board will be seeing going forward with quarterly financial updates.

Highlights from the Q1 Financial Update included:

- The four (4) elements of financial reporting are: revenue, Q1 variances, forecasting, and cashflow.
- To date, MLHU has not received any COVID-19 funding for the current year which has caused a large unfavorable variance on revenue, but this will correct itself upon receipt of Ministry funding.
- Expenses overall are favorable by $2.1 million, which can be used to offset the current $1.6 million gapping budget.
- General ledger accounts can be forecasted now.
- Currently, the Ministry of Health owes MLHU $2,011,414 and MLHU owes the Ministry $220,853.
- There is confidence that MLHU will not need to utilize the increase the limit on the existing line of credit to manage expenses in 2022.
- Per Schedule A, all funds from the Ministry are finalized, with the exception of COVID-19 extraordinary funds, which are in draft ($5,313,000 for COVID-19 program and $8,266,900 for COVID-19 vaccine).
- Schedule B does not include MLHU Company 2 because of the type of work completed in Q1. It will be included in Q2's update.

- MLHU is seeing financial favourability in salary and wages, typical to 2021 levels.
- There are many staff vacancies and overtime is elevated, but currently expenses are favourable at $2.1 million.
- It is predicted that on June 15, MLHU will receive approximately $13 million in COVID-19 extraordinary funding from the Province.
- Health units are now able to use surplus mandatory program funds for COVID-19 recovery projects, which was not the case previously.
- Recruitment and health human resources continue to be a challenge, specifically for the nursing profession and public health inspectors.

It was moved by **Ms. Cassidy, seconded by Mr. Reid,** *that the Finance & Facilities Committee make a recommendation to the Board of Health to receive Report No. 12-22FFC, re: Q1 Financial Update and Factual Certificate for information.*

Carried

OTHER BUSINESS

The next meeting of the Finance and Facilities Committee will be held on Thursday, July 7, 2022 at 9 a.m.

ADJOURNMENT

At **9:40 a.m.,** it was moved by **Mr. Reid, seconded by Ms. Cassidy,** *that the meeting be adjourned.*

Carried

MICHAEL STEELE **Chair**	**EMILY WILLIAMS** **Secretary**

MIDDLESEX-LONDON HEALTH UNIT

REPORT NO. 13-22FFC

TO: Chair and Members of the Finance & Facilities Committee

FROM: Emily Williams, Chief Executive Officer

DATE: 2022 July 7

2021 DRAFT FINANCIAL STATEMENTS

Recommendation

It is recommended that the Finance & Facilities Committee recommend to the Board of Health to review and approve the audited Financial Statements for the Middlesex-London Health Unit for the year ending December 31, 2021.

Key Points

- The reports of the Financial Statements (Appendix A) and Independent Auditors' Report (Appendix B) for the twelve months ending December 31, 2021 are attached.
- Preparation of the financial statements is the responsibility of MHLU's management. The financial statements have been prepared in compliance with legislation and with Canadian Public Sector Accounting Standards (PSAS).
- A summary of significant accounting policies is provided in note 1 to the financial statements.

Financial Overview

This report provides an overview of the financial information found in both the Statement of Financial Position and the Statement of Operations and Accumulated Surplus. The Statement of Financial Position can be found on page 5 of the draft financial statements (Appendix A). As at December 31, 2021, the Health Unit has approximately $13.7 million in cash and near-cash financial assets to offset its $13.9 million in short-term financial liabilities, $4.0 million of bank indebtedness and $3.0 million in long-term liabilities.

As of this date, these financial liabilities of $20.9 million include the following:

Short-Term Liabilities (often paid during the next operating year):

1) $4.4 million in amounts owing to the Province of Ontario
2) $3.9 million in unpaid accounts payable and accrued liabilities
3) $2.9 million in deferred revenue
4) $2.7 million in accrued wages and benefits

Bank Indebtedness

5) $4.0 million in demand instalment loan

Long-Term Liabilities (often extending past the next operating year):

6) $3.0 million in employee future benefits liability

With regard to the $3.0 million in employee future benefits liability, this is the estimated current amount required to fund all future costs associated with providing post-retirement benefits. This liability is currently unfunded; however, each year an estimated amount required for the current year is appropriated from surplus. Detail related to this liability is outlined in note 2 on page 12.

The Non-Financial Assets, which total $7.7 million, include the net book value of the Health Unit's tangible capital assets, such as leasehold improvements, computer systems, and prepaid expenses. Note 6 on page 15 outlines a schedule of changes to the tangible capital assets during the year.

The last amount listed on the Statement of Financial Position is the Health Unit's accumulated surplus. This represents the net financial and physical resources available to provide future services. The details of what items make up this balance can be found in the draft financial statements on page 17, note 9.

The Statement of Operations and Accumulated Surplus, which details the Health Unit's revenues and expenditures for 2021, is found on page 6 of the financial statements. Total revenue of $61.4 million is comprised of $60.7 million (98.9%) in grant revenue from four sources: the Province of Ontario ($53.1 million or 87.4% of grant revenue, the Government of Canada ($0.4 million or 0.6%), the Corporation of the City of London ($6.1 million or 10.0%) and the Corporation of the County of Middlesex ($1.2 million or 2.0%). The remaining $0.7 million (1.1% of total revenue) comes from program revenue and other off-set revenues.

The revenues provide for expenditures of $61.7 million. The majority of the expenditures are salaries and benefits, which total $48.6 million (78.8%). The remaining $13.1 million (21.2%) consists of professional services (6.6%), rent and maintenance (4.7%), materials and supplies (6.3%), charge for amortization of tangible capital assets (1.3%), travel (0.5%) and other expenses (1.8%).

Audit Findings Report

KPMG's Independent Auditors' Report is included as Appendix B. A common practice in presenting the report is for the Auditor Team to meet in private with Committee members, excluding all MLHU staff.

Ms. Katie DenBok, Partner and Ms. Melissa Redden, Senior Manager, KPMG LLP, will be present at the July 7th Finance & Facilities Committee meeting to address any questions regarding this report.

This report was prepared by the Finance Team, Healthy Organization Division.

EWilliams

Emily Williams, BScN, RN, MBA, CHE
Chief Executive Officer

Financial Statements of

MIDDLESEX-LONDON HEALTH UNIT

And Independent Auditors' Report thereon

Year ended December 31, 2021

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements
Year ended December 31, 2021

Financial Statements

Management's Responsibility for the Financial Statements 1

Independent Auditors' Report........ 2-4

Statement of Financial Position 5

Statement of Operations and Accumulated Surplus 6

Statement of Change in Net Debt 7

Statement of Cash Flows 8

Notes to Financial Statements 9-19

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements
Year ended December 31, 2021

Management's Responsibility for the Financial Statements

The accompanying financial statements of the Middlesex-London Health Unit ("Health Unit") are the responsibility of the Health Unit's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies is described in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Health Unit's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Finance & Facilities Committee meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by The Corporation of the City of London. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Health Unit's financial statements.

Emily Williams, BScN, RN, MBA, CHE
Chief Executive Officer

David Jansseune, CPA, CMA
Assistant Director, Finance

Matthew Reid, Chair
Board of Health

INDEPENDENT AUDITORS' REPORT

To the Chair and Members, Middlesex-London Board of Health

Opinion

We have audited the financial statements of Middlesex-London Health Unit (the "Health Unit"), which comprise:

- the statement of financial position as at December 31, 2021
- 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 Health Unit as at December 31, 2021, 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 Health Unit 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 Health Unit'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 Health Unit or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Health Unit'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 Health Unit'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 Health Unit'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 Health Unit 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

July 2022

London, Canada

MIDDLESEX-LONDON HEALTH UNIT

Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021	2020
Financial Assets		
Cash	$ 10,481,078	$ 32,081
Accounts receivable	764,281	452,326
Grants receivable	2,480,606	5,484,210
	13,725,965	5,968,617
Financial Liabilities		
Accounts payable and accrued liabilities	1,510,746	1,154,443
Deferred revenue	2,905,137	2,009,192
Demand loan (note 5)	4,026,743	4,200,000
Due to Province of Ontario	4,383,914	1,364,996
Due to Government of Canada	-	53
Due to The Corporation of the City of London	2,189,701	-
Due to The Corporation of the County of Middlesex	121,949	-
Accrued wages and benefits	2,714,699	1,827,538
Employee future benefits (note 2)	3,057,800	2,882,300
	20,910,689	13,438,522
Net Debt	(7,184,724)	(7,469,905)
Non-Financial Assets		
Tangible capital assets (note 5)	7,524,760	8,053,507
Prepaid expenses	209,881	222,809
	7,734,641	8,276,316
Commitments (note 7)		
Contingencies (note 8)		
Accumulated surplus (note 9)	$ 549,917	$ 806,411

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Operations and Accumulated Surplus
Year ended December 31, 2021, with comparative information for 2020

	2021 Budget	2021	2020
Revenue:			
Grants:			
Ministry of Health	$ 51,915,900	$ 50,589,571	$ 28,080,246
The Corporation of the City of London	6,735,292	6,095,059	6,095,059
Ministry of Children and Youth Services	2,483,313	2,538,604	2,537,762
The Corporation of the County of Middlesex	1,282,910	1,160,961	1,160,961
Government of Canada	437,816	370,667	277,028
	62,855,231	60,754,862	38,151,056
Other:			
Property search fees	4,036	3,500	1,300
Family planning	245,194	82,737	108,627
Investment income	-	-	4,833
Other income (note 10)	975,854	607,215	506,925
	1,225,084	693,452	621,685
Total Revenue	64,080,315	61,448,314	38,772,741
Expenditures:			
Salaries:			
Public Health Nurses	19,545,842	12,426,386	10,040,858
Other salaries	7,819,730	13,786,815	9,042,536
Administrative staff	10,803,275	11,337,651	3,219,411
Public Health Inspectors	2,725,696	2,444,933	2,478,582
Dental staff	1,382,930	704,311	850,790
Medical Officers of Health	570,036	610,193	572,114
	42,847,509	41,310,289	26,204,291
Other Operating:			
Benefits	9,143,824	7,322,256	5,342,696
Professional services	4,062,081	4,089,278	2.358,160
Rent and maintenance	2,322,137	2,869,385	2,143,256
Other expenses (note 11)	1,437,129	1,127,707	935,654
Materials and supplies	3,367,924	3,915,687	1,199,134
Amortization expense	582,501	789,355	522,263
Travel	317,209	280,851	109,120
	21,232,806	20,394,519	12610,283
Total Expenditures	64,080,315	61,704,808	38,814,574
Annual deficit	-	(256,494)	(41,833)
Accumulated surplus, beginning of year	806,411	806,411	848,244
Accumulated surplus, end of year	$ 806,411	$ 549,917	$ 806,411

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Change in Net Debt

Year ended December 31, 2021, with comparative information for 2020

	2021 Budget	2021	2020
Annual deficit	$ -	$ (256,494)	$ (41,833)
Acquisition of tangible capital assets, net	-	(260,608)	(3,293,785)
Amortization of tangible capital assets	-	789,355	522,263
	-	272,253	(2,813,355)
Acquisition of prepaid expenses	-	(209,881)	(222,809)
Use of prepaid expenses	-	222,809	212,983
	-	12,928	(9,826)
Change in net debt	-	285,181	(2,823,181)
Net debt, beginning of year	(7,469,905)	(7,469,905)	(4,646,724)
Net debt, end of year	$(7,469,905)	$(7,184,724)	$(7,469,905)

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Statement of Cash Flows

December 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Annual deficit	$ (256,494)	$ (41,833)
Items not involving cash:		
Amortization expense	789,355	522,263
Change in employee future benefits	175,500	156,600
Changes in non-cash assets and liabilities:		
Accounts receivable	(311,955)	729,684
Grants receivable	3,003,604	(5,080,122)
Prepaid expenses	12,928	(9,826)
Due to Province of Ontario	3,018,918	851,689
Due to Government of Canada	(53)	(62,583)
Due to The Corporation of the City of London	2,189,701	(7,767)
Due to The Corporation of the County of Middlesex	121,949	(1,477)
Accounts payable and accrued liabilities	356,303	(1,068,008)
Deferred Revenue	895,945	1,936,625
Accrued wages and benefits	887,161	1,286,091
Net change in cash from operating activities	10,882,862	(788,664)
Financing Activities:		
Repayment of bank indebtedness	-	(1,500,000)
Proceeds from (repayment of) demand loan	(173,257)	4,200,000
Net change in cash from financing activities	(173,257)	2,700,000
Capital activities:		
Acquisition of tangible capital assets	(260,608)	(3,293,785)
Net change in cash from capital activities	(260,608)	(3,293,785)
Net change in cash	10,448,997	(1,382,499)
Cash and cash equivalents, beginning of year	32,081	1,414,530
Cash and cash equivalents, end of year	$ 10,481,078	$ 32,081

The accompanying notes are an integral part of these financial statements.

MIDDLESEX-LONDON HEALTH UNIT

Notes to Financial Statements
Year ended December 31, 2021

The Middlesex-London Health Unit (the “Health Unit”) is a joint local board of the municipalities of The Corporation of the City of London and The Corporation of the County of Middlesex that was created on January 1, 1972. The Health Unit provides programs which promote healthy and active living throughout the participating municipalities.

1. Significant accounting policies:

The financial statements of the Health Unit are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Middlesex-London Health Unit are as follows:

(a) Basis of presentation:

The financial statements reflect the assets, liabilities, revenue and expenditures of the reporting entity. The reporting entity is comprised of all programs funded by the Government of Canada, the Province of Ontario, The Corporation of the City of London, and The Corporation of the County of Middlesex. It also includes other programs that the Board of Health may offer from time to time with special grants and/or donations from other sources.

Inter-departmental transactions and balances have been eliminated.

(b) Basis of accounting:

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of donations, which are included in the statement of operations as received.

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of services and the creation of a legal obligation to pay.

The operations of the Health Unit are funded by government transfers from the Government of Canada, Province of Ontario, The Corporation of the City of London and The Corporation of the County of Middlesex. Government transfers are recognized in the financial statements as revenue in the period 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 amounts can be made. Government transfers not received at year end are recorded as grants receivable due from the related funding organization in the statement of financial position.

Funding amounts in excess of actual expenditures incurred during the year are either contributed to reserves or reserve funds, when permitted, or are repayable and are reflected as liabilities due to the related funding organization in the statement of financial position.

1. Significant accounting policies (continued):

(c) Employee future benefits:

(i) The Unit provides certain employee benefits which will require funding in future periods. These benefits include sick leave, life insurance, extended health and dental benefits for early retirees.

The cost of sick leave, life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long term inflation rates and discount rates.

(ii) The cost of multi-employer defined benefit pension plan, namely the Ontario Municipal Employees Retirement System (OMERS) pensions, are the employer's contributions due to the plan in the period. As this is a multi-employer plan, no liability is recorded on the Health Unit's financial statements.

(d) 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 that extend 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 attributed 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 the estimated useful lives as follows:

Asset	Useful Life - Years
Leasehold Improvements	5 - 20
Computer Systems	4
Motor Vehicles	5
Furniture & Equipment	7

Assets under construction are not amortized until the asset is available for productive use.

1. Significant accounting policies (continued):

(d) Non-financial assets (continued):

(ii) Contributions of tangible capital assets

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

(iii) 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 payment are charged to expense as incurred.

(e) Use of estimates:

The preparation of the Health Unit's financial statements requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of post-employment benefits.

In addition, the Health Unit’s implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of the useful lives of tangible capital assets.

Actual results could differ from these estimates.

2. Employee future benefits:

The Health Unit pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age sixty-five. The Health Unit recognizes these post-retirement costs in the period in which the employees render services. The most recent actuarial valuation was performed as at December 31, 2020.

	2021	2020
Accrued employee future benefit obligations	$ 3,277,000	$ 3,055,100
Unamortized net actuarial loss	(219,200)	(172,800)
Employee future benefits liability as of December 31	$ 3,057,800	$ 2,882,300

Retirement and other employee future benefit expenses included in the benefits in the statement of operations consist of the following:

	2021	2020
Current year benefit cost	$ 209,000	$ 200,000
Interest on accrued benefit obligation	103,200	107,700
Amortization of net actuarial loss	38,300	57,700
Total benefit cost	$ 350,500	$ 365,400

Benefits paid during the year were $175,000 (2020 - $208,800).

2. Employee future benefits (continued):

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

(i) Discount rate:

The obligation as at December 31, 2021, of the present value of future liabilities and the expense for the year ended December 31, 2021, are determined using a discount rate of 3.00% and 3.25% respectively (2020 – 3.25%).

(ii) Medical costs:

Prescription drug costs are assumed to increase at the rate of 4.5% per year (2020 – 4.3%) varying over 19 years to an ultimate rate of 4.0%. Other Medical costs are assumed to increase at a rate of 4.6% per year (2020 - 4.3%), varying over 19 years to an ultimate rate of 4.1%. Vision costs are assumed to increase at a rate of 0% per year.

(iii) Dental costs:

Dental costs are assumed to increase at the rate of 4.9% per year (2020 – 4.7%), varying over 19 years to an ultimate rate of 4.0%.

3. Pension agreement:

The Health Unit contributes to the OMERS which is a multi-employer plan, on behalf of 314 members. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

During 2020, the plan required employers to contribute 9.0% of employee earnings up to the year's maximum pensionable earnings and 14.6% thereafter. The Health Unit contributed $2,101,187 (2020 - $2,032,276) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2021.

The last available report for the OMERS plan was on December 31, 2020. At that time, the plan reported a $3.1 billion actuarial deficit (2020 - $3.2 billion), based on actuarial liabilities for $120.8 billion (2020 - $113.1 billion) and actuarial assets for $117.7 billion (2020 - $109.8 billion). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

4. Bank Indebtedness:

To better manage daily cash flows, the Health Unit entered into a $8 million (2020 - $1.5 million) demand revolving line of credit, available by way of overdraft. Interest on amounts drawn is calculated at prime rate less 0.75% per annum. No amount was outstanding under the line of credit as at year end or as at the previous year end.

5. Demand Loan:

In 2020, the Health Unit entered a loan agreement for a $4.2 million demand instalment loan with an amortization period of 20 years to finance the fit-up and relocation costs related to the move to Citi Plaza. The loan was subsequently converted into two non-revolving amortizing instalment loans, with $3,050,000 established as a fixed rate instalment loan, and the remaining $1,150,000 established as a floating rate instalment loan. The fixed rate of interest on the first loan is 1.915% per annum over a term of 5 years and is being repaid by monthly blended payments of principal and interest of $15,307. The interest rate on the second loan is calculated at prime rate less 0.75% per annum and shall be repaid by monthly principal payments of $4,792. All amounts under the demand loans are repayable immediately on demand by the bank.

Principal payments are due as follows:

2022	$ 186,118
2023	188,603
2024	191,135
2025	3,460,617
	$4,026,473

6. Tangible Capital Assets:

Cost	Balance at December 31, 2020	Additions	Disposals / Transfers	Balance at December 31, 2021
Leasehold Improvements – 20 years	$6,610,569	$ 146,134	$ -	$ 6,756,703
Computer Systems	1,461,274	94,345	-	1,555,619
Furniture & Equipment	1,184,461	20,129	-	1,204,590
Total	$ 9,256,304	$ 260,608	$ -	$ 9,516,912

Accumulated amortization	Balance at December 31, 2020	Amortization expense	Disposals / Transfers	Balance at December 31, 2021
Leasehold Improvements – 20 years	$ 137,740	334,182	$ -	$ 471,922
Computer Systems	614,528	306,339	-	920,867
Furniture & Equipment	450,529	148,834	-	599,363
Total	$ 1,202,797	$ 789,355	$ -	$ 1,992,152

	Net book value December 31, 2020	Net book value December 31, 2021
Leasehold Improvements – 20 years	$ 6,472,829	$ 6,284,781
Computer Systems	846,746	634,751
Furniture & Equipment	733,932	605,226
Total	$ 8,053,507	$ 7,524,760

During the year, the Health Unit deemed to have disposed of or transferred fully amortized assets with a cost base of nil (2020 - $3,466,702).

MIDDLESEX-LONDON HEALTH UNIT

Financial Statements (continued)
Year ended December 31, 2021

6. Tangible Capital Assets (continued):

Cost	Balance at December 31, 2019	Additions	Disposals / Transfers	Balance at December 31, 2020
Leasehold Improvements – 20 years	$4,403,906	$ 2,206,663	$ -	$ 6,610,569
Leasehold Improvements – 15 years	2,700,140	-	(2,700,140)	-
Leasehold Improvements – 5 years	21,780	-	(21,780)	-
Computer Systems	1,257,713	597,988	(384,427)	1,461,274
Motor Vehicle	5,385	-	(5,385)	-
Furniture & Equipment	1,040,297	499,134	(354,970)	1,184,461
Total	$ 9,429,221	$ 3,293,785	$ (3,466,702)	$ 9,256,304

Accumulated amortization	Balance at December 31, 2019	Amortization expense	Disposals / Transfers	Balance at December 31, 2020
Leasehold Improvements – 20 years	$ -	$ 137,740	$ -	$ 137,740
Leasehold Improvements – 15 years	2,700,140	-	(2,700,140)	-
Leasehold Improvements – 5 years	21,780	-	(21,780)	-
Computer Systems	737,707	261,248	(384,427)	614,528
Motor Vehicle	5,385	-	(5,385)	-
Furniture & Equipment	682,224	123,275	(354,970)	450,529
Total	$ 4,147,236	$ 522,263	$ (3,466,702)	$ 1,202,797

	Net book value December 31, 2019	Net book value December 31, 2020
Leasehold Improvements – 20 years	$ 4,403,906	$6,472,829
Computer Systems	520,006	846,746
Motor Vehicle	-	-
Furniture & Equipment	358,073	733,932
Total	$ 5,281,985	$ 8,053,507

7. Commitments:

The Health Unit is committed under operating leases for office equipment and rental property.

Future minimum payments to expiry are as follows:

2022	$ 708,924
2023	677,178
2024	672,092
2025	713,536
2026	730,658
Thereafter	$ 10,870,261

8. Contingencies:

From time to time, the Health Unit is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts. These claims may be covered by the Health Unit's insurance. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely, and it is estimable.

9. Accumulated Surplus:

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2021	2020
Surpluses:		
Invested in tangible capital assets	$ 7,524,760	$ 8,053,507
Net transfer to surplus	(66,378)	(340,873)
Unfunded:		
Demand loan	(4,026,743)	(4,200,000)
Post-employment benefits	(3,057,800)	(2,882,300)
Total surplus	373,839	630,334
Reserves set aside by the Board:		
Employment costs	176,077	176,077
Total reserves	176,077	176,077
Accumulated surplus	$ 549,917	$ 806,411

10. Other income:

The following revenues are presented as other income in the statement of operations:

	2021 Budget	2021	2020
Collaborative project	$ 303,560	$ 409,739	$ 131,891
Food handler training	10,000	3,094	7,376
Miscellaneous	400,094	42,197	190,953
OHIP	208,000	130,397	145,725
Vaccines	54,200	21,787	30,980
	$ 975,854	$ 607,215	$ 506,925

11. Other expenses:

The following expenditures are presented as other expenses in the statement of operations:

	2021 Budget	2021	2020
Communications	$ 183,296	$ 219,536	$ 244,371
Health promotion/advertising	435,203	194,485	227,702
Miscellaneous	293,248	253,155	261,408
Postage and courier	44,366	24,024	39,138
Printing	252,710	198,752	52,230
Staff development	228,306	77,235	110,805
Capital funding - SOAHAC	-	160,500	-
	$ 1,437,129	$ 1,127,707	$ 935,654

12. Financial Risks:

(a) Interest rate risk

The Health Unit has debt with variable interest rates based on prime plus a margin. As a result, the Health Unit is exposed to interest rate risk due to fluctuations in the prime rate.

(b) Other risks

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. During the year, the Middlesex-London Health Unit has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Continued to support a comprehensive incident management (IMS) response and redeployment of a majority of staff to support COVID-19 related assignments;
- Maintained a 7-day-a-week call centre, case management, and contact tracing throughout the London and Middlesex community, and provided ongoing support to the COVID-19 Assessment Centres;
- Continued to provide prioritized essential public health services to the community;
- Maintained mandatory working from home requirement for those staff able to do so; and
- Initiated the COVID-19 vaccine program including implementation of mass vaccination clinics and mobile team deployment.

These factors continue to present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. Management is actively monitoring the effect of the pandemic on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the pandemic and the global responses to curb its spread, the Health Unit is not able to fully estimate the effects of the pandemic on its results of operations, financial condition, or liquidity at this time.

Middlesex-London Health Unit

Audit Findings Report
for the year ended
December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared on June 13, 2022 for
presentation on July 7, 2022

kpmg.ca/audit

KPMG

Table of contents

Audit Quality: How do we deliver audit quality?	**3**
Audit highlights	**4**
Materiality	**6**
Audit risks and results	**7**
Uncorrected and corrected audit misstatements	**10**
Financial statement presentation and disclosure	**11**
Appendices	**12**

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Our refreshed Values

What we believe

Integrity
We do what is right.

Excellence
We never stop learning and improving.

Courage
We think and act boldly.

Together
We respect each other and draw strength from our differences.

For Better
We do what matters.

Audit Quality: How do we deliver audit quality?

Transparency report

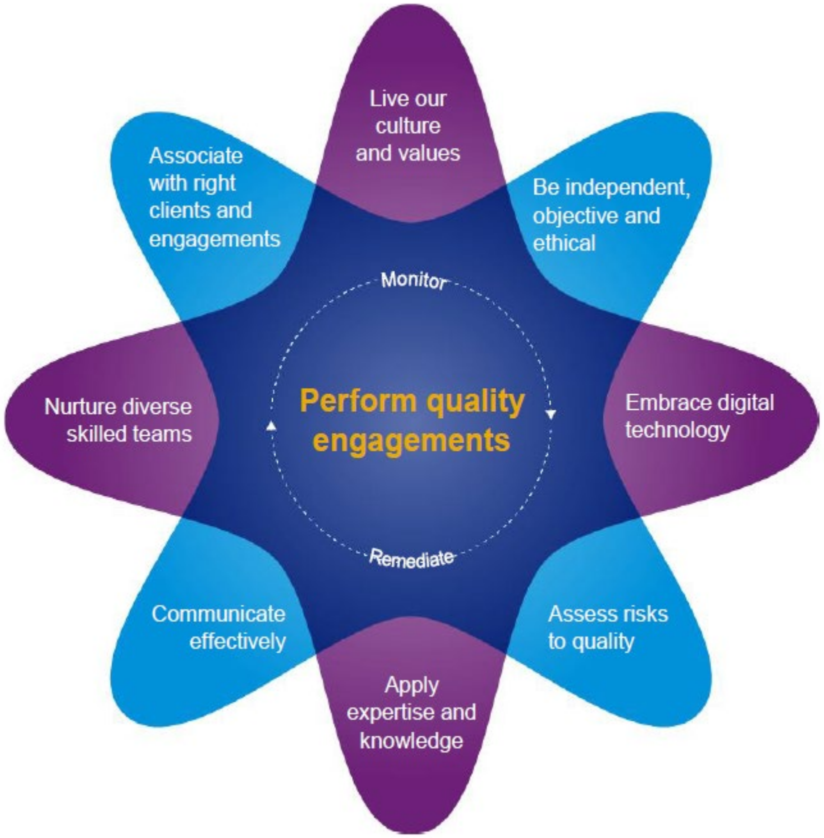
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

‘**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.**



Visit our **Resources** page for more information.

Doing the right thing. Always.

Audit highlights

Purpose of this report[1]

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

Status of the audit

As of June 13, 2022, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Finalization of manager and partner review;
- Obtaining updated legal responses;
- Obtaining the signed management representation letter;
- Completing our discussions with the Finance and Facilities committee; and
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Finance and Facilities 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 provided in Appendix: Draft Auditors' Report, will be dated upon the completion of any remaining procedures.

Significant changes from the audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Going concern

No matters to report.

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

Materiality

We determine materiality to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. For the current year, materiality of $1,177,000 (2020 - $1,076,000) has been set based on total expenses for the year. Our audit misstatement posting threshold has been set at $58,850 (2020 - $53,800). A threshold of $235,400,000 has been used for reclassification misstatements in the current year.

Refer to page 6.

Significant risks and other significant matters

There are no significant findings to communicate related to significant risks or other significant matters.

Refer to pages 7 – 9 for presumed significant risks and other areas of focus.

Uncorrected audit misstatements

No matters to report.

Refer to page 10.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Significant accounting policies and practices

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

Independence

We are independent with respect to Middlesex-London Health Unit (MLHU), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

.

Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality).

Materiality determination	Comments	Amount
Materiality	The corresponding amount for the prior year's audit was $1,076,000	$1,177,000
Benchmark	Based on preliminary total expenses for the year ended December 31, 2021 This benchmark is consistent with the prior year.	$58.8 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2.8%	2.0%
Audit Misstatement Posting Threshold	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $53,800. A higher threshold has been used for reclassification misstatements. The corresponding amount for the previous year's audit was $215,200.	$58,850 Threshold for reclassification: $235,400

.

We will report to the Finance and Facilities Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

Audit risks and results

We highlight our significant findings in respect of **significant risks**, as well as any additional significant risks identified.

Significant risk	New or changed?	Estimate?
Fraud risk from revenue recognition: This is a presumed fraud risk. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when performance is measured in terms of year-over-year growth or profit.	No	No significant estimates noted.
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.	No	No significant estimates noted.

Our response

Fraud risk from revenue recognition: We have rebutted this fraud risk as it is not applicable to MLHU where performance is not measured based on earnings and revenue recognition does not involve significant judgments.

Fraud risk from management override of controls: As the risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk. These procedures included testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Significant findings

We did not identify any significant findings as a result of our testing.

Audit risks and results (continued)

We highlight our significant findings in respect of **other areas of focus**, as well as any additional areas of focus identified.

Other area of focus	New or changed?	Estimate?
Grants and other revenue MLHU receives funding from various levels of government. The dollar value of grants and other revenue make these significant financial reporting captions.	No	No significant estimates noted.
Salaries and benefits The dollar value of salaries and benefits make these significant financial reporting captions.	No	No significant estimates noted.

Our response

KPMG performed the following procedures over grants and other revenue:

- Performed substantive analytical procedures over grants and other revenues.
- Agreed significant grants from all levels of government to underlying funding agreements or other supporting documentation. This includes COVID-19 funding received and receivable.
- Obtained supporting documentation for significant deferred revenue balances at year-end.

KPMG performed the following procedures over salaries and benefits:

- Performed substantive analytical procedures over salaries and benefits, including vouching new hires and terminations to supporting documentation.

Significant findings

We did not identify any significant findings as a result of our testing.

Audit risks and results (continued)

Other area of focus	New or changed?	Estimate?
Post-employment benefits liability The dollar value of the post-employment benefits liability makes this a significant financial reporting caption. The liability also represents an estimate.	No	Yes, there is estimation uncertainty due to assumptions and estimates used by the actuary in calculation the post-employment benefits liability.

Our response

KPMG performed the following procedures over post-employment benefits liability:

– Obtained a copy of the actuarial report directly from the actuary and agreed the liability per the report to the post-employment benefits liability per the statement of financial position.

– Obtained corroborative evidence to support the reasonableness of assumptions provided by management to the actuaries that are used in developing the valuation and calculating the liability.

– Reviewed financial statement disclosures to gain assurance over compliance with Canadian public sector accounting standards.

Significant findings

We did not identify any significant findings as a result of our testing.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Corrected audit misstatements

The management representation letter includes all misstatements identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Refer to Appendix 3.

Financial statement presentation and disclosure

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

We also highlight the following:

Financial statement presentation - form, arrangement, and content	Adequate
Concerns regarding application of new accounting pronouncements	No concerns at this time regarding future implementation
Significant qualitative aspects of financial statement presentation and disclosure	None noted.

Appendices

Content

Appendix 1: Other required communications

Appendix 2: Draft auditors' report

Appendix 3: Management representation letter

Appendix 4: Upcoming changes to auditing standards

Appendix 5: Current developments

Appendix 6: Audit and assurance insights

Appendix 7: Why audit committees should know about asset retirement obligations

Appendix 1: Other 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:

Audit Quality in Canada	Engagement terms
The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year: • CPAB Audit Quality Insights Report: 2021 Interim Inspections Results • CPAB Audit Quality Insights Report: 2020 Annual Inspections Results	A copy of the engagement letter and any subsequent amendments has been provided to the Finance and Facilities Committee in prior years. An extension was signed in the current year.

Appendix 2: Draft auditors' report

INDEPENDENT AUDITORS' REPORT

To the Chair and Members, Middlesex-London Board of Health

Opinion

We have audited the financial statements of Middlesex-London Health Unit (the "Health Unit"), which comprise:

- the statement of financial position as at December 31, 2021
- 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 Health Unit as at December 31, 2021, 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 Health Unit 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 Health Unit'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 Health Unit or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Health Unit'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 Health Unit'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 Health Unit'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 Health Unit's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

Date

Appendix 3: Management representation letter

(Letterhead of Client)

KPMG LLP
1400-140 Fullarton Street
London, Ontario N6A 5P2

July 7, 2022

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Middlesex-London Health Unit ("the Entity") as at and for the period ended December 31, 2021.

General:

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

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

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016 and amended December 9, 2021, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

   e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

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

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

Going concern:

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

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

Misstatements:

11) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Non-SEC registrants or non-reporting issuers:

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

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

Yours very truly,

David Jansseune, Assistant Director, Finance

Emily Williams, Chief Executive Officer

cc: Finance and Facilities Committee

Attachment I – Definitions

Materiality

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

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

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

Fraud & error

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

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

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

Attachment II – Summary of Audit Misstatements Schedule(s)

Summary of Corrected Audit Misstatements

	Statement of operations	Balance Sheet		
Description	**Increase (Decrease)**	**Assets Increase (Decrease)**	**Liabilities Increase (Decrease)**	**Equity Increase (Decrease)**
To reclassify an amount due to the City of London from Accounts payable and accrued liabilities for financial statement presentation purposes	-	-	2,189,701 (2,189,701)	-
Total corrected misstatements	**-**	**-**	**-**	**-**

Appendix 4: Upcoming changes to auditing standards

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

Standard	Key observations
Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement*	Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement* has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021. The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include: – Enhanced requirements relating to exercising professional skepticism – Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls – Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls – Introduction of scalability – Incorporation of considerations for using automated tools and techniques – New and revised concepts and definitions related to identification and assessment of risk – Strengthened documentation requirements CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.

Appendix 5: Current developments

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

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

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

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

Appendix 6: Audit and assurance insights

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

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

Appendix 7: Why audit committees should know about asset retirement obligations

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Why Audit Committees should know about Asset Retirement Obligations

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Table of content

a. Completeness of liabilities 4

b. Legal obligations 5

c. Completeness of assets 6

d. Technical expertise 7

e. Financing repercussions 8

f. ESG Implications 9

Glossary 10

Municipalities have evolved significantly over the last two decades and this evolution has escalated over the last two years due to the huge push towards digital transformation. Municipalities have come to a refreshed realization about the dynamic change it needs from their citizens resulting in a push towards a citizen-centric approach to defining their goals and objectives.

With all this change, the citizens are looking for new and improved ways to obtain information from the municipalities and public sector entities generally. They are looking for information that is timely, accurate and accessible. For instance, more and more municipalities are moving towards quarterly financial reporting to provide more timely information to stakeholders.

The finance function within municipalities tend to focus a large portion of their resources on their budget-setting process each year, relative to financial reporting. This budget sets out the municipality's operating and capital spending plan for the next year, leading to the determination of the necessary tax levy to support the planned spend. It is necessarily a cash-based document, which leads to difficulty in comparing it to a municipality's financial results, which are prepared on a basis prescribed by the Chartered Professional Accountants Canada. The annual financial statements are presented on an accrual basis in accordance with Public Sector Accounting Standards (PSAS). This disconnect between the cash basis and accrual basis often makes it difficult for 'Those Charged With Governance' (TCWG) to fully understand the actual financial results since relatively more resources are deployed towards the creation of the budget than the presentation of the financial results. While there are quite a few intersections between the budget-based reporting and PSAS reporting, there are many differences that can come in the way of effective municipal financial management and oversight.

Please note that the discussion in this paper is relevant for all public sector entities that report their financial results in accordance with PSAS. While the specific examples in this paper focus on municipalities, the same implications can be applied to other entities with slight modification to incorporate the differences in operations in the various types of public sector entities.

With that in mind, let's talk about a new reporting standard which is required to be implemented by public sector entities for years ending on or after April 1, 2022 and why it is important for TCWG to understand the implications of this new standard. This standard pertains to Asset Retirement Obligations (ARO) and requires public sector entities to set up a liability related to the legal obligation for retiring a tangible capital asset. The assets that fall into this standard are the ones that are controlled by the public sector entity and includes leased assets. This standard has far-reaching impacts for municipalities and requires proper attention from TCWG, in order to exercise appropriate oversight over the financial reporting process. We have highlighted some key items here:

(a) Completeness of liabilities
(b) Legal obligations
(c) Completeness of assets
(d) Technical expertise
(e) Financing repercussions
(f) Environmental Social Governance (ESG) implications

Let's talk about these one by one!

a. Completeness of liabilities

In many cases, the liability associated with AROs has not been recorded within the financial records of the public sector entities which means that these entities are underreporting their obligations. It is possible that certain public sector entities might have some of these obligations included within their legal obligations however it is unclear how these are being tracked and whether the process used to determine the magnitude of these legal obligations is accurate.

Not only is it important to have accurate and complete information for the measurement and recognition of these liabilities for financial reporting purposes, but the same information is also equally important for financial planning and for effective financial management of the municipalities.

One of the tools used by municipalities in order to perform long term financial planning is through reserves and reserve funds to ensure they have sufficient funds set aside for future needs. If a municipality does not have a clear understanding of their ARO liability, it would hinder their ability to assess the adequacy of their reserve funds. Cash flow management would also be impacted due to the potential unplanned outflow in any given year.

b. Legal obligations

Next, let's talk about legal obligations. It is important to understand that the obligation related to the ARO is a legal obligation. However, unlike some of the traditional legal obligations, where there might be uncertainty around the outcome of the legal item, there is no uncertainty related to the existence of the future obligation related to an ARO. This means that the future settlement is guaranteed for an ARO and the uncertainty in this situation is limited to the quantification or the amount of the future settlement.

Not getting a good handle on the ARO liability also increases the risk of negative legal implications for the municipality in the future. As an example, if there is a contaminated site that requires a municipality to perform clean up to ensure the safety of the residents, but this contamination is not rectified in a timely and reasonable manner as required by environmental regulations. This could result in severe legal implications for the municipality due to the hazardous nature of these materials and potential negative health impact on the residents.

The new ARO reporting standard also includes the concept of promissory estoppel as part of the legal liability assessment. For your convenience, we have included the definition of promissory estoppel in the glossary at the end of this document.

The key point that is important to emphasize is that it would be important to engage a legal expert as part of the ARO implementation team as this assessment might be outside the expertise of the core finance team members.

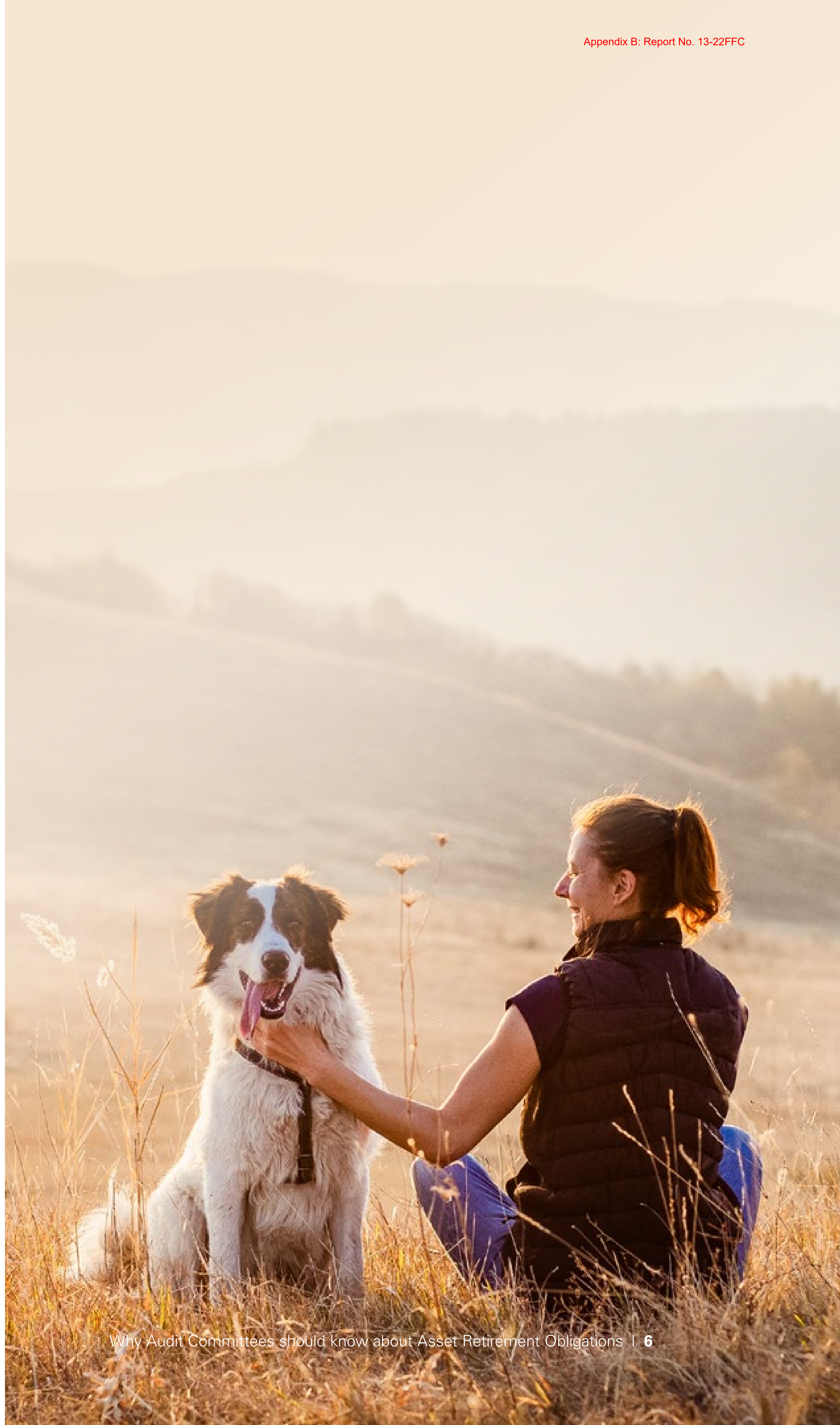
c. Completeness of assets

When Canadian municipalities first began reporting their tangible capital assets as a component of their balance sheets back in 1999, it was apparent that many municipalities did not have good historical data on the assets that they owned at that time and consequently many still do not have a complete listing of owned assets. A comprehensive approach to asset management brings numerous benefits to local and regional governments and assists them in being able to demonstrate that taxpayers get good value from each capital asset they fund, in part or in whole.

This is a contributing factor as to why there are regulatory requirements for good asset management practices. For example, the Federal Gas Tax Agreement requires municipalities to demonstrate a strong asset management system. In absence of a well-thought-out asset management plan, local municipalities could put at risk the operational effectiveness of their assets, public health and safety and overall public confidence in the local government. A solid asset management approach helps to ensure reliability of the services offered by a local government and thus instill more confidence from the public.

Asset management itself is quite a broad topic of discussion for municipalities, perhaps the above description provides an understanding of why there is so much emphasis placed on good asset management. As important as it already was to have a complete listing of tangible capital assets in order to develop a reasonable asset management plan, it has become even more so with the implementation of financial reporting standards for AROs. This due to the fact that AROs are based on identifiable tangible capital assets controlled by the Entity. If the asset listing is not complete or not up to date, any obligations relating to assets not being reported would also not be captured. If items are missed in the scoping and measurement of AROs, this results in a significant risk for the municipalities where the corresponding liabilities will be incomplete. There might be other consequences of missing these liabilities for municipalities depending on the nature and extent of error such as cash-flow management, environmental and social implications.

The ARO standard does not require entities to assess their overall asset management approach for reasonableness. The ARO standard also does not require entities to undertake an asset management exercise to make sure they have a complete inventory of all of their assets. However, it is quite clear that the entities who have an accurate and complete listing of their assets through a well-thought-out asset management plan are the ones who will be in the best position to ensure completeness of their AROs.



d. Technical expertise

Another matter to consider and assess is the quality of the information that the entity has regarding their assets. How well does the entity understand its assets including the nature and components of its assets? For the finance team to scope and measure the ARO associated with different assets, they would need clear guidance from subject matter experts that understand the technical aspect of this determination.

Finance teams would likely have the requisite expertise relating to the cost and fair value of these assets but may not be as aware of the legal, environmental, and / or other obligations attached to these assets. The knowledge of subject matter experts will be to assist the finance team in this area.

In addition to legal experts, other experts on which the exercise may depend upon include individuals from the operations team, mechanical and engineering teams, etc.

It would be important to have a discussion with the finance team to identify which subject matter experts are considered necessary based on their initial assessment in order to make optimal resource allocations. It would also be important to note that these needs could change as the implementation project matures.

e. Financing repercussions

Even though not directly related to ARO, financing repercussions should also be front of mind with overall asset management, particularly when planning for asset replacement / remediation / maintenance. In different provinces in Canada, there are restrictions on the amount of borrowing for local municipalities. In Ontario, for instance, long-term borrowing is restricted to capital investments and is also subject to a prescribed maximum level based on a preset formula.

Local municipalities use debt to help finance large capital projects. Local municipalities conduct long-term financial planning through the adoption of a multi-year capital plan and a long-term fiscal plan that would typically consider the amount and timing of debt necessary to support the planned expenditures over the term of Council. It also becomes important to understand the useful life of the asset in order to match the cost to the period over which the benefits are received. This provides more affordable financing by matching the repayment term to the economic useful life of the project, instead of funding the entire cost from current revenues.

In recent years, we have noted the trend of the issuance of green bonds, with the province of Ontario reaching a whopping $10.75 billion in green bonds in 2021. Other local municipalities are following suit and this move is expected to continue. It would be important to have a good grasp on the asset management plans before these green bonds are attached to environmentally friendly infrastructure capital projects. Talking about green bonds, let’s move into other ESG considerations.

f. ESG Implications

It is quite interesting that the concept of ARO touches all three aspects of the ESG spectrum i.e., environmental, social and governance. Physical contamination caused by hazardous materials such as asbestos or the toxins and leachate from landfills are all contributors towards damaging the environment.

Inappropriate or sub-optimal treatment of these hazardous materials can have significant health detriments which becomes a social responsibility issue whereby the expectation is that public sector entities, especially municipalities would ensure appropriate level of remediation for these hazardous items. The heightened fiduciary responsibility in the public sector environment especially with the elected officials with the municipalities creates a huge need for an appropriate level of governance in place.

The ESG implications for ARO have gained a lot of traction in recent years. These discussions have become more important now as public sector entities work towards the implementation of this new standard. While it is important to embrace ESG into our strategic planning, it will be critical to ensure that this planning is comprehensive and well thought out. As daunting as this task can seem, the key is to have a structured approach to map out what is relevant for the organization and to design a plan to tackle these implications.

In conclusion, while the ARO standard implementation may seem like any other accounting standard implementation, it has far reaching implications from a municipal operational and governance perspective requiring consideration and input from the organization as a whole, not just its finance team. It is therefore critical to take the time to understand these implications and design a plan to address them in a meaningful manner.

We would be more than happy to continue this discussion with you. We are currently running customized sessions for different entities to help them understand these various implications of AROs and how to best address them.

Special thanks to Kevin Travers, Partner KPMG Enterprise and Bailey Church, Partner Accounting Advisory Services for their contributions to this publication.

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Glossary

Public Sector

Public sector refers to governments, government components, government organizations and partnerships. Each of these entities is a "public sector entity". A government component is an integral part of government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued. A government organization is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued. Public sector organizations have a higher accountability to the taxpayer – above and beyond the traditional fiduciary duty.

Promissory estoppel

The elements of a promissory estoppel claim are "(1) a promise clear and unambiguous in its terms; (2) reliance by the party to whom the promise is made; (3) [the] reliance must be both reasonable and foreseeable; and (4) the party asserting the estoppel must be injured by his reliance."

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