

**AGENDA**  
**MIDDLESEX-LONDON BOARD OF HEALTH**  
**Finance & Facilities Committee**

Microsoft Teams  
Thursday, June 3, 2021 at 9:00 a.m.

**1. DISCLOSURE OF CONFLICTS OF INTEREST**

**2. APPROVAL OF AGENDA** – June 3, 2021

**3. APPROVAL OF MINUTES** – April 1, 2021

**4. NEW BUSINESS**

- 4.1. Vaccination Site Emergency Purchase Award (Report No. 14-21FFC)
- 4.2. 2020 Draft Financial Statements (Report No. 15-21FFC)

**5. OTHER BUSINESS**

- 5.1. July Finance and Facilities Committee meeting
- 5.2. Next meeting: to be confirmed

**6. CONFIDENTIAL**

The Finance and Facilities Committee will move into a confidential session to consider matters regarding labour relations or employee negotiations, personal matters about an identifiable individual, including municipal or local board employees, and 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.

**7. ADJOURNMENT**



**PUBLIC MINUTES**  
**FINANCE & FACILITIES COMMITTEE**  
Microsoft Teams  
Thursday, April 1, 2021 at 9:00 a.m.

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**MEMBERS PRESENT:** Mr. Matt Reid (Chair)  
Ms. Maureen Cassidy  
Ms. Tino Kasi  
Mr. Aaron O'Donnell

**REGRETS:** Ms. Aina DeViet

**OTHERS PRESENT:** Dr. Christopher Mackie, Secretary-Treasurer/Medical Officer of Health  
Ms. Stephanie Egelton, Executive Assistant to the Board of Health and Communications Coordinator (Recorder)  
Ms. Emily Williams, Director, Healthy Organization/Interim CEO  
Mr. Mirek Pawelec, Manager, Finance  
Mr. Stephen Turner, Director, Environmental Health and Infectious Disease

Chair Matt Reid called the meeting to order at **9:08 a.m.**

**DISCLOSURES OF CONFLICT OF INTEREST**

Chair Reid 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. Aaron O'Donnell, that the *AGENDA* for the April 1, 2021 Finance & Facilities Committee meeting be approved.**

Carried

**APPROVAL OF MINUTES**

It was moved by **Ms. Cassidy, seconded by Mr. O'Donnell, that the *MINUTES* of the March 4, 2021 Finance & Facilities Committee meeting be approved.**

Carried

**NEW BUSINESS**

**Q4 Financial Update and Factual Certificate (Report No. 10-21FFC)**

Ms. Emily Williams, Director, Healthy Organization/Interim CEO and Mirek Pawelec, Manager, Finance presented this report. This financial update showed lower operational staffing levels, limited travel, limited personal development and lower revenue because of changes to programming during the pandemic. It was also noted that the COVID reclassification column represents seconded employees to the COVID program.

It was moved by **Ms. Tino Kasi, seconded by Mr. O'Donnell, that the Finance & Facilities Committee make a recommendation to the Board of Health to receive Report No. 10-21FFC re: "Q4 Financial Update and Factual Certificate" for information.**

Carried

**Canada Life Benefits – Renewal Rates (Report No. 11-21FFC)**

Ms. Williams and Mr. Pawelec presented this report. It was noted that the insurance industry’s rates have increased, which is reflected in this report. The increase in costs to benefits are 0.3% or \$3,654 annually.

It was moved by **Ms. Cassidy, seconded by Ms. Kasi**, *that the Finance & Facilities Committee make a recommendation to the Board of Health to approve the renewal of the group insurance rates administered by Canada Life as described in Report No. 11-21FFC re: “Canada Life Benefits – Renewal Rates”.*

Carried

**Health Unit Insurance Policy Renewal (Report No. 12-21FFC)**

Ms. Williams and Mr. Pawelec presented this report. It is noted that there was an increase of 21% for Property & Casualty while Cyber-Risk is expected to increase by 31%, due to insurance market pressures in 2020 and anticipated pressures in 2021.

It was moved by **Ms. Cassidy, seconded by Ms. Kasi**, *that the Finance & Facilities Committee make a recommendation to the Board of Health to approve the renewal of the Health Unit’s insurance as outlined in Report No. 12-21FFC re: “Health Unit Insurance Policy Renewal.”*

Carried

**2021 COVID-19 Vaccine Related Costs (Report No. 13-21FFC)**

Ms. Williams presented this report. It was noted that it is approximately \$2 million per month to operate the vaccine program, and the Health Unit is using budgeted operational funds in the form of redeployed staff as directed by the Ministry of Health.

It was moved by **Ms. Cassidy, seconded by Ms. Kasi**, *that the Finance & Facilities Committee make a recommendation to the Board of Health to:*

- 1) Receive Report No. 13-21FFC re: “2021 COVID-19 Vaccine-Related Costs” for information;*
- 2) Approve the 2021 COVID-19 Vaccine-related budget, outlined in Appendix B, as a one-time expense within the 2021 Annual Service Plan submission to the Ministry of Health.*

Carried

**OTHER BUSINESS**

The next meeting is Thursday, May 6, 2021.

**ADJOURNMENT**

At **9:26 a.m.**, it was moved by **Mr. O’Donnell, seconded by Ms. Cassidy**, *that the meeting be adjourned.*

Carried

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**MATTHEW REID**  
Chair

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**CHRISTOPHER MACKIE**  
Secretary-Treasurer



TO: Chair and Members of the Finance and Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health and Emily Williams, Chief Executive Officer (Interim)

DATE: 2021 June 3

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## VACCINATION SITE EMERGENCY PURCHASE AWARD

### **Recommendation**

*It is recommended that the Finance and Facilities Committee make a recommendation to the Board of Health to receive Report No. 14-21FFC, re: “Vaccination Site Emergency Purchase Award” for information.*

### **Key Points**

- An emergency procurement award was issued to fit up the fourth mass vaccination site in London and Middlesex.
- Due to time pressures, in lieu of a formal procurement process, six quotes were received in a one-week window to attend to a competitive process.
- Given the cost of HVAC and other utilities, the shift in operating model offers a Return on Investment (ROI) of less than 4 months.

### **Background**

A forecasted increase in vaccine supply from the province prompted Middlesex-London Health Unit staff to begin preparations to open a fourth mass vaccination site. The Earl Nichols Recreation Centre location was selected as the next site to open as per Report No. 11-21 presented to the Board of Health February 18<sup>th</sup>, 2021. The site was set up in accordance to the existing vaccine delivery models in place at the Western Fair Agriplex, the Caradoc Community Centre and the North London Optimist Community Centre. These models move the public from station to station, including screening, registration, waiting area, vaccination, recovery waiting, and check-out, prior to exiting the building. The initial layout for the Earl Nichols Arena is attached in [Appendix A](#). The site was initially set up in March but shuttered due to a lack of vaccine supply.

Clinic leadership identified the need for additional registration stations in mid-April following load-testing at the North London Optimist Community Centre and Caradoc Community Centre. Additional stations were added at the existing mass vaccination sites to improve client flow. It was determined that these changes would also be necessary to open the Earl Nichols Recreation Centre; however, the need for additional registration stations at the new site could not be supported in the existing footprint. It would require the expansion of the registration stations into Pad B of the Arena, and the use of this additional pad would require upgrades to electrical, IT infrastructure and HVAC systems, requiring one-time costs of \$21,000 and recurring costs of \$10,000 per month.

This situation prompted the Procurement and Operations team to investigate alternate mass vaccination operating models in neighbouring health units. These models were described to be more client-centric, with vaccine processes revolving around the client who was positioned in a ‘centralized hub’, resulting in reduced wait times and optimized client throughput. A site visit was coordinated with clinic leadership to substantiate these claims on April 20<sup>th</sup> and upon review were seen to be an excellent fit to meet the revised needs at Earl

Nichols. New furniture was required to support this shift to the ‘centralized hub’ operating model; the new layout is identified in [Appendix B](#).

### **Furniture Purchases**

Five suppliers were requested to provide an informal quote on furniture to support the vaccination site. The quotes included 22 registration style booths and 84 vaccination pods with a delivery date of May 17<sup>th</sup>. Six quotes were received from these suppliers by May 2<sup>nd</sup>. An order was issued May 3<sup>rd</sup> to support the clinic opening on May 25<sup>th</sup>.

### **Business Case**

While the return on investment (ROI) for this model would appear to be in the range of 4 months, this calculation does not include the increase in output experienced by other health units utilizing similar models. The initial vaccination target for this site was 2000 vaccinations per day. However, higher outputs may be achievable with this new model. The final output will be determined as vaccinations are ramped up at this facility.

Under the authority of the CEO, the emergency procurement of furniture, as defined in Policy G-230, Appendix A: Middlesex-London Health Unit Procurement Protocol, Section 3.3, was required to support the expansion of the COVID-19 mass vaccination sites. This purchase, outside of Procurement Protocols, was necessary as a delay would create an unexpected interruption of an essential public service. This potential delay meets the definition of ‘emergency’ in the procurement protocols.

### **Next Steps**

With the exception of the items identified in this report, single source contract awards will be evaluated on a case-by-case basis and will be brought to the attention of the Finance and Facilities Committee and Board of Health for update or approval.

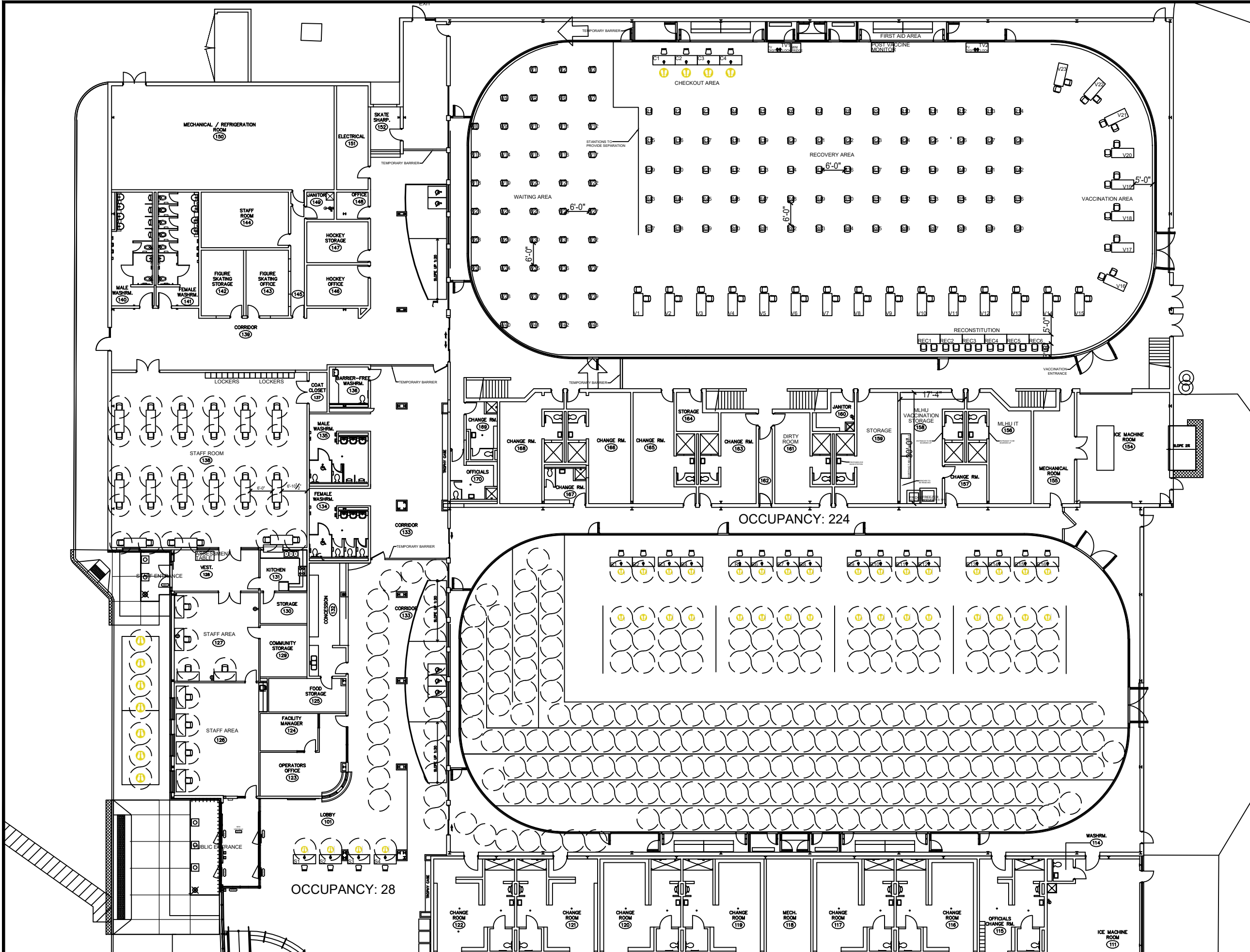
This report was prepared by the Procurement and Operations Team, Healthy Organization Division.



Christopher Mackie, MD, MHSc, CCFP, FRCPC  
Medical Officer of Health



Emily Williams, BScN, RN, MBA  
Chief Executive Officer (Interim)



**GENERAL NOTES**

NO.	DATE:	REVISIONS

CONSULTANT:

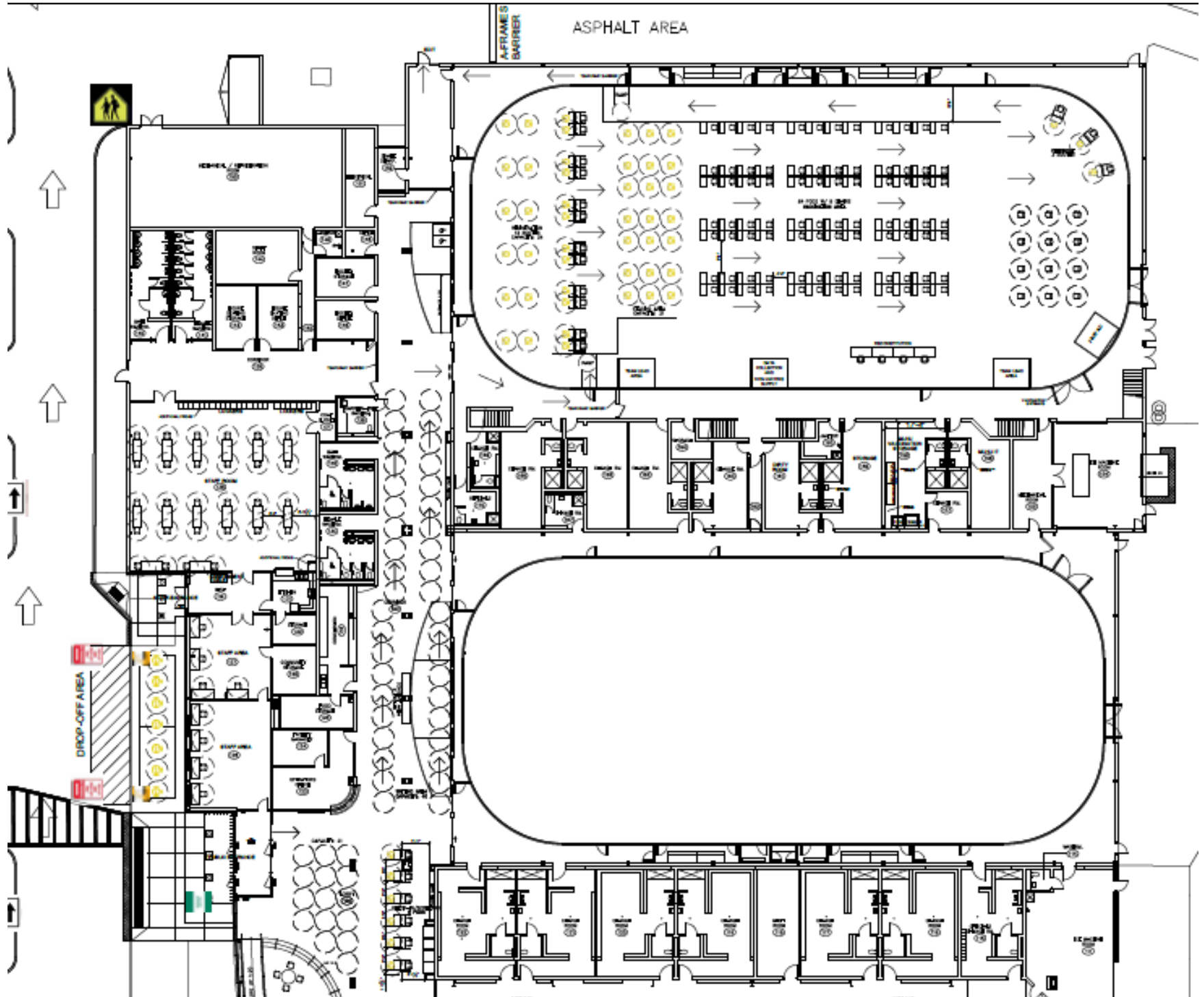
CONTRACTOR:

**FACILITIES DESIGN & CONSTRUCTION**

**PROJECT DESCRIPTION:**  
**EARL NICHOLS ARENA**  
499 HOMEVIEW ROAD

DRAWING NAME:	Rink B - Occupancy
SCALE:	N.T.S.
DRAWN BY:	AK
CHECKED BY:	
DATE:	2021.04.19
	DRAWING NO.

**A-1**







TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health  
Emily Williams, CEO (Interim)

DATE: 2021 June 3

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## 2020 DRAFT FINANCIAL STATEMENTS

### **Recommendation**

*It is recommended that the Finance and Facilities Committee recommend that the Board of Health review and approve the audited Financial Statements of the Middlesex-London Health Unit, Year Ended December 31, 2020, as appended to Report No. 15-21FFC.*

### **Key Points**

- The draft financial statements for the Middlesex-London Health Unit (MLHU) relating to the operating period January 1–December 31, 2020, are attached as [Appendix A](#).
- Preparation of the financial statements is the responsibility of MLHU’s management. The financial statements have been prepared in compliance with legislation and in accordance with Canadian public sector accounting standards.
- 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” contained within the draft financial statements ([Appendix A](#)). As outlined in the “Statement of Financial Position,” found on page 5, as of December 31, 2020, the Health Unit has approximately \$6.0 million in cash and near-cash financial assets to offset its \$6.3 million in short-term financial liabilities, \$4.2 million of bank indebtedness and \$2.9 million in long-term liabilities. As of this date, these financial liabilities of \$13.4 million include the following:

#### Short-term liabilities (often paid during the next operating year):

- 1) \$1.4 million in amounts owing to the Province of Ontario and the Government of Canada
- 2) \$3.1 million in unpaid accounts payable and accrued liabilities
- 3) \$1.8 million in accrued wages and benefits

#### Bank indebtedness:

- 4) \$4.2 million in demand instalment loan

#### Long-term liabilities (often extending past the next operating year):

- 5) \$2.9 million in post-employment benefits



With regard to the \$2.9 million in post-employment benefits liability, this is the estimated 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.

The non-financial assets, which total \$8.3 million, include the net book value of the Health Unit's tangible capital assets, such as leasehold improvements, computer systems, and prepaid expenses. During the year, the Health Unit made a significant investment of \$2.2 million into long-term leasehold improvements, related to the fit-up of premises at Citi Plaza. The buildout was financed during the year in part by an increase in bank indebtedness. Note 6 on pages 15 and 16 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, page 17, note 9.

The "Statement of Operations and Accumulated Surplus," which details the Health Unit's revenues and expenditures for 2020, is found on page 6 of the financial statements. Total revenue of \$38.8 million is comprised of \$38.2 million (98.4%) in grant revenue from four sources: the Province of Ontario (\$30.6 million, or 80.3% of grant revenue), the Government of Canada (\$0.3 million, or 0.7%), the Corporation of the City of London (\$6.1 million, or 16.0%) and the Corporation of the County of Middlesex (\$1.2 million, or 3.0%). The remaining \$0.6 million (1.6% of total revenue) comes from program revenue, interest, and other off-set revenues.

The revenues provide for expenditures of \$38.8 million. The majority of the expenditures are salaries and benefits, which total \$31.5 million (81.3%). The remaining \$7.3 million (18.7%) consists of professional services (6.1%), rent and maintenance (5.5%), materials and supplies (3.1%), charge for amortization of tangible capital assets (1.3%), travel (0.3%) and other expenses (2.4%).

## Audit Findings Report

KPMG's *Audit Findings Report* is attached as [Appendix B](#). A common practice in presenting the report is for the Auditor to meet in private with Committee members, excluding the Medical Officer of Health, Chief Executive Officer, Chief Financial Officer, and all other staff.

Ms. Katie denBok, Partner and Ms. Emily Van Daele, Manager, KPMG LLP, will be present at the June 3rd Finance and Facilities Committee meeting to address any questions regarding this report.

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



Christopher Mackie, MD, MHSc, CCFP, FRCPC  
Medical Officer of Health



Emily Williams, BScN, RN, MBA  
Chief Executive Officer (Interim)

Financial Statements of

**MIDDLESEX-LONDON HEALTH UNIT**

Year ended December 31, 2020



# MIDDLESEX-LONDON HEALTH UNIT

Financial Statements

Year ended December 31, 2020

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## Financial Statements

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## MIDDLESEX-LONDON HEALTH UNIT

Financial Statements

Year ended December 31, 2020

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### 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 Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Health Unit's financial statements.



Emily Williams  
Chief Executive Officer (Interim)



Mirek Pawelec, CPA, CGA  
Manager, Finance

Maureen Cassidy, 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, 2020
- the statement of operations and accumulated surplus for the year then ended
- the statement of change in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Health Unit as at December 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### ***Basis for Opinion***

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

We are independent of the 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



**MIDDLESEX-LONDON HEALTH UNIT**

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
<b>Financial Assets</b>		
Cash	\$ 32,081	\$ 1,414,530
Accounts receivable	452,326	1,182,010
Grants receivable	5,484,210	404,088
	<u>5,968,617</u>	<u>3,000,628</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	1,154,443	2,222,451
Deferred revenue	2,009,192	72,567
Bank indebtedness (note 4)	–	1,500,000
Demand loan (note 5)	4,200,000	–
Due to Province of Ontario	1,364,996	513,307
Due to Government of Canada	53	62,636
Due to The Corporation of the City of London	–	7,767
Due to The Corporation of the County of Middlesex	–	1,477
Accrued wages and benefits	1,827,538	541,447
Post-employment benefits liability (note 2)	2,882,300	2,725,700
	<u>13,438,522</u>	<u>7,647,352</u>
Net debt	(7,469,905)	(4,646,724)
<b>Non-Financial Assets</b>		
Tangible capital assets (note 6)	8,053,507	5,281,985
Prepaid expenses	222,809	212,983
	<u>8,276,316</u>	<u>5,494,968</u>
Commitments (note 7)		
Contingencies (note 8)		
Accumulated surplus (note 9)	\$ 806,411	\$ 848,244

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, 2020, with comparative information for 2019

	2020 Budget	2020	2019
<b>Revenue:</b>			
Grants:			
Ministry of Health	\$ 23,110,124	\$ 28,080,246	\$ 21,788,069
The Corporation of the City of London	6,704,565	6,095,059	6,087,292
Ministry of Children and Youth Services	2,483,313	2,537,762	4,646,438
The Corporation of the County of Middlesex	1,277,057	1,160,961	1,159,484
Government of Canada	443,714	277,028	396,413
	34,018,773	38,151,056	34,077,696
Other:			
Property search fees	3,750	1,300	3,600
Family planning	285,000	108,627	131,093
Investment income	20,000	4,833	50,250
Prenatal class income	–	–	2,438
Other income (note 10)	981,492	506,925	1,173,315
	1,290,242	621,685	1,360,696
<b>Total Revenue</b>	<b>35,309,015</b>	<b>38,772,741</b>	<b>35,438,392</b>
<b>Expenditures:</b>			
Salaries:			
Public Health Nurses	9,997,034	10,040,858	9,759,278
Other salaries	3,419,586	9,042,536	4,188,321
Administrative staff	3,287,442	3,219,411	3,261,572
Public Health Inspectors	2,586,781	2,478,582	2,337,292
Dental staff	1,569,534	850,790	690,998
Medical Officers of Health	533,643	572,114	529,373
	21,394,020	26,204,291	20,766,834
Other Operating:			
Benefits	5,482,060	5,342,696	5,805,038
Professional services	2,662,840	2,358,160	3,797,114
Rent and maintenance	2,081,487	2,143,256	1,665,468
Other expenses (note 11)	1,861,814	935,654	1,173,690
Materials and supplies	999,364	1,199,134	1,453,667
Amortization expense	520,424	522,263	495,965
Travel	307,006	109,120	261,461
	13,914,995	12,610,283	14,652,403
<b>Total Expenditures</b>	<b>35,309,015</b>	<b>38,814,574</b>	<b>35,419,237</b>
Annual surplus (deficit)	–	(41,833)	19,155
Accumulated surplus, beginning of year	848,244	848,244	829,089
<b>Accumulated surplus, end of year</b>	<b>\$ 848,244</b>	<b>\$ 806,411</b>	<b>\$ 848,244</b>

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, 2020, with comparative information for 2019

	2020 Budget	2020	2019
Annual surplus (deficit)	\$ –	\$ (41,833)	\$ 19,155
Acquisition of tangible capital assets, net	–	(3,293,785)	(4,797,776)
Amortization of tangible capital assets	–	522,263	495,965
	–	(2,813,355)	(4,282,656)
Acquisition of prepaid expenses	–	(222,809)	(212,983)
Use of prepaid expenses	–	212,983	277,535
	–	(9,826)	64,552
Change in net debt	–	(2,823,181)	(4,218,101)
Net debt, beginning of year	(4,646,724)	(4,646,724)	(428,623)
Net debt, end of year	\$(4,626,724)	\$ (7,469,905)	\$ (4,646,724)

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

**MIDDLESEX-LONDON HEALTH UNIT**

## Statement of Cash Flows

December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ (41,833)	\$ 19,155
Items not involving cash:		
Amortization expense	522,263	495,965
Change in post-employment benefits liability	156,600	171,000
Changes in non-cash assets and liabilities:		
Accounts receivable	729,684	(615,899)
Grants receivable	(5,080,122)	(62,636)
Prepaid expenses	(9,826)	64,552
Due to Province of Ontario	851,689	128,440
Due to Government of Canada	(62,583)	44,787
Due to The Corporation of the City of London	(7,767)	(276,210)
Due to The Corporation of the County of Middlesex	(1,477)	(52,611)
Accounts payable and accrued liabilities	(1,068,008)	673,589
Deferred revenue	1,936,625	(558)
Accrued wages and benefits	1,286,091	(358,397)
Net change in cash from operating activities	(788,664)	231,177
Financing Activities:		
Proceeds from (repayment of) bank indebtedness	(1,500,000)	1,500,000
Proceeds from demand loan	4,200,000	-
Net change in cash from financing activities	2,700,000	1,500,000
Capital activities:		
Cash used to acquire tangible capital assets	(3,293,785)	(4,797,776)
Net change in cash from capital activities	(3,293,785)	(4,797,776)
Net change in cash	(1,382,449)	(3,066,599)
Cash and cash equivalents, beginning of year	1,414,530	4,481,129
Cash and cash equivalents, end of year	\$ 32,081	\$ 1,414,530

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

## MIDDLESEX-LONDON HEALTH UNIT

Notes to Financial Statements  
Year ended December 31, 2020

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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 Middlesex-London Health Unit provides programs which promote healthy and active living throughout the participating municipalities.

### 1. Significant accounting policies:

The financial statements of the Middlesex-London 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 Middlesex-London 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.

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**1. Significant accounting policies (continued):**

## (c) Employee future benefits:

- (i) The Middlesex-London Health 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 Middlesex-London Health Unit's general ledger.

## (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:

<b>Asset</b>	<b>Useful Life - Years</b>
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.

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

---

**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 Middlesex-London 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 Middlesex-London 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.



**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**2. Employee future benefits:**

The Middlesex-London Health Unit provides certain employee benefits which will require funding in future periods, as follows:

## (a) Post-retirement benefits liability:

The Middlesex-London 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 Middlesex-London 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.

	2020	2019
Accrued employee future benefit obligations	\$ 3,055,100	\$ 3,219,400
Unamortized net actuarial loss	(172,800)	(493,700)
<b>Employee future benefits liability as of December 31</b>	<b>\$ 2,882,300</b>	<b>\$ 2,725,700</b>

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

	2020	2019
Current year benefit cost	\$ 200,000	\$ 190,300
Interest on accrued benefit obligation	107,700	102,200
Amortization of net actuarial loss	57,700	53,300
<b>Total benefit cost</b>	<b>\$ 365,400</b>	<b>\$ 345,800</b>

Benefits paid during the year were \$208,800 (2019 - \$174,800).

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

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**2. Employee future benefits (continued):****(b) Post-retirement benefits liability (continued):**

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

**(i) Discount rate:**

The obligation as at December 31, 2020, of the present value of future liabilities and the expense for the year ended December 31, 2020, are determined using a discount rate of 3.25% (2019 - 3.25%).

**(ii) Medical costs:**

Prescription drug costs are assumed to increase at a rate of 4.3% per year (2019 - 7.0%), varying over 20 years, to an ultimate rate of 4.0%. Other Medical costs are assumed to increase at a rate of 4.3% per year (2019 - 4.0%), varying over 20 years to an ultimate rate of 4.0%. 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 4.7% per year (2019 - 4.0%), varying over 20 years, to an ultimate rate of 4.0%.

**3. Pension agreement:**

The Middlesex-London Health Unit contributes to the OMERS which is a multi-employer plan, on behalf of 300 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 Middlesex-London Health Unit contributed \$2,032,276 (2019 - \$2,026,821) to the OMERS pension plan on behalf of its employees during the year ended December 31, 2020.

The last available report for the OMERS plan was on December 31, 2020. At that time, the plan reported a \$3.2 billion actuarial deficit (2019 - \$3.4 billion), based on actuarial liabilities for \$113.1 billion (2019 - \$107.7 billion) and actuarial assets for \$109.8 billion (2019 - \$104.3 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 \$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 (2019 - \$1,500,000).

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**5. Demand loan:**

During the year, the Middlesex-London 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 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 shall be 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. The first monthly payment is due on January 30, 2021.

Principal repayments are due as follows:

2021	\$	183,882
2022		186,323
2023		188,812
2024		191,349
2025		193,934
Thereafter		3,255,700
		<u>\$ 4,200,000</u>

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**6. Tangible Capital Assets:**

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	587,988	(384,427)	1,461,274
Motor Vehicle	5,385	–	(5,385)	–
Furniture & Equipment	1,040,297	499,134	(354,970)	1,184,461
<b>Total</b>	<b>\$ 9,429,221</b>	<b>\$ 3,293,785</b>	<b>\$ (3,466,702)</b>	<b>\$ 9,256,304</b>

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
<b>Total</b>	<b>\$ 4,147,236</b>	<b>\$ 522,263</b>	<b>\$ (3,466,702)</b>	<b>\$ 1,202,797</b>

	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
<b>Total</b>	<b>\$ 5,281,985</b>	<b>\$ 8,053,507</b>

During the year, the Middlesex-London Health Unit deemed to have disposed of or transferred fully amortized assets with a cost basis of \$3,466,702 (2019 - \$723,653). This includes fully amortized leasehold improvements for premises vacated during the year.

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**6. Tangible Capital Assets (continued):**

Cost	Balance at December 31, 2018	Additions	Disposals / Transfers	Balance at December 31, 2019
Leasehold Improvements – 20 years	\$ –	\$ 4,403,906	\$ –	\$ 4,403,906
Leasehold Improvements – 15 years	2,700,140	–	–	2,700,140
Leasehold Improvements – 5 years	21,780	–	–	21,780
Computer Systems	1,135,581	391,311	(269,179)	1,257,713
Motor Vehicle	5,385	–	–	5,385
Furniture & Equipment	1,492,212	2,559	(454,474)	1,040,297
<b>Total</b>	<b>\$ 5,355,098</b>	<b>\$ 4,797,776</b>	<b>\$ (723,653)</b>	<b>\$ 9,429,221</b>
Accumulated amortization	Balance at December 31, 2018	Amortization expense	Disposals / Transfers	Balance at December 31, 2019
Leasehold Improvements – 15 years	\$ 2,700,140	\$ –	\$ –	\$ 2,700,140
Leasehold Improvements – 5 years	21,780	–	–	21,780
Computer Systems	805,412	201,474	(269,179)	737,707
Motor Vehicle	4,711	674	–	5,385
Furniture & Equipment	842,878	293,820	(454,474)	682,224
<b>Total</b>	<b>\$ 4,374,921</b>	<b>\$ 495,968</b>	<b>\$ (723,653)</b>	<b>\$ 4,147,236</b>
	Net book value December 31, 2018			Net book value December 31, 2019
Leasehold Improvements – 20 years	\$ –			\$ 4,403,906
Computer Systems	330,169			520,006
Motor Vehicle	674			–
Furniture & Equipment	649,334			358,073
<b>Total</b>	<b>\$ 980,177</b>			<b>\$ 5,281,985</b>

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**7. Commitments:**

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

Future minimum payments to expiry are as follows:

2021	\$ 739,227
2022	708,924
2023	677,178
2024	672,092
2025	713,536
Thereafter	11,600,919

**8. Contingencies:**

From time to time, the Middlesex-London 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 Middlesex-London 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:

	2020	2019
Surpluses:		
Invested in tangible capital assets	\$ 8,053,507	\$ 5,281,985
Net transfer to surplus	(340,873)	(384,118)
Unfunded:		
Bank indebtedness	-	(1,500,000)
Demand loan	(4,200,000)	-
Post-employment benefits	(2,882,300)	(2,725,700)
Total surplus	630,334	672,167
Reserves set aside by the Board:		
Employment costs	176,077	176,077
Total reserves	176,077	176,077
Accumulated surplus	\$ 806,411	\$ 848,244

**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

**10. Other income:**

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

	2020 Budget	2020	2019
Collaborative project	\$ 176,846	\$ 131,891	\$ 481,764
Food handler training	20,000	7,376	26,322
Miscellaneous	423,446	190,953	314,672
OHIP	244,000	145,725	237,269
Vaccines	117,200	30,980	113,288
	\$ 981,492	\$ 506,925	\$ 1,173,315

**11. Other expenses:**

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

	2020 Budget	2020	2019
Communications	\$ 138,476	\$ 244,371	\$ 156,379
Health promotion/advertising	322,110	227,702	341,949
Miscellaneous	333,966	261,408	310,700
Postage and courier	69,742	39,138	68,157
Printing	137,511	52,230	138,443
Staff development	160,009	110,805	158,062
Senior dental bus	700,000	—	—
	\$ 1,861,814	\$ 935,654	\$ 1,173,690



**MIDDLESEX-LONDON HEALTH UNIT**

Financial Statements (continued)

Year ended December 31, 2020

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**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;
- Initiated the COVID-19 vaccine program including implementation of mass vaccination clinics and mobile team deployment;
- Claimed one-time funding from the Ministry of Health to cover incremental COVID-19 expenditures of approximately \$5.6 million.

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.

**13. Comparative information:**

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the 2020 financial statements.

# Middlesex- London Health Unit

Audit Findings Report  
for the year ended  
December 31, 2020

*KPMG LLP*

Prepared as of May 20, 2021 for Finance and  
Facilities committee meeting on June 3, 2021

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



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# KPMG contacts

The contacts at KPMG in connection with this report are:



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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.

# Executive summary

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

The purpose of this Audit Findings 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, 2020.

### What's new in 2020

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

- COVID-19 pandemic – See page 4
- New CAS auditing standards – See page 5

### Finalizing the audit

As of May 20, 2021, 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 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 audit committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided to you, will be dated upon the completion of any remaining procedures.

### Uncorrected differences

We did not identify differences that remain uncorrected.

### Significant accounting policies and practices

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

### Control deficiencies

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

### Independence

We are independent of the Middlesex-London Health Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

<sup>1</sup> This Audit Findings Report 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 Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# What's new in 2020

## COVID-19 pandemic

In our Audit Planning Report provided to Management, we communicated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
<b>Health Unit's financial reporting impacts</b>	<ul style="list-style-type: none"> <li>— We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements.</li> <li>— The areas of the financial statements most affected included additional funding/expenditures due to COVID-19 and disclosures outlining the impact of the pandemic on the business</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements.</li> </ul>
<b>Risk Assessment</b>	<ul style="list-style-type: none"> <li>— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).</li> <li>— We did not identify any <i>additional</i> risks material misstatement as a result of impacts to financial reporting, which required an audit response compared to the prior year.</li> </ul>
<b>Working remotely</b>	<ul style="list-style-type: none"> <li>— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.</li> <li>— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.</li> </ul>
<b>Direction and Supervision of the audit</b>	<ul style="list-style-type: none"> <li>— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on MLHU's financial reporting and changes in the Company's internal control over financial reporting.</li> </ul>

## New auditing standards

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

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



# 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.

Materiality determination	Comments	Amount
<b>Materiality</b>	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$987,600.	\$1,076,000
<b>Benchmark</b>	Based on total expenses for the year. This benchmark is consistent with the prior year.	\$38,814,574
<b>% of Benchmark</b>	The corresponding percentage for the prior year's audit was 2.7%.	2.8%
<b>Audit Misstatement Posting Threshold (AMPT)</b>	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$49,380.	\$53,800

## 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 financial reporting risks** as well as any additional significant financial reporting risks identified.

Significant financial reporting risk	New or changed?	Estimate?
<p><u>Fraud risk from revenue recognition:</u></p> <p>This is a presumed fraud risk due to incentives regarding earnings. 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 revenue growth or profit.</p>	No	No
<p><u>Fraud risk from management override of controls:</u></p> <p>This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.</p>	No	No

## Our response

- Fraud risk from revenue recognition: We have rebutted the fraud risk from revenue recognition as it is not applicable to MLHU where performance is not measured based on earnings.
- Fraud risk from management override of controls: As this fraud risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include 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 issues in our testing.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus** are as follows:

Area of focus	New or changed?	Estimate?
<p><u>Grants and other revenue</u></p> <p>MLHU receives funding from various levels of government. The dollar value of grants and other revenue make these significant financial reporting captions.</p>	No	No
<p><u>Salaries and benefits</u></p> <p>The dollar value of salaries and benefits make these significant financial reporting captions.</p>	No	No

## 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

No issues were noted during our testing.

# Audit risks and results (continued)

We highlight our significant findings in respect of **areas of focus** are as follows:

Area of focus	New or changed?	Estimate?
<p><u>Post-employment benefits liability</u></p> <p>The dollar value of the post-employment benefits liability makes this a significant financial reporting caption. The liability also represents a significant estimate.</p>	No	Yes

## 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.
- Performed testing over the employee attributes provided to the actuary to perform the valuation. A full actuarial valuation was completed at December 31, 2020.
- Reviewed financial statement disclosures to gain assurance over compliance with Canadian public sector accounting standards.

## Significant findings

No issues were noted during our testing.

# Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

## Uncorrected differences

We did not identify differences that remain uncorrected.

## Corrected adjustments

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

# Appendices

## Content

**Appendix 1: Other Required communications**

**Appendix 2: Management Representation Letter**

**Appendix 3: How do we deliver audit quality?**

**Appendix 4: Audit and Assurance Insights**

**Appendix 5: Current developments**



# Appendix 1: Other Required Communications

<b>Report</b>	<b>Engagement terms</b>
<p>Refer to the draft report attached to the draft financial statements.</p>	<p>A copy of the engagement letter and any subsequent amendments has been provided to the Finance and Facilities committee in prior years. There have been no changes to the engagement letter in the current year.</p>
<b>Audit planning report</b>	<b>Representations of management</b>
<p>We have provided our audit planning report to management prior to the start of the audit.</p>	<p>A copy of the management representation letter is attached. See Appendix 2.</p>
<b>Audit Quality in Canada</b>	<b>Control deficiencies</b>
<p>The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year:</p> <ul style="list-style-type: none"> <li>• <a href="#">CPAB Audit Quality Insights Report: 2020 Interim Inspection Results</a></li> <li>• <a href="#">CPAB Audit Quality Insights Report: 2019 Annual Inspections Results</a></li> </ul> <p>Visit our <a href="#">Audit Quality Resources page</a> for more information including access to our <a href="#">Transparency report</a></p>	<p>Any other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency have been, communicated to management.</p>

# Appendix 2: Management Representation Letter



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

June 3, 2021

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, 2020.

*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, 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
    - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

*Subsequent events:*

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

*Related parties:*

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

*Estimates:*

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

*Going concern:*

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

*Misstatements:*

- 11) 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,

A handwritten signature in black ink, appearing to read "Mirek Pawelec". The signature is fluid and cursive, with a long horizontal stroke at the end.

---

Mirek Pawelec, Manager, Finance

A handwritten signature in black ink, appearing to read "EWilliams". The signature is cursive and elegant.

---

Emily Williams, Chief Executive Officer (Interim)

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**

Description	Statement of operations	Balance Sheet		
	Increase (Decrease)	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Equity Increase (Decrease)
To present deferred revenue separately on the statement of financial position.	-	-	2,009,192 (2,009,192)	-
<b>Total corrected misstatements</b>	-	-	-	-

Transparency report



# Appendix 3: How do we deliver audit quality?

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

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

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

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

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



**Doing the right thing. Always.**

# Appendix 4: Audit and Assurance Insights

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

Featured insight	Summary	Reference
<b>Audit &amp; Assurance Insights</b>	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	<a href="#"><u>Learn more</u></a>
<b>The business implications of coronavirus (COVID 19)</b>	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	<a href="#"><u>Learn more</u></a>
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	<a href="#"><u>Learn more</u></a>
<b>Accelerate 2020</b>	Perspective on the key issues driving the audit committee agenda	<a href="#"><u>Learn more</u></a>
<b>Momentum</b>	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	<a href="#"><u>Sign-up now</u></a>
<b>Board Leadership Centre</b>	Leading insights to help board members maximize boardroom opportunities.	<a href="#"><u>Learn more</u></a>



# Appendix 5: Current developments

*Current Developments*, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes some of the regulatory, operational and governance developments impacting public sector, charitable and not-for-profit organizations. We provide this summary to inform our clients of changes that they may impact their organization, and the trends we see in the industry based on our discussions with the management and Board members of our clients.

We attach this summary to our audit plans and audit findings reports that we provide to the Audit/Resource Committees and their equivalents of our public sector, not-for-profit and charity clients. Some of these developments may not impact your organization directly but we believe it is important for management and Committee members to understand what is happening in the broader public, not-for-profit and charity sector.

## Annual Accounting, Tax and Risk Update for Not-for-Profit Organizations

KPMG held its Annual Accounting, Tax & Risk Update for Not-for-Profit Organizations remotely on **November 5, 2020**. The seminar covers current accounting, tax, technology and risk issues, including some of those discussed below, in greater detail providing not-for-profit organizations and charities with guidance on new standards, regulations and best practices. This event consistently attracts over 100 executives, financial officers and Board members from the Ottawa and area not-for-profit and charity community.

Resource Committee members are also invited to virtually attend our next session. If you wish to have your name included on the invite list going forward, please e-mail Vanessa Hundert at [vhundert@kpmg.ca](mailto:vhundert@kpmg.ca).

## Fraud Risk Assessments

### *A proactive approach to help counter the risk of fraud*

A reputation for integrity is critical to safeguarding public trust in your business. Unfortunately, fraud can seriously undermine these efforts after they occur. That's why regulators, insurers, Boards of Directors and experienced business leaders are focused on ensuring organizations have effective approaches to mitigating fraud risks.

In the wake of high-profile corporate failures and their devastating impacts, there is a renewed spotlight on fraud from regulators. Regulators know that a company's susceptibility to fraud is influenced by the strength of its fraud risk management programs. So, regulators are exploring what actions relevant stakeholders should be taking to better prevent and detect fraud.

Insurers, who may provide coverage for losses suffered due to fraud, are also inquiring about what efforts companies have taken to proactively assess and address fraud risks in the organization. Without such proactive measures in place, there may be a risk that insurers will deny such coverage if the company is found to have contributed to an environment that enabled the fraud to occur in the first place.

In coping with the current pandemic crisis, organizations must continue to manage future risks, especially the risk of fraud during uncertain times. For many organizations that are working to ride out these difficult times, the need to cut costs and continue to operate is painful and ever-present. There is usually increased pressure on organizations to conserve through the close management of costs. Whether a company reduces its headcount, rationalizes processes and controls, cuts back on internal audits and other risk management measures, or restructures some of its business, these decisions can have significant consequences for the organization and its people. At the same time, there are greater incentives for employees, suppliers, customers, agents, and others to commit fraud during uncertain times, economic downturns, pandemics, or other periods of economic distress. Experience suggests that an unintended downside of our focus on the present may be the neglect of risks and opportunities ahead.

So what can you do to help ensure that your organization can proactively mitigate fraud risks that it may face?

A good starting point is to first understand where you may be vulnerable to fraud risk. A Fraud Risk Assessment is a tool that organizations use to understand where these vulnerabilities may exist. The objective is to understand these vulnerabilities and then to ensure that adequate measures are in place to mitigate these fraud risks.

## Return to the Office Assurance

Returning to the physical workplace is a complex yet integral part of organizations' recovery from the pandemic. Various considerations around health and safety will need to be taken into account when developing any return to work (RTW) strategy. However, the changing implications of COVID-19 make it challenging for organizations to navigate this landscape on their own.

Organizations have established several processes to help ensure that employees' health and safety risks are clearly understood and effectively managed. However, are these processes complete and do they continue to adapt to the evolving state of the pandemic? In this environment, there are still many questions left unanswered, but here is what we do know:

- Leaders will play an active role in managing mental health
- The municipalities guidelines for reopening will differ from other municipalities
- There will be frequent changes in requirements
- Best practices will evolve over a year or more, not in a matter of weeks
- There will be regional disparity in approaches
- There will be outbreaks of COVID-19 in the workplace
- The 9 to 5 workday will be challenged
- Technology will contribute to the solution and will permanently alter the workplace but will need time to evolve.

KPMG has developed a comprehensive people-centric *RTW Playbook*, which takes into account 23 different elements that need to be considered in order to bring staff and relevant stakeholders back to work, safely. The framework starts with a COVID-19 task force, and ends with case response procedure. Each of the 23 elements in the RTW Playbook has several action items tagged, providing a basis for a comprehensive RTW management system.

In order to help organizations navigate through this rapidly changing landscape, KPMG has developed the **Return to Work (RTW) Management Systems Framework**.

KPMG's RTW Management Systems Framework and related assurance will increase the Government of Canada's level of confidence over the comprehensiveness of its RTW program, by alignment to industry leading practices. Ultimately our framework will focus on the following categories aligned to the RTW framework:

- Governance;
- Planning and program design;
- Workforce preparation;
- Implementation and operations; and,
- Monitoring, maintenance and improvement.

The RTW framework and assurance provides management and executives with the "playbook" to implement RTW and the framework to manage and monitor, with the level of dashboard reporting to allow for dynamic and agile management actions.

Our approach consists of performing a current state assessment, gap analysis and RTW implementation roadmap, in order to support the implementation of appropriate management activities, and ultimately monitor and track successes. Our approach also offers several tools, including the RTW Dashboard, which is used as a reporting tool to

assess and track all or portions of the Government of Canada's return to work management system, and the KPMG Workforce Safeguard App. For more information on Return to Work Assurance, please contact your relevant KPMG professional.

## Working from Anywhere

As we all strive to cope and adapt to the new reality and rapidly changing landscape, many organizations are being forced to quickly adopt remote ways of working. In some cases, employees are requesting to work from a different country than their employer, or employers are considering hiring remote workers who will work abroad. Working from Anywhere (WFA) offers a number of potential benefits, including increased employee flexibility and productivity, and the availability of a broader pool of talent to draw upon. Yet it's important to weigh the costs and benefits, and there are a number of potential risks and compliance obligations that employers must consider, such as:

- Tax planning and compliance: Understand where corporate tax obligations are triggered, and how payroll registration and indirect tax obligations are impacted depending on the country where the remote employee is performing the service.
- Employment and labour law considerations: Design workplace terms, conditions and agreements to navigate the interplay between local and foreign labour standards and overcome the human resources challenges of a remote workforce.
- Immigration implications: Assess the need for business visitor and work permit eligibility assessments, as well as a review of immigration compliance considerations related to changes in the work location.
- People and culture impacts: Identify the short and long-term effects of WFA on leadership and employee engagement, and take an active role in the employee experience and organizational reshaping.
- Cybersecurity and technology challenges: Secure systems and data against internal and external threats, and rapidly adapt to technological change, while considering the potentially different technological environment and standards in the remote work jurisdiction.

KPMG can assist your organization with understanding the information to collect, performing a risk assessment of potential remote work jurisdictions, creating terms and conditions to minimize the risks and amplify the benefits, developing a WFA compliance process and policies, and coaching you through stakeholder communications and WFA program implementation. For more information on WFA assistance, please contact your relevant KPMG professional.

## Cyber Security – Adapting to the ‘new normal’

COVID-19 has forced us to transform the way we work — projects which might have taken a year have been driven through in weeks. Pragmatism has become the rule, and organizations have likely taken security risks that they might never have accepted in other circumstances. The dust is still settling, but some major themes are emerging: we're already seeing rapid expansions of digital commerce channels as consumer behaviours shift, in addition to dealing with a workforce that has grown accustomed to a flexible and remote work environment.

At the same time, cyber criminals have shown themselves ruthless and entrepreneurial in exploiting fear, uncertainty and doubt over COVID-19 — repurposing phishing and attack infrastructure to build out COVID-19 fake websites and scams. With a larger attack surface due to the increased use of online tools, opportunity for malicious activity is abound.

Organizations need to demonstrate that they can protect the heart of the transformed business with an agility of thought and action that recognizes the pace and speed at which cyber criminals operate. These issues must be handled proactively and can no longer be an after-thought. Cyber security is now becoming the key business enabler.

Members of Audit/Resource Committees should be asking management fundamental questions such as:

- Are we doing enough to reduce our cyber risk to an acceptable level?
- Is our organization fully prepared to detect, respond and react to a cyber attack of any kind?
- As we shifted to remote interaction with employees and customers, have we done it securely without relaxing our security or increasing our exposure?

## Lean:

### Approach

Our innovative audit approach, Lean in Audit™, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

### How it Works

Lean in Audit employs three key Lean techniques:

- Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity;
- Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness;
- Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit

### Current Environment Adaptation

In the current environment, Organizations are working entirely remotely and we have tailored our methodology on the delivery and facilitation of interactive workshops to accommodate for current in-person restrictions. We are happy to inform our clients that we offer Lean in Audit workshops facilitated remotely, through the use of Microsoft Teams or Skype for Business. In facilitating workshops remotely, we are able to obtain the same high quality level of process information, and document the process live with the help of your teams.

Please reach out to your KPMG professional on more information on remote-workshops and to schedule workshops for your audit processes.

## Public Sector Accounting Update

### Asset Retirement Obligations

The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.

The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligation 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.

<b>Are You Ready Checklist</b>	<b>Potential Impact Areas</b>
<ol style="list-style-type: none"> <li>1. Have you formed a project team for ARO implementation? If so, who outside of Finance is on that team?</li> <li>2. Have you developed a policy or guideline, with clear roles and responsibilities?</li> <li>3. Have you identified asset types considered in scope? If so, what assumptions have you used?</li> <li>4. Does your scoping consider both capital assets, and other asset type items?</li> <li>5. What assessment has been done of active landfill sites – particularly those early in their lifespan?</li> <li>6. Are you applying a risk-based approach to scoping and assessment?</li> <li>7. How are you identifying legislation, regulations or contracts creating legal obligations?</li> <li>8. Are you applying discounting to measure the retirement obligation? If so, what estimates are you applying for discount rate?</li> <li>9. What data sources do you have for measurement?</li> <li>10. Have you identified a transition method?</li> </ol>	<ol style="list-style-type: none"> <li>1. Facilities with asbestos or other contaminated substances.</li> <li>2. Underground fuel storage tanks</li> <li>3. Radiological medical equipment such as MRI's and CT-scanners</li> <li>4. Septic tanks</li> <li>5. Drinking wells</li> <li>6. Firewater holding tanks</li> <li>7. Leases with end of lease retirement clauses.</li> </ol>

## Revenues

The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.

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.

Are You Ready Checklist	Potential Impact Areas
<ol style="list-style-type: none"> <li>1. Have you identified any revenue-generating transactions other than taxation or government transfer revenues which create performance obligations (ie: the entity is required to provide a good or service to earn that revenue)?</li> <li>2. Did you review accounting policies for these transactions to verify revenue is recognized only as performance obligations are being met?</li> <li>3. Have you quantified the impact of any change in accounting policy, or determined that there is no impact?</li> </ol>	<ol style="list-style-type: none"> <li>1. User charges such as transit fees, utility charges, licencing fees and fees for programs or activities.</li> <li>2. Revenues linked to the provision of a good or service.</li> </ol>

## 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. The effective date was deferred by one year due to COVID-19.

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.

Are You Ready Checklist	Potential Impact Areas
<ol style="list-style-type: none"> <li>1. What process have you followed to determine if you have any embedded derivatives that might arise from existing contractual arrangements? Has a contract review been conducted?</li> <li>2. Does the entity have other financial assets which it assesses performance based on fair value, and for which it might elect a fair value measure?</li> <li>3. Where the entity holds equity or derivative instruments, does it have readily observable market data to inform a fair value measure?</li> <li>4. Has the entity reviewed existing financial instrument note disclosure in the financial statements to determine any required revisions to meet the requirements of this section (particularly the required risk disclosures)?</li> <li>5. Does the entity enter foreign exchange transactions? Does the entity hold any monetary assets and monetary liabilities, or non-monetary assets denominated in a foreign currency?</li> </ol>	<ol style="list-style-type: none"> <li>1. Equity instruments</li> <li>2. Derivatives such as futures, forwards, interest rate swaps and currency swaps.</li> <li>3. Contracts with embedded derivatives</li> <li>4. Other financial instruments for which performance is assessed on a fair value basis</li> </ol>

## Employee Future Benefits

PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan.

PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard.

Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.



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

