



KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2020

Date: June 3, 2021
To: TTC Audit and Risk Management Committee
From: Interim Chief Financial Officer

Summary

This report from the TTC's external auditors, KPMG LLP (KPMG) outlines the results from the audit of the TTC's consolidated financial statements for the year ended December 31, 2020.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

1. Approve this report; and
2. Forward a copy of this report to the TTC Board for its meeting of June 16, 2021 and subsequently to the City Clerk for appropriate handling to the July 2, 2021 City Audit Committee meeting.

Implementation Points

This report requires approval at the June 3, 2021 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 16, 2021 TTC Board meeting and then to the July 2, 2021 Audit Committee meeting of the City of Toronto.

Financial Summary

There are no financial implications resulting from the adoption of this report. The attachment summarizes KPMG's findings from the audit of TTC's 2020 consolidated financial statements. No material errors or misstatements were identified during the course of the audit.

Equity/Accessibility Matters

This report and its recommendations have no accessibility or equity issues or impacts.

Decision History

The City of Toronto Act requires the city auditor (KPMG) to annually audit the accounts and transactions of the City and its local boards and to express an opinion on their financial statements.

At its meeting on February 9, 2017, the TTC Audit and Risk Management Committee approved that the terms of reference of the Audit and Risk Management Committee include a requirement to “review with management and the external auditors the results of the audit, including any difficulties encountered”. The Audit and Risk Management Committee’s terms of reference can be accessed by the following link:

[https://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2017/February 9/Reports/2 TTC Audit %20and Risk Management Committee Terms Of Referenc.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2017/February%209/Reports/2%20TTC%20Audit%20and%20Risk%20Management%20Committee%20Terms%20Of%20Referenc.pdf)

Issue Background

This report presents the financial audit results of the consolidated financial statements of the TTC for the fiscal year December 31, 2020.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2020 were prepared by management. They were audited by KPMG in accordance with the plan approved by the Audit and Risk Management Committee at its December 15, 2020 meeting.

[https://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2020/December 15/Reports/1 KPMG LLPs Audit Plan for Year Ended December 31 2020.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2020/December%2015/Reports/1%20KPMG%20LLPs%20Audit%20Plan%20for%20Year%20Ended%20December%2031%202020.pdf)

The attached report was prepared by KPMG and it includes their comments on significant accounting, auditing and reporting matters.

KPMG proposes to issue an unqualified Independent Auditor’s Report on the 2020 consolidated financial statements (see Appendix 5 within Attachment 1) once the outstanding items noted on page 3 have been completed.

Joane Mui, the Audit Partner from KPMG will be at the Audit and Risk Management Committee meeting to present this report. You may wish to request the auditors to address any specific areas related to the audit.

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Signature

Josie La Vita
Chief Financial Officer (Interim)

Attachments

Attachment 1 – Toronto Transit Commission Audit Findings Report for the year ended December 31, 2020

Toronto Transit Commission

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

Prepared May 3, 2021 for presentation to the Audit and Risk
Management Committee on June 3, 2021

kpmg.ca/audit

KPMG



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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 report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Audit and Risk Management Committee, in your review of the results of our audit of the consolidated financial statements (“financial statements”) of the Toronto Transit Commission, (the “Entity”) as at and for the year 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 5
- New CAS auditing standards – See page 7

Changes from the audit plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to management.

Uncorrected differences

For the TTC financial statements, we did not identify differences that remain uncorrected. We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements. See page 15.

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with the Audit and Risk Management Committee;
- Obtaining evidence of the Board’s approval of the financial statements;
- Subsequent event procedures up to financial statement approval date;
- Receipt of signed management representation letter (to be signed upon approval of the financial statements).

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors’ report, a draft of which is provided in Appendix 5, will be dated upon the completion of any remaining procedures.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit and Risk Management Committee, TTC Board of Directors and City of Toronto Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (continued)

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 with respect to the Toronto Transit Commission, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Accounting estimates

Overall, we are satisfied with the reasonability of accounting estimates. The main areas of estimates relate to: Allowance for doubtful accounts, unsettled accident claims, valuation of employee future benefits and contingent liabilities.

What's new in 2020

COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting.

Area of Impact	Key Observations
Entity's financial reporting impacts	<ul style="list-style-type: none">— We considered impacts to financial reporting due to COVID 19 pandemic and the increased disclosures needed in the financial statements as a result of the significant judgements.— In areas of the financial statements where estimates involved significant judgements, we evaluated whether the method, assumptions and data used by Management to derive the accounting estimates, and their related financial statement disclosures were still appropriate per the relevant financial reporting framework given the changed economic conditions and increased estimation uncertainty – See Audit Risk and Results for discussion over specific estimates.— The areas of the financial statements that are relevant included:<ul style="list-style-type: none">○ Allowance for doubtful accounts○ Unsettled Accident Claims○ Employee future benefits○ Contingent liabilities
Materiality	<ul style="list-style-type: none">— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements.— Materiality used for the audit was \$52 Million. This was based on 2% of forecasted operating expense, as determined at the planning phase of the audit.— Materiality has not been changed from the amount communicated in our audit planning report due to no reduction to the metrics used to determine materiality.
Risk Assessment	<ul style="list-style-type: none">— We performed a more thorough risk assessment specifically targeted at the impacts of the COVID 19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud).— We did not identify any <i>additional</i> risks of material misstatement as a result of impacts to financial reporting, which required an audit response compared to the prior year.
Working remotely	<ul style="list-style-type: none">— We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with Management.

What's new in 2020 (continued)

COVID-19 pandemic

We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting.

Area of Impact	Key Observations
	<ul style="list-style-type: none">— We used secure and innovative technologies to conduct walkthroughs, perform tests of controls and observe and reperform certain procedures.— We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and Supervision of the audit	<ul style="list-style-type: none">— The manager and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on TTC's financial reporting.— Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

What's new in 2020 (continued)

New auditing standards

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

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

Audit risks and results (continued)

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

Significant financial reporting risk

Estimate?

Risk of material misstatement due to fraud resulting from management override of controls.

No

Our response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk.

Our procedures included:

- Testing of journal entries and other adjustments.
- Performing a retrospective review of estimates.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

- We did not identify any issues or concerns regarding management override of controls.

Audit risks and results (continued)

Significant financial reporting risk	Estimate?
Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	No

Our response

This is a presumed risk of material misstatement due to fraud. Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition.

Our procedures included:

- Evaluating the design and implementation of selected relevant controls, such as cash collection.
- We tested journal entries over accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries.
- To address the inherent risk of error in revenue recognition, we substantively tested revenues and deferred revenue.

Significant findings

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

Audit risks and results (continued)

We summarize our audit approach and findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan.

Area of Focus	Estimate?
Passenger Services Revenue	No

Our response

Total passenger services revenue for the year was \$516M. Of this amount, passenger services revenue earned related to PRESTO was \$474M. Additionally, there was unearned revenue from PRESTO of \$7M, which is recorded as deferred revenue as at December 31, 2020, and will be recognized as revenue in fiscal 2021. As passenger services revenue is significant, in our testing, we took a combined approach to test the operating effectiveness of controls, and substantively test the account balance.

Our procedures included:

- We obtained an understanding of management's processes surrounding passenger services revenue, including PRESTO revenue, and analyzed the revenue recognition policy in the context of the Public Sector Accounting Standards ("PSAS") on revenue recognition.
- We obtained direct third-party confirmation of passenger revenue from Metrolinx and reconciled the amounts from the confirmation to the total revenue amounts reflected in the TTC financial reporting records, as well as deferred revenue amounts. Additionally, we reviewed the relevant service agreements between Metrolinx and the Toronto Transit Commission.
- We reviewed a sample of monthly reconciliations performed by management, which reconciles TTC records to Metrolinx data to bank payment.
- We performed control testing over the cash and ticket collection process.
- We vouched cash deposits to supporting documentation and reconciled bank deposits to the general ledger.
- We obtained and reviewed the service auditor's report for the operating effectiveness of controls in place at PRESTO (CSAE 3416).

Significant findings

- No exceptions were noted during testing.

Audit risks and results (continued)

Area of Focus

Unsettled accident claims

Estimate?

Yes – Unsettled accident claims is a calculation as determined by actuarial experts. This calculation involves numerous inputs and assumptions.

Our response

Unsettled accident claims represent a liability computed by management's actuarial expert, based on an actuarial assessment of the claims liability on the basis mandated by the Financial Services Regulatory Authority of Ontario. As the unsettled accident claims is a significant and complex estimate, KPMG actuarial specialists were involved in completing the audit procedures.

Our procedures included:

- Review of the actuarial report prepared by management actuarial expert for determining unsettled accident claims.
- Assess the competence, capability and objectivity of the actuary and evaluate adequacy of their work.
- Review the methodology and underlying assumptions used to formulate management's estimate.
- Perform testing of underlying data contained in valuation to source data.
- Perform testing over claims reserve set-up process and claim payment process.

Significant findings

- No significant differences were identified during our audit testing.
- We found management's estimate to be reasonable overall in the context of our materiality.

Audit risks and results (continued)

Area of Focus	Estimate?
Employee Future Benefits Liabilities	Yes – Employee future benefits is a calculation as determined by actuarial experts. This involves numerous inputs and assumptions.
Our response	
<p>The TTC's employee benefit plans include post-employment plans, post-retirement plans, and pension plans. As at December 31, 2020, the liability amount was \$784.1M. Employee future benefits represent a liability computed by management's actuarial experts. As the employee future benefits liabilities are significant and complex estimates, KPMG actuarial specialists were involved in completing the audit procedures.</p>	
<p>Our procedures included:</p>	
<ul style="list-style-type: none">— Review of the actuarial report prepared by management actuarial expert for determining employee future benefits liabilities.— We obtained assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the employee future benefit liabilities.— Assess the competence, capability and objectivity of management's actuary and evaluate adequacy of their work.— Review the methodology and underlying assumptions used to formulate management's estimate.— Perform testing of underlying membership data to source data.	
Significant findings	
<ul style="list-style-type: none">– No significant differences were identified during our audit testing.– We found management's estimate to be reasonable overall in the context of our materiality.	

Audit risks and results (continued)

Area of Focus	Estimate?
Tangible Capital Assets	Yes - estimate is involved in determining useful lives of assets. Useful lives of assets are determined based on asset categories and are consistent year over year.

Our response

The net book value of tangible capital assets (“TCA”) as at December 31, 2020 was \$12.3 billion. During the year, the TTC recognized \$829.2M in additions to TCA. During the year, TTC incurred an amortization expense of \$658.6M.

Our procedures included:

- We obtained an understanding of management’s processes for accounting for tangible capital assets.
- We reviewed on a sample basis, the additions to tangible capital assets and noted that management has appropriately capitalized the additions from construction in progress to capital assets. We vouched a sample of capital additions to supporting documentation which included non-labour, labour, and overhead costs.
- For non-labour costs capitalized as TCA, KPMG obtained invoices and Certificates of Progress to verify accuracy and existence of these costs.
- For labour costs capitalized as TCA, KPMG obtained and vouched a sample of labour costs to approved timesheets to verify accuracy and existence of these costs. KPMG also evaluated the nature of work performed per timesheets to determine if these costs meet the capitalization criteria as per the requirements in the financial reporting framework.
- For overhead allocation, KPMG obtained an understanding of and reviewed management’s allocation process and performed recalculation.
- KPMG reviewed that amortization expense is consistent with the TTC significant accounting policies, and recalculated amortization during the year based on the useful lives.

Significant findings

- No exceptions were noted during testing.

Financial statement presentation and disclosure

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

We also highlight the following:

Form, arrangement, and content of the financial statements

The form, arrangement and content of the financial statements is adequate.

Significant qualitative aspects of financial statement presentation and disclosure

We did not note any material disclosure omissions in the financial statements.

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

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

Current developments and audit trends

Public Sector Accounting Standards

Details	Link
<p>Public Sector Update –connection series Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.</p>	<p>Contact your KPMG team representative to sign up for these webinars.</p> <p>Public Sector Minute Link</p> <p>https://home.kpmg/ca/en/home/insights/2020/01/public-sector-accounting-minute-newsletters.html</p>

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

Standard	Summary and implications
<p>Asset Retirement Obligations (applicable for the year ending December 31, 2023 with a retrospective application effective January 1, 2022)</p>	<ul style="list-style-type: none"> — The new standard is effective for fiscal years beginning on or after April 1, 2022 (TTC’s 2023 year-end). 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 obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. — As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> — Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; — Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; — Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.

Standard	Summary and implications
Impact of COVID-19	<ul style="list-style-type: none"> — In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.
Revenue	<ul style="list-style-type: none"> — The new standard is effective for fiscal years beginning on or after April 1, 2023 (TTC's 2024 year-end). 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.
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> — New accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> have been approved by PSAB and are effective for years commencing on or after April 1, 2022 (TTC's 2023 year-end). 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 government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. — Hedge accounting is not permitted. — A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. — In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 Financial Instruments which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 Financial Instruments. The exposure drafts were released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	<ul style="list-style-type: none"> — PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. — Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. — The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.

Standard

Summary and implications

Public Private Partnerships (“P3”)

- PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB is in the process of reviewing feedback provided by stakeholders on the exposure draft.
- The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.
- The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.
- The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
- The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023. (TTC's 2024 year-end).

Concepts Underlying Financial Performance

- PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.
- PSAB has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021.
- PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 Financial Statement Concepts and PS 1100 Financial Statement Objectives. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.
- In addition, PSAB is proposing:
 - Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
 - Separating liabilities into financial liabilities and non-financial liabilities.
 - Restructuring the statement of financial position to present non-financial assets before liabilities.
 - Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
 - Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
 - A new provision whereby an entity can use an amended budget in certain circumstances.
 - Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.

Current development and audit trends

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

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Accelerate - KPMG Canada (home.kpmg)
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Digital - KPMG Canada (home.kpmg)

Appendices

Content

Appendix 1: Other Required communications

Appendix 2: KPMG's System of Quality Control

Appendix 3: Audit and Assurance Insights

Appendix 4: Management Representation Letter

Appendix 5: Draft Auditors' Report

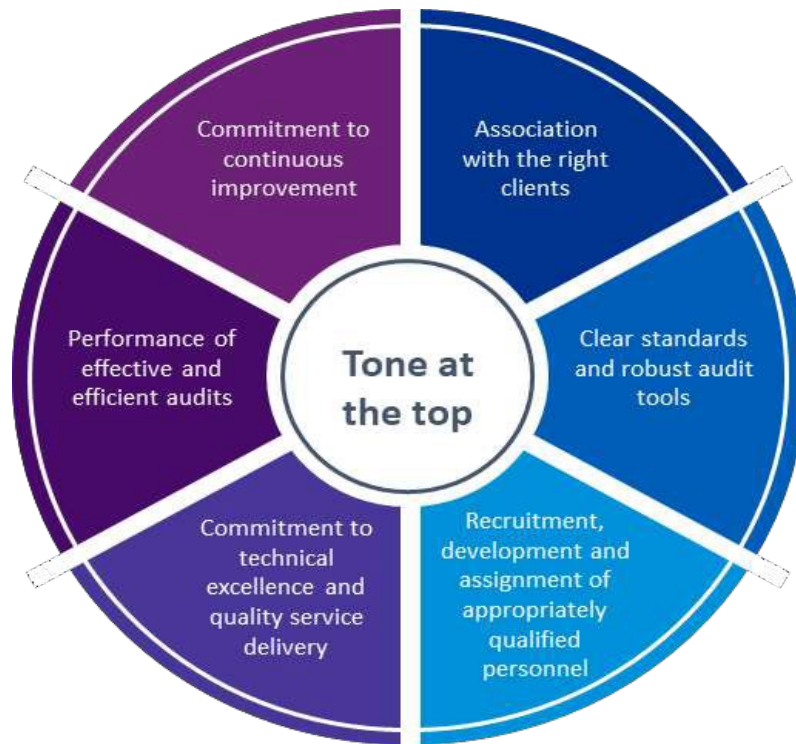


Appendix 1: Other Required Communications

Report	Engagement terms
Audit Findings Report – as attached.	A copy of the engagement letter has been provided to the Board and Audit and Risk Management Committee.
Audit planning report	Representations of management
We have provided our audit planning report to the Board and Audit and Risk Management Committee.	A copy of the management representation letter is attached.
Matters pertaining to independence	Management Letter
All matters related to independence are dealt with directly by the Group audit team. We confirm that we are independent of the TTC in accordance with the requirements under the external auditing standards.	From time to time, we may identify improvement observations as we conduct our audit procedures. These recommendations have been communicated to management through a management letter.

Appendix 2: KPMG's System of Quality Control

Quality control is fundamental to our business and is the responsibility of every partner and employee. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework shown below. These are the cornerstones of how we execute our responsibilities.



What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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.

All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.

Visit our [Audit Quality Resources page](#) for more information including access to our [Transparency report](#).

Appendix 3: Audit and Assurance Insights

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

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

Appendix 4: Management Representation Letter



Toronto Transit Commission
1900 Yonge Street, Toronto, ON M4S 1Z2
416-393-4000

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place
Vaughan, ON L4K 0J3
Canada

Date: June 16, 2021

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Toronto Transit Commission ("the Entity") or ("TTC") 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 23, 2020, including the following:
 - 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;

Jaye Robinson, Chair
Joanne De Laurentiis, Vice-Chair
Richard J. Leary, Chief Executive Officer

Brad Bradford, Commissioner
Shelley Carroll, Commissioner
Fenton Jagdeo, Commissioner
Cynthia Lai, Commissioner

Ron Lalonde, Commissioner
Jennifer McKelvie, Commissioner
Denzil Minnan-Wong, Commissioner
Julie Osborne, Commissioner



- 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 summaries. Certain Board reports and minutes that were subject to legal privilege were not provided, however TTC Legal was available to discuss the content of those reports with KPMG and related liabilities were confirmed with external legal counsel.
- 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.

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 which we are aware of, affecting TTC that involves:



- management;
- employees who have significant roles in internal control over financial reporting; or
- others

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

- c) all information in relation to allegations of fraud, or suspected fraud, affecting TTC's 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 TTC's financial statements.
- e) all known actual or possible litigation and claims whose effects should be considered when preparing TTC's 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) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



GOING CONCERN:

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

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 10) 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).
- 11) 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,
Toronto Transit Commission

Mr. Richard J. Leary, Chief Executive Officer

Ms. Josie La Vita, Chief Financial Officer

Mr. Alex Cassar, Director – Budgets, Costing and Financial Reporting

Mr. Mark Del Vecchio, Capital City Projects Coordinator

Ms. Sharon Tippet, Manager – Financial Statements

Ms. Natalie Scarcello, Assistant Manager – Financial Statements



Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, 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 the size or nature of a misstatement, or a combination of both. Materiality for the audit was \$52 million.

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: List of related parties and relationships

The TTC is one of the agencies, boards and commissions of the City of Toronto (the “City”). The TTC also operates Wheel-Trans, a paratransit service for people with disabilities (which is also subsidized by the City), the Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. The TTC controls the TTC Sick Benefit Association which was incorporated to adjudicate benefit claims to eligible Members of Association unable to work due to illness or disability.

The following lists all related parties that had transactions and/or relationships with TTC for fiscal period 2020:

- City of Toronto (including its Agencies and Corporations as attached in Attachment III)
- TTC Insurance Company Limited
- Toronto Coach Terminal Inc.
- TTC Sick Benefit Association
- The TTC Pension Fund Society

Board Members as at December 2020*:

- Jaye Robinson - Chair
- Joanne De Laurentiis - Vice-Chair
- Brad Bradford - Commissioner
- Shelley Carroll - Commissioner
- Cynthia Lai - Commissioner
- Ron Lalonde - Commissioner
- Jennifer McKelvie - Commissioner
- Denzil Minnan-Wong - Commissioner
- Julie Osborne - Commissioner

Senior Management as at December 2020*:

- Richard J. Leary - Chief Executive Officer



- Kirsten Watson - Deputy Chief Executive Officer
- Brian Leck - Head of Legal & General Counsel
- Gary Downie - Chief Capital Officer
- Betty Hasserjian - Chief Safety Officer (Acting)
- Josie La Vita - Chief Financial Officer (Interim)
- Kathleen Llewelyn-Thomas - Chief Strategy & Customer Officer
- Gemma Piemontese – Chief Diversity & Culture Officer (Interim)
- Megan MacRae – Chief People Officer (Acting)
- Fortunato Monaco - Chief Infrastructure & Engineering Officer
- Natalie Poole-Moffatt - Chief Corporate Affairs Officer
- James Ross - Chief Operating Officer
- Joan Taylor - Chief of Staff
- Rich Wong - Chief Vehicles Officer

*Although not explicitly listed, immediate family members are considered included as related parties by this reference.



Attachment III: City of Toronto List of Agencies and Corporations

TORONTO AGENCIES AND CORPORATIONS

Agencies		Corporations		Adjudicative Bodies
Service Agencies <ul style="list-style-type: none"> > CreateTO > Exhibition Place Board of Governors > Heritage Toronto > TO Live > Toronto Atmospheric Fund > Toronto Board of Health and Toronto Public Health > Toronto Investment Board > Toronto Parking Authority > Toronto Police Services Board and Toronto Police Service > Toronto Public Library Board > Toronto Transit Commission > Toronto Zoo Board of Management > Yonge-Dundas Square Board of Management 		City Corporations <ul style="list-style-type: none"> > Build Toronto Inc. > Casa Loma Corporation > Lakeshore Arena Corporation > Toronto Community Housing Corporation > Toronto Hydro Corporation > Toronto Port Lands Company (Toronto Economic Development Corporation) 		Partnered Corporations <ul style="list-style-type: none"> > Toronto Pan Am Sports Centre Inc. > Waterfront Toronto (Toronto Waterfront Revitalization Corporation)
Partnered Agency <ul style="list-style-type: none"> > Toronto and Region Conservation Authority 		Quasi-Judicial & Adjudicative Boards <ul style="list-style-type: none"> > Administrative Penalty Tribunal > Committee of Adjustment > Committee of Revision > Compliance Audit Committee > Dangerous Dog Review Tribunal > Property Standards Committee > Rooming House Licensing Commissioner¹ > Sign Variance Committee > Toronto Licensing Tribunal > Toronto Local Appeal Body 		
Community-Based Boards: <ul style="list-style-type: none"> > 83 Business Improvement Area (BIA) Boards of Management > Arena Boards of Management: <ul style="list-style-type: none"> • George Bell Arena • Larry Grossman Forest Hill Memorial Arena • Leaside Memorial Community Gardens Arena • McCormick Playground Arena • Moss Park Arena • North Toronto Memorial Arena • Ted Reeve Community Arena • William H. Bolton Arena > Community Centre Boards of Management (AOCCs): <ul style="list-style-type: none"> • 519 Church Street Community Centre • Applegrove Community Complex • Cecil Community Centre • Central Eglinton Community Centre • Community Centre 55 • Eastview Neighbourhood Community Centre • Ralph Thornton Community Centre • Scadding Court Community Centre • Swansea Town Hall Community Centre • Waterfront Neighbourhood Centre 		Notes: <p>1. Rooming House Licensing Commissioner and Deputy are Officers, rather than an agency of the City, but in all other respects function as a quasi-judicial and adjudicative board.</p> <p style="text-align: right;">Updated: May, 2020</p>		

Source: <https://www.toronto.ca/wp-content/uploads/2020/06/9766-Agency-Chart-May-2020.pdf>

Appendix 5: Draft Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Toronto Transit Commission

Opinion

We have audited the consolidated financial statements of Toronto Transit Commission (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated results of operations and accumulated surplus, its consolidated remeasurement gains and losses, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 17, 2020.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada



kpmg.ca/audit

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