For Action

KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2023

Date: June 5, 2024
To: TTC Audit and Risk Management Committee
From: Chief Financial Officer

Summary

This report appends the Audit Findings Report from KPMG LLP's (KMPG) audit of the TTC's consolidated financial statements for the year ended December 31, 2023. The KPMG Audit Findings Report, in addition to providing an overview of the audit results, specifically details any key audit risks identified, testing procedures performed to address them, and resulting conclusions. KPMG proposes to issue an unqualified Independent Auditor's Report on the TTC's consolidated financial statements for the year ended December 31, 2023.

Recommendations

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

1. Receive the KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2023 in Attachment 1; and

2. Forward a copy of this report to the TTC Board for its meeting on June 19, 2024 and subsequently to the City Clerk for appropriate handling to the next City Audit Committee meeting.

Implementation Points

The appended 2023 audit findings report for the year ended December 31, 2023 from KPMG requires review at the June 5, 2024 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 19, 2024 TTC Board meeting for its approval, and then the Board's submission to the City of Toronto's Audit Committee meeting scheduled for July 5, 2024.

Financial Summary

There are no financial implications resulting from the adoption of this report. The attachment summarizes KPMG's findings from the audit of the TTC's 2023 consolidated financial statements.

Equity/Accessibility Matters

This report has no accessibility or equity issues or impacts.

Decision History

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

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:

TTC Audit and Risk Management Committee Terms of Reference

Issue Background

This report presents the financial audit results of the consolidated financial statements of the TTC for the fiscal year ended December 31, 2023.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2023 were prepared by Management. They were audited by KPMG in accordance with the audit plan approved by the Audit and Risk Management Committee at its November 14, 2023 meeting.

KPMG LLP's Audit Plan for Year Ended December 31, 2023

The attached report was prepared by KPMG and it presents its findings of the audit, including any comments regarding significant accounting, auditing, and reporting matters.

KPMG proposes to issue an unqualified Independent Auditor's Report on the 2023 consolidated financial statements (see Appendix 2 within Attachment 1) once the outstanding items noted on page five have been completed.

Kevin Travers, the Audit Partner from KPMG, will be in attendance at the Audit and Risk Management Committee meeting to present this report and address any specific areas related to the 2023 audit findings report for the year ended December 31, 2023.

Contact

John Montagnese, Executive Director – Finance
416-393-3654
john.montagnese@ttc.ca

Signature

Josie La Vita
Chief Financial Officer

Attachments

Attachment 1 – Toronto Transit Commission Audit Findings Report for the year ended December 31, 2023

Toronto Transit Commission

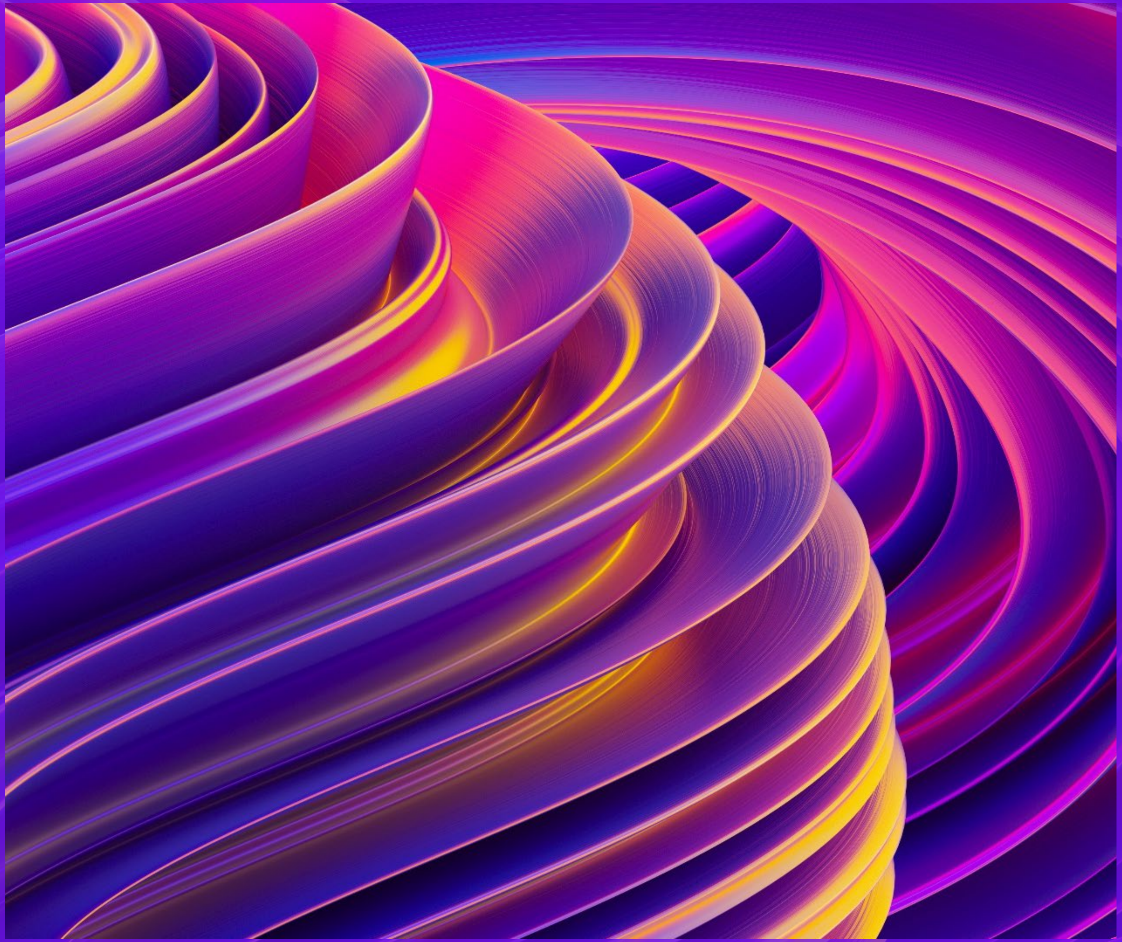
Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of May 27, 2024 for presentation to the Audit and Risk Management Committee on June 5, 2024

kpmg.ca/audit



KPMG contacts

Key contacts in connection with this engagement

Kevin Travers
Lead Audit Engagement Partner
416-228-7004
ktravers@kpmg.ca

Lenora Lee
Engagement Quality Control Partner
250-480-3588
lenoramlee@kpmg.ca

Sal Del Mastro
Audit Senior Manager
416-549-7934
sdelmastro@kpmg.ca

Victoria Zolotko
Audit Manager
416 228 4534
vzolotko@kpmg.ca

Kashif Khan
Partner – Information Risk Management
416-777-8149
kakhan@kpmg.ca

Faizan Farooqi
Manager – Information Risk Management
416-468-7455
ffarooqi@kpmg.ca

Anh Tu Le
Executive Director –P&C Actuarial
647-777-5352
ale@kpmg.ca

Greg Winston
Partner – RC Actuarial
416-777-8862
gregwinston@kpmg.ca

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The purpose of this 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 financial statements. This report is intended solely for the information and use of Management, the Audit and Risk Management Committee, City of Toronto Audit Committee and the TTC Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the consolidated financial statements (“financial statements”), with the exception of certain remaining outstanding procedures, which are highlighted on the ‘Status’ slide of this report.

Risks and results

Presumption of the risk of fraud involving improper revenue recognition

Management override of controls

Other significant findings and results

- Asset retirement obligation
- Passenger services revenues
- Unsettled accident claims
- Employee future benefits liabilities
- Tangible capital assets
- Related party transactions and balances

Policies and practices

Accounting policies and practices

Uncorrected misstatements

Uncorrected misstatements

Surplus for the year	(in $’000s)
As currently presented	$453,919
Uncorrected misstatements	$6,727
As a % of the balance	1.48%

Total assets	(in $’000s)
As currently presented	$15,046,824
Uncorrected misstatements	$13,454
As a % of the balance	0.09%

Corrected misstatements

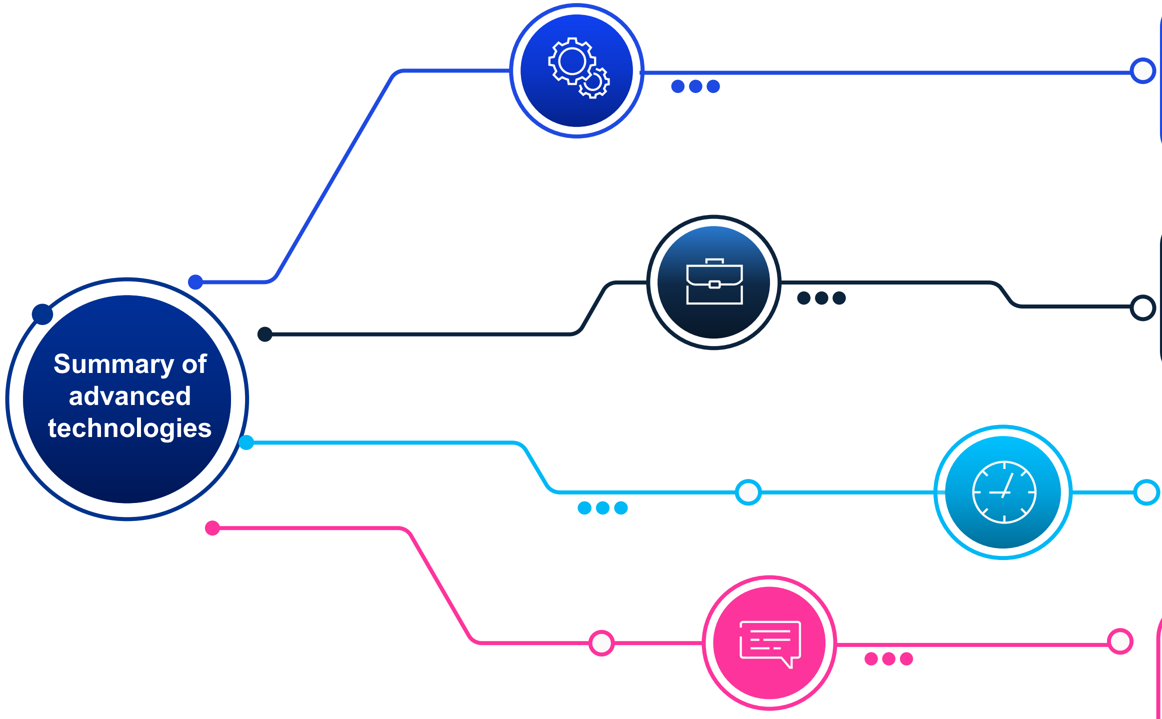
Corrected misstatements

Control deficiencies

Significant deficiencies

Technology highlights

As previously communicated in our audit planning report, we have utilized technology to enhance the quality and effectiveness of the audit.



KPMG Clara for Clients

Secure cloud based audit platform we use to plan, execute and manage the audit while providing management with access at every step.

KPMG Clara Workflow

KPMG workflow tool that drives execution of the audit by enabling easy access to relevant audit guidance, templates, and integrated engagement management

KPMG application software

One way we use KPMG application software ("IDEA") is to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for testing.

DataSnipper

DataSnipper uses optical character recognition and robotic process automation to automate vouching procedures.

We imported your documents into the tool, which automatically matched specified excel data to the corresponding documents, leaving an audit trail behind for review by our audit team members.

KPMG's software audit tools are intended to be used as internal enablement tools in conjunction with the performance of audit services. Information resulting from use of software audit tools may not be used as a basis for management's conclusions as to the fairness of presentation of its financial statements or form a part of the internal control.

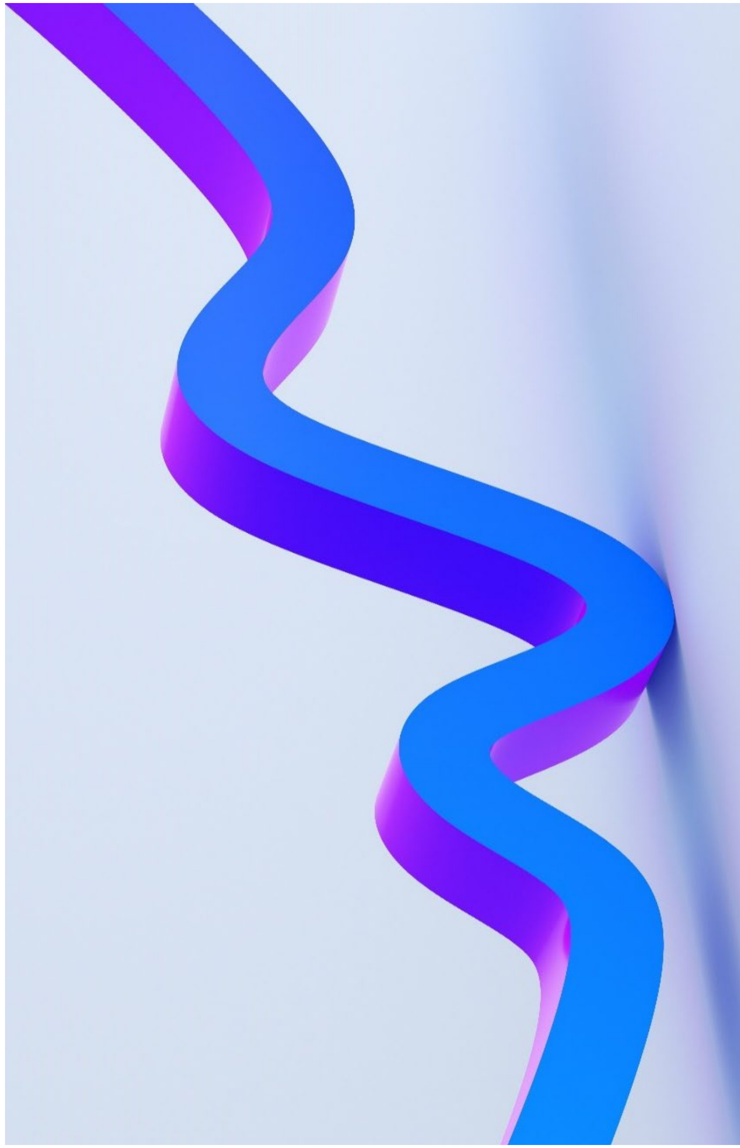
Status

As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

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

We will update the Audit and Risk Management 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.

A draft of our auditor’s report is provided in **Appendix B: Draft Auditor’s Report**, will be dated upon the completion of any remaining procedures.



Significant risks and results

We highlight our significant findings in respect of **significant risk.**

Presumption of the risk of fraud involving improper revenue recognition

RISK OF
ERROR FRAUD

Significant risk	Estimate?
This is a presumed risk of material misstatement due to fraud. This risk has not been rebutted. 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.	No

Our response

- Our audit approach consisted of evaluating the design and implementation of selected relevant controls. We tested journal entries that meet specific criteria. This criteria was designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries.
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end). We also incorporated an element of unpredictability into the journal entries and revenue testing.
- We reviewed controls implemented pertaining to revenue recognition and performed walkthroughs of key controls surrounding the revenue process.

Significant findings

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

Significant risks and results

Management override of controls

RISK OF FRAUD

Significant risk	Estimate?
Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities	No

Our response

- As this risk is presumed risk and is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- We performed procedures consistent with professional standards to address this risk. These procedures include the following:
    - testing of journal entries and other adjustments;
    - performing 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.

Other significant findings and results

We highlight **other significant findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Asset retirement obligations

Area of focus	Estimate?
The new standard PS 3280 Asset retirement obligations ("ARO") came into effect for fiscal year ended on December 31, 2023. The new ARO standard requires 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 assessment of these future legal obligations requires management to perform a comprehensive analysis of controlled assets, along with the development of estimates to evaluate an estimated liability at the financial reporting dates of December 31, 2023 and December 31, 2022. The TTC has adopted the modified retroactive approach, which entails a recognition of the ARO liability as at January 1, 2022. See change in accounting policy note 2(p) for restatement details. During the year, the TTC recognized $263M (2022 – $247M) of the liability for asset retirement obligation.	Yes - ARO is a calculation determined by a range of internal and external subject matter experts. This involves numerous inputs and assumptions, requiring management to make the best estimates.

Our response

- We obtained the TTC's ARO policy and the corresponding ARO implementation memo and performed a review to ascertain their alignment with the requirements of the PS 3280. We performed an assessment of the reasonableness of the TTC's scoping decisions and the rationale for excluding certain TCA items to determine whether they are in compliance with standard guidelines and general practice across industry.
- We obtained TTC's ARO model assessment and performed the following procedures:
  - We reviewed the ARO model for significant categories of TCA such as tunnels, tracks, stations, buildings, leases and performed an assessment of the mathematical accuracy and related calculations of ARO liability at asset category level.
  - We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness.
  - We reviewed the cost per square foot analysis for asbestos, as developed by management, and verified inputs against supporting documentation to ensure reasonable and accurate cost was applied to all in-scope assets in the ARO model. For any inputs that incorporated significant assumptions, we evaluated the reasonableness of these assumptions and compared to the external sources or general industry practice.
  - We selected samples of in-scope assets where measurement of ARO has been calculated and agreed to relevant inputs to supporting documentation.
- We conducted meetings with significant internal subject matter expects involved in the ARO model development to evaluate their extent of involvement, area of expertise and relevant skills and capabilities. We assessed the qualifications, competence and objectivity of significant internal and external experts as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PS 3280 to ensure disclosures are in accordance with PS 3280.

Significant findings

- We did not note any issues in the TTC's adoption process of new ARO accounting standard. The measurement and recognition of ARO obligation is reasonable.

Other significant findings and results

Passenger services revenues

Area of focus	Estimate?
Total passenger services revenue for the year was $943M (2022 - $743M). Of this amount, passenger services revenue earned related to PRESTO was $874M (2022 - $675M). Additionally, there was unearned revenue from PRESTO of $13M (2022 - $9M), which is recorded as deferred revenue as at December 31, 2023, and will be recognized as revenue in fiscal 2024.	No

Our response

- 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.
- 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 a 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.

Other significant findings and results

Unsettled accident claims

Area of focus	Estimate?
TTC Unsettled accident claims is a significant and complex estimate representing 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.	Yes – Unsettled accident claims is a calculation as determined by actuarial experts. This calculation involves numerous inputs and assumptions.

Our response

- We reviewed the actuarial report prepared by management's actuarial expert for determining unsettled accident claims.
- We obtained assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the unsettled accident claim liability.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We reviewed the methodology and underlying assumptions used to formulate management's estimate.
- We performed testing of underlying data contained in valuation to source data.
- We performed 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.

Other significant findings and results

Employee future benefits liabilities

Area of focus	Estimate?
The TTC's employee benefit liabilities are significant and complex estimates and represents a liability computed by management's actuarial experts. These employee benefit plans encompass post-employment plans, post-retirement plans, and pension plans. As at December 31, 2023, the liability amount was $946M (2022 - $912M).	Yes – Employee future benefits is a calculation as determined by actuarial experts. This involves numerous inputs and assumptions.

Our response

- We reviewed the actuarial report prepared by management's 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
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We reviewed the methodology and underlying assumptions used to formulate management's estimate.
- We assessed the participant data supplied by management to the Actuary for completeness and accuracy.
- We assessed the disclosures in the financial statements against the requirements of the PSAS.

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.

Other significant findings and results

Tangible capital assets

Area of focus	Estimate?
The net book value of tangible capital assets ("TCA") as at December 31, 2023 was $13.1 billion (2022 – $12.6 billion). During the year, the TTC recognized $1,275M (2022 - $888M) in net additions to TCA. During the year, TTC incurred an amortization expense of $769M (2022 - $749M).	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

- 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.
- We reviewed that amortization expense is consistent with the TTC significant accounting policies, and recalculated amortization during the year based on the useful lives.
- We reviewed financial statement note disclosure in line with the PSAS.

Significant findings

- There were no other significant findings as a result of our audit procedures for tangible capital assets. The amounts reported for tangible capital assets are reasonable and disclosures in the financial statements are in accordance with the PSAS.

Other significant findings and results

Related party transactions and balances

Area of focus	Estimate?
The TTC enters into various transactions with its related parties, including the City of Toronto and City of Toronto affiliated entities.	No

Our response

- We obtained an understanding of management's processes for tracking related parties and related party transactions.
- We reviewed organizational charts to determine whether management's analysis of related parties remains appropriate.
- We obtained confirmations from related parties with whom the TTC had significant transactions with and balances at year-end:
  - We confirmed subsidy funding (both operating and capital) as well as subsidy receivables with the City of Toronto and reconciled to TTC records.
  - We obtained confirmation from the City of Toronto for the indemnified receivable balance outstanding as at year-end relating to unsettled accident claims
  - We confirmed revenues collected on behalf of the TTC and expenses incurred by the TTC for the Toronto Parking Authority as well as year end receivables and payables and reconciled to TTC records.
- We reviewed financial statement note disclosure in line with the PSAS.

Significant findings

- There were no other significant findings as a result of our audit procedures for related parties. The amounts reported are reasonable and disclosures in the financial statements are in accordance with the PSAS.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

- The management representation letter includes the Summary of Uncorrected Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial.
- Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.
- We concur with management’s representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Below is a summary of the impact of the uncorrected misstatement:

Surplus for the year	(in $’000s)
As currently presented	$453,919
Uncorrected misstatements	$6,727
As a % of the balance	1.48%

Total assets	(in $’000s)
As currently presented	$15,046,824
Uncorrected misstatements	$13,454
As a % of the balance	0.09%

Uncorrected misstatements

Uncorrected audit misstatements include financial presentation and disclosure omissions.

As at and year ended December 31, 2023 (in thousands)	**Surplus effect**	**Financial position**		
Description of misstatements greater than $3,000	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
Proposed adjustment to correct for an accrual entry that was posted twice, and the related impact	(5,633)	(11,266)	(5,633)	(5,633)
Proposed adjustment to correct year-end legal accrual for expected payout given settlement of a legal case subsequent to year-end	12,360	24,720	12,360	12,360
Total misstatements **(see Management Representation Letter)**	**6,727**	**13,454**	**6,727**	**6,727**

Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.

As at and year ended December 31, 2023 (in thousands)	Surplus effect	Financial position		
Description of misstatements greater than $3,000	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Equity (Decrease) Increase**
Proposed adjustment to correct for an accrual that was already cleared in FY23.	-	(4,741)	(4,741)	-
Total misstatements **(see Management Representation Letter)**	**-**	**(4,741)**	**(4,741)**	**-**

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

No significant deficiencies in internal controls were identified during the audit

Accounting policies and practices

Initial selection

The following new accounting standard came into effect for the year ended December 31, 2023 and was implemented by TTC:

- PS 3280 *Asset Retirement Obligations*

Impact on adoption of the new accounting policy is disclosed in Note 2(p) to the financial statements.

Revised

None in 2023.

Significant qualitative aspects

Significant accounting policies are disclosed in Note 2 to the financial statements.

Appendices

Appendix A: Other required communications

Communications

Audit Findings Report – This document.

Engagement Terms - A copy of the engagement letter and any subsequent amendments has been provided to the Audit and Risk Management Committee.

Audit Planning Report – We have provided our audit planning report to the Board and Audit and Risk Management Committee.

Representations of Management – A copy of the management representation letter is attached.

Management Letter – From time to time, we may identify improvement observations as we conduct our audit procedures. These recommendations will be communicated through a management letter.

Independence – All matters related to independence are dealt with directly by the group audit team. We confirm that we are independent of the Entity in accordance with the requirements under the external auditing standards. A copy of our independence letter is attached.

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results

Appendix B: Draft auditor's report

(see attachment below)

DRAFT #1
April 24, 2024

INDEPENDENT AUDITOR'S 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, 2023
- 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, 2023, 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 ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's 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.

Emphasis of Matter - Comparative Information

We draw attention to Note 2 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated as a result of the modified retroactive adoption of the asset retirement obligation standard.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter - Comparative Information

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended December 31, 2022. In our opinion, such adjustments are appropriate and have been properly applied.

Other Information

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

- the information, other than the financial statements and the auditor's 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 auditor's report thereon, included in the annual report as at the date of this auditor's 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 auditor's 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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

Appendix C: Management representation letter

(see attachment below)

Client letterhead

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

_________________ *(date of board approval)*

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 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, 2023.

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 November 16, 2023, 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.

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, affecting the 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 the 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 or illegal acts, whose effects should be considered when preparing the TTC's financial statements.

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

Comparative information:

11) In respect of the restatement related to the adoption of the asset retirement obligation (PS3280) in the comparative period (adjustments resulting in increases of $246,671,000 in asset retirement obligations, increase of $227,699,000 in subsidies receivable, increase of $2,709,000 in tangible capital assets, increase of $2,961,000 in accumulated operating surplus of as at January 1, 2022 and a decrease in environmental liability of $18,972,000 as at January 1, 2022 and annual surplus for the year then ended in the amount of $252,000), and to restate the comparative information, we reaffirm that the written representations we previously provided to you, in respect of the prior period financial statements presented as comparative information, remain appropriate.

Misstatements:

12) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

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

Other:

14) Adoption of new a accounting standard: The Entity has adopted a new asset retirement obligation (PS3280) accounting standard that came into effect for the year beginning on January 1, 2023, and has recorded all required adjustments to recognize the impact of the new accounting standard. The presentation and disclosure in the financial statements has been updated accordingly to reflect these changes as well.

Non-SEC registrants or non-reporting issuers:

15) 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).

16) 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

____

Richard J. Leary, Chief Executive Officer

____

Josie La Vita, Chief Financial Officer

____

John Montagnese, Executive Director – Finance

cc: Audit and Risk Management Committee

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 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 – Uncorrected Misstatements

Summary of Uncorrected Audit Misstatements
For Year Ended Dec 31, 2023

Amounts in	CAD
Method Used to Quantify Audit Misstate	Rollover

Correcting Entry Required at Current Period End					Income Effect - Debit(Credit)	Statement of Operations Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease)		
ID	Description of misstatement	Accounts	Debit	(Credit)	Income effect according to Rollover (Income Statement) method	Accumulated Surplus	Financial Assets	Non-financial Assets	Liabilities	Operating Activities	Investing Activities	Financing Activities
			A		C-B							
FACTUAL DIFFERENCES												
1	To adjust for accrual posted twice and related impacts	Accounts Payable and Accrued Liabilities	5,632,753						5,632,753	(5,632,753)		
		Tangible Capital Assets		(5,632,753)				(5,632,753)			5,632,753	
		Capital Subsidy Revenue	5,632,753		5,632,753	5,632,753				(5,632,753)		
		Subsidy Receivable		(5,632,753)			(5,632,753)			5,632,753		
JUDGMENTAL DIFFERENCES												
2	To adjust year-end legal accrual for expected payout given settlement of a legal case subsequent to year-end.	Subsidy Receivable	12,360,326				12,360,326			(12,360,326)		
		Capital Subsidy Revenue		(12,360,326)	(12,360,326)	(12,360,326)				12,360,326		
		Tangible Capital Assets	12,360,326					12,360,326			(12,360,326)	
		Accounts Payable and Accrued Liabilities		(12,360,326)					(12,360,326)	12,360,326		

Attachment II – Corrected Misstatements

Company Toronto Transit Commission
Summary of Corrected Audit Misstatements
For Year Ended Dec 31, 2023
Amounts in CAD
Method Used to Quantify Audit Misstate Rollover

Correcting Entry Required at Current Period End					Income Effect - Debit(Credit)	Statement of Operations Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease)		
ID	Description of misstatement	Accounts	Debit	(Credit)	Income effect according to Rollover (Income Statement) method	Accumulated Surplus	Financial Assets	Non-financial Assets	Liabilities	Operating Activities	Investing Activities	Financing Activities
			A		C-B							
FACTUAL DIFFERENCES												
1	To adjust payment initiated by a government vendor that was incorrectly cleared in FY24 during payroll clearing reconciliation as opposed to FY23	Cash and Cash Equivalents		(4,740,851)			(4,740,851)			4,740,851		
		Accounts Payable and Accrued Liabilities	4,740,851						4,740,851	(4,740,851)		
JUDGMENTAL DIFFERENCES												
No judgemental differences noted												

Attachment III: List of related parties and relationships

The TTC is on the of 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) and owns 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 2023:

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

Board Members 2023*:

- Jamaal Myers – Chair (Dec 2023)
- Jon Burnside – Chair (Nov 2022 – Jul 2023)
- Joanne De Laurentiis – Vice Chair (Dec 2023)
- Fenton Jagdeo – Commissioner (Dec 2023)
- Josh Matlow – Commissioner (Dec 2023)
- Dianne Saxe – Commissioner (Dec 2023)
- Julie Osborne – Commissioner (Dec 2023)
- Paul Ainslie – Commissioner (Dec 2023)
- Stephen Holyday – Commissioner (Dec 2023)
- Chris Moise – Commissioner (Dec 2023)
- Ron Lalonde (Dec 2023)
- Nick Mantas (Nov 2022 – Jul 2023)

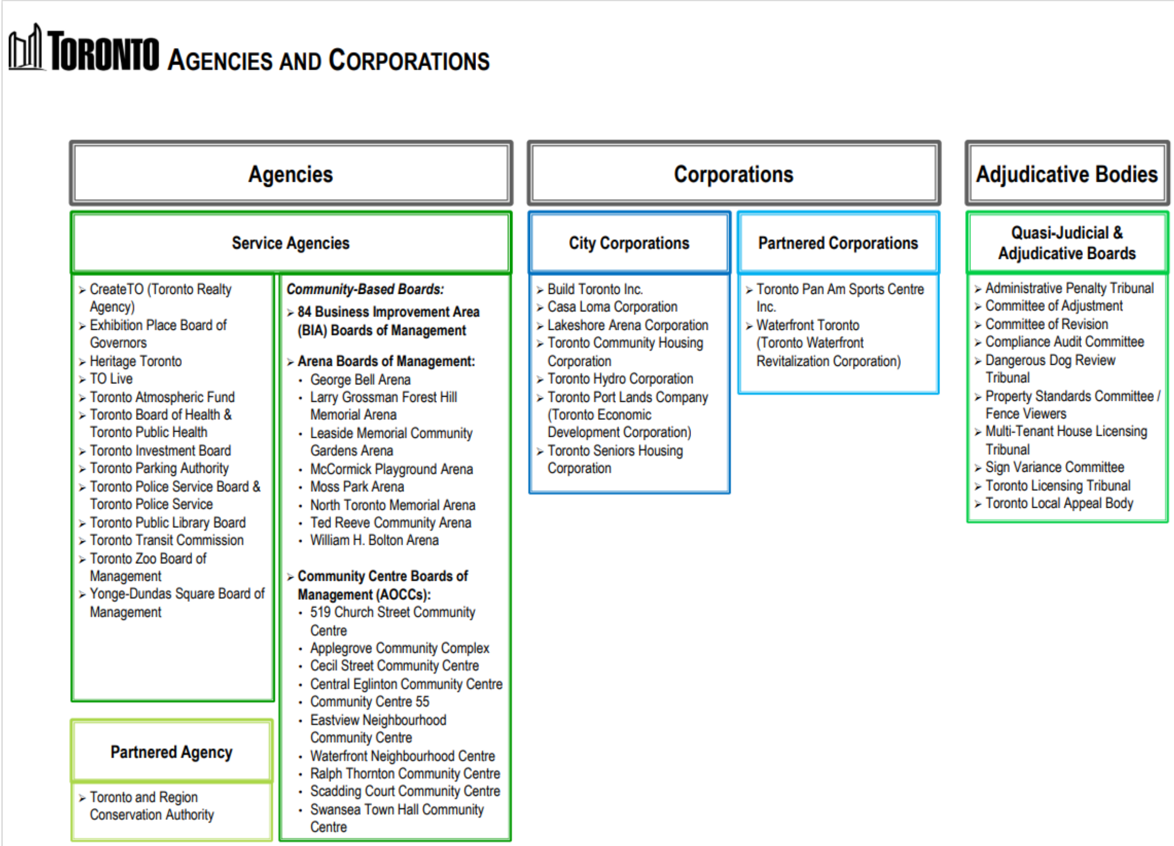
Senior Management as at December 2023*:

- Richard J. Leary – Chief Executive Officer
- Michael Atlas – Head of Legal & General Counsel
- Bruce Macgregor – Deputy Chief Executive Officer
- Keisha Campbell – Chief Diversity & Culture Officer
- Wendy Reuter – Chief Strategy & Customer Officer (Acting)

- Gary Downie – Chief Capital Officer
- Betty Hasserjian – Chief Safety Officer
- Josie La Vita – Chief Financial Officer
- Bem Case – Executive Director, Innovation & Sustainability
- Fortunato Monaco – Chief Operations and Infrastructure Officer
- Shakira Naraine – Chief People Officer
- Natalie Poole-Moffatt – Chief Corporate Affairs Officer
- Karen Thorburn – Executive Director, Corporate Initiatives
- Rich Wong – Chief Transportation and Vehicles Officer

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

Attachment IV: City of Toronto List of Agencies and Corporations



Source: Microsoft PowerPoint - Agency Chart May 2023.pptx (toronto.ca)

Appendix D: Audit quality - How do we deliver audit quality?

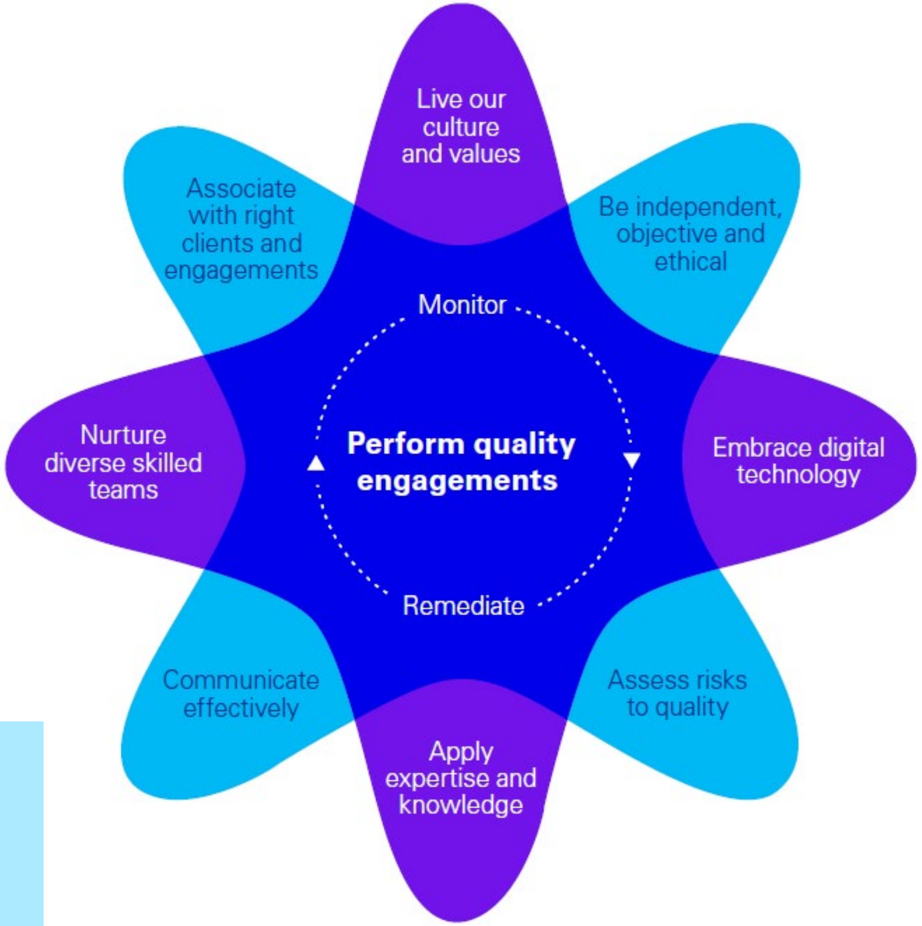
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

KPMG 2023 Audit Quality and Transparency Report

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 management;** 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 E: Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023 *(TTC's December 31, 2024 year-end).* • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue 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 revenue arises 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.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted *(TTC's December 31, 2024 year-end).* • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023 *(TTC's December 31, 2024 year-end).* • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called 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 total assets followed by total 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.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix E: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is 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, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix F: Audit and assurance insights

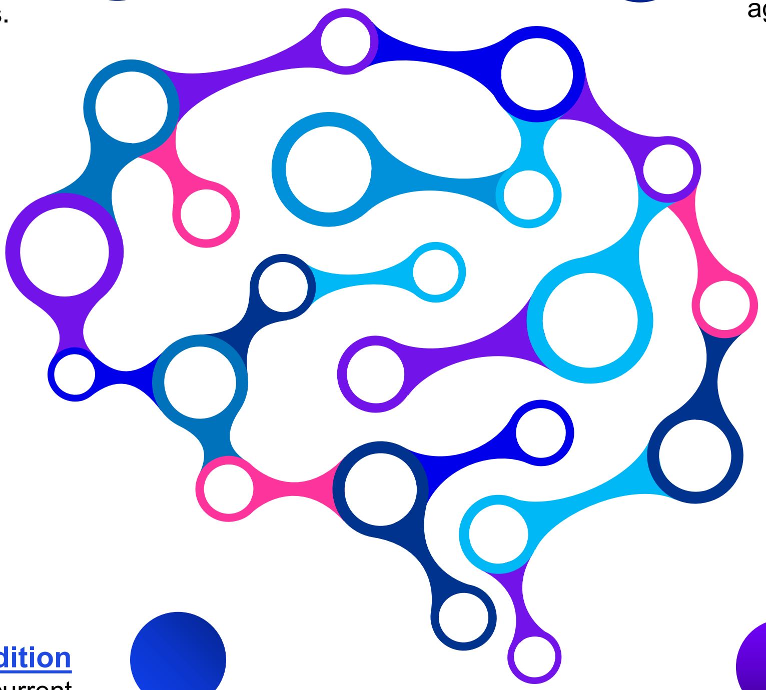
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

Appendix G: Technology - Continuous evolution

Our investment: $5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

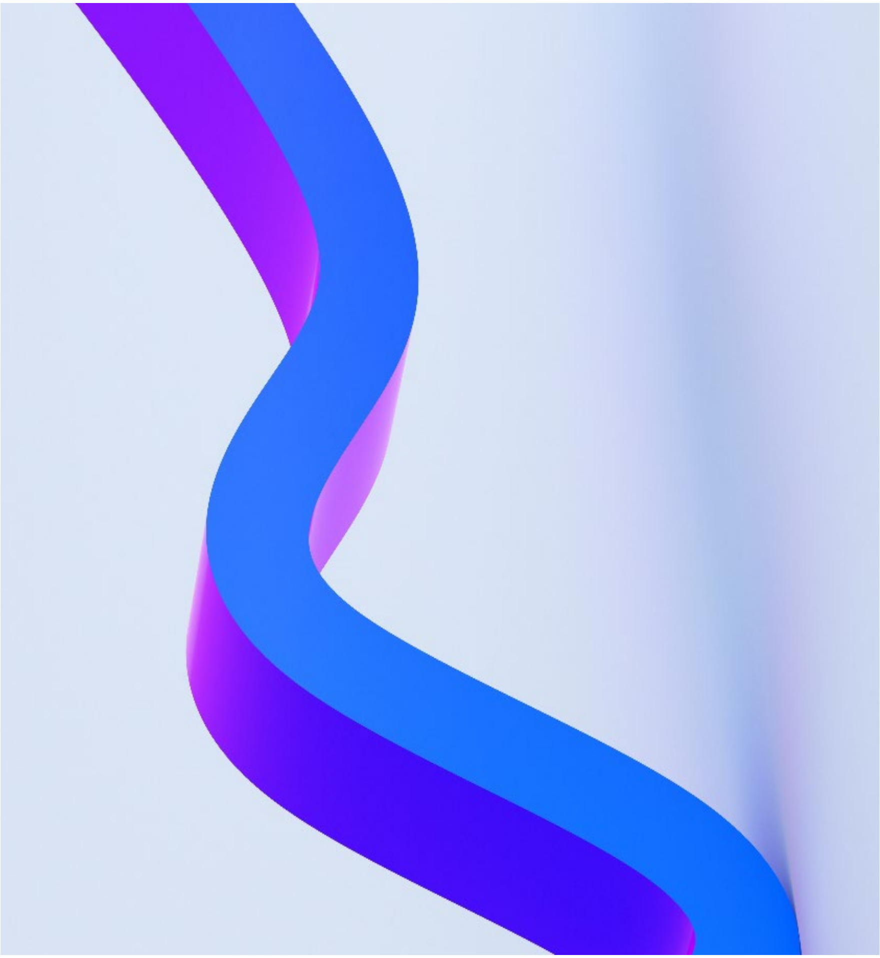
Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.

Appendix H: Independence matters (see attachment below)

As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet or exceed those of the IESBA Code[1] and CPA Code. The following are the actions or safeguards applied to reduce or eliminate threats to an acceptable level:

- Dedicated ethics & independence partners
- Process for reporting breaches of professional standards and policy, and documented disciplinary policy
- Ethics, independence and integrity training for all staff
- International proprietary system used to evaluate and document threats to independence and those arising from conflicts of interest
- Operating polices, procedures and guidance contained in our quality & risk management manual
- Mandated procedures for evaluating independence of prospective audit clients
- Restricted investments and relationships
- Annual ethics and independence confirmation for staff



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

Audit and Risk Management Committee
Toronto Transit Commission
1900 Yonge Street
Toronto, ON M4S 1Z2

April 26, 2024

Management has requested that we communicate to you in writing all relationships between the Entity and our firm, that, in our professional judgment, may reasonably thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client

PROVISION OF SERVICES

The following table summarizes the professional services provided to the Entity for the period from January 1, 2023 to April 26, 2024.

Description of professional services
Audit – Audits of the financial statements of the following entities for the year ended December 31, 2023: • Toronto Transit Commission • TTC Insurance Company Limited • Toronto Transit Commission Pension Fund Society Plan • Toronto Transit Commission Sick Benefits Association

Other audit-related: - CAS 805 report on Toronto Transit Commission Streetcar Fleet Replacement Transfer Payment Claims   - CAS 805 report on Toronto Transit Commission Streetcar Fleet Enhancement Transfer Payment Claims   - CSAE 3530 limited assurance compliance report on Toronto Transit Commission Streetcar Fleet Replacement Transfer Agreement
Tax – none
All other – Advisory support in the following areas: - Assistance with risk assessment (cyber)   - Provision of support to assist management in their development of strategies and review of programs (Renewable Energy Programs, Innovation and Sustainability Program (ISP), Corporate Plan, Business Transformation Office)   - Provision of support to assist management in effectiveness of implementation of technology solutions in farecard program

We have not provided any prohibited services. However, professional standards require that we communicate actions that have been taken to address identified threats. This includes the actions taken to eliminate the circumstances that created such threats or applying safeguards to reduce such threats to an acceptable level. We have taken the following actions to eliminate threats, or applied the following safeguards to reduce threats, created by the services listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Kevin Travers

Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, were required, has the appropriate authority from a professional, legal or regulatory body.

Appendix I: ESG - Global regulatory reporting standards

Global regulatory reporting standards

Recent Activity

ISSB[1] and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

US (SEC[2,3] and California[4])

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

EU[5,6]

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies.
- There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our ISSB Resource Centre for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our Defining Issues publication for more information on the SEC's final climate rule
3. Refer to our Defining Issues publication for more information on the SEC's cybersecurity rules
4. Refer to our publication on California's introduction of climate disclosures and assurance requirements
5. Refer to our ESRS Resource Centre for resources on implementing the ESRSs
6. Refer to our publication on the impact of EU ESG reporting on non-EU companies

Appendix I: Environmental, social and governance (ESG)

How we can help along your ESG reporting journey

Preparing for ESG reporting in accordance with regulatory standards will take substantial time and resources – it is a journey. The end goal is implementing and sustaining ESG external reporting in compliance with the applicable reporting frameworks in such a way that the ESG information and metrics reported can be verified and assured.

As your financial statement auditor, we are able to support you across a number of activities throughout your ESG reporting journey, prior to undertaking assurance readiness or formal assurance on your reported ESG information and metrics.

Establish

- Findings and observations with respect to **materiality assessment**, governance structure, reporting strategy
- **Gap assessment** to global reporting standards (e.g., IFRS S1 and S2)
- **Peer benchmarking and insights** on industry best practices

Implement / Report

- ESG reporting **training** to Board and Management

Assess

- Feedback on **current state operating model**, including processes, people, technology, service delivery model and data
- Review existing **data and estimation methodologies**

Design

- Provide management with feedback on the **reporting roadmap**
- Findings and observations on draft **external disclosures** based on leading practice

Appendix I: Environmental, social and governance (ESG)
Why your auditors should be engaged in the reporting journey

We are one-team at KPMG.

With KPMG's one-team approach, you will benefit from the efficiencies gained by having members of your financial statement audit team engaged in your ESG reporting journey along with our ESG subject matter experts.

We know you

It is important to have a general understanding of the entity and its control environment (e.g., IT systems and underlying processes) to best support you in your ESG reporting journey

Coordinated approach

Management meetings are carried out once and leveraged across your financial statement and ESG journey process, wherever possible

Synergies gained

Key messages and reports to management and the audit committee will be consistent and include both financial and ESG information

Connected to financial statements

Increased demand for consistency between ESG reporting and financial reporting puts us in the best position to support you

Single point of contact

Having KPMG as your ESG service provider – your key audit points of contacts will enable you to get clear perspectives on all your reporting needs when you need them

Future efficiencies

Engaging us in the reporting process today will be an investment that will lead to efficiencies when undergoing limited assurance in the future

Appendix J: Climate risk in the financial statements

All entities are facing climate-related risks and opportunities – and are making strategic decisions in response. The impacts of climate-related risks in the financial statements are broad, potentially complex and will depend on industry-specific risks.

How might climate-related risks impact the financial statements?

01 Assets

Consider the useful lives and residual values of PP&E and intangible assets, cash flow projections used for impairment testing of non-financial assets, and the potential impacts on inventories.

02 Liabilities

Consider the recognition of environmental and decommissioning obligations, accounting for emissions or ‘green’ schemes, impact on employee-benefit arrangements, and restructuring provisions.

03 Borrowers

Consider the accounting for different forms of government assistance, potential for embedded derivatives in green bonds, lease of green technology, impacts of leasing polluting assets.

04 Lenders

Consider how climate-related risks impact operating and financing leases, the potential impact on expected credit losses, and whether green loans meet the solely payments of principal and interest (SPPI) criterion.

05 Disclosures

Consider the impact on the going concern assessment and related disclosures and whether the impacts of climate-related matters have been disclosed clearly.

See here for more information

https://kpmg.com/ca/en/home.html