The City of Toronto

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Licensed Public Accountants

May 21, 2021

kpmg.ca/audit

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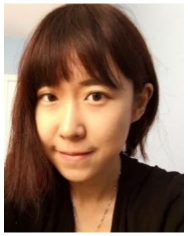

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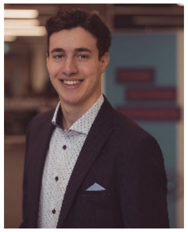

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How do we deliver audit quality?

Transparency report

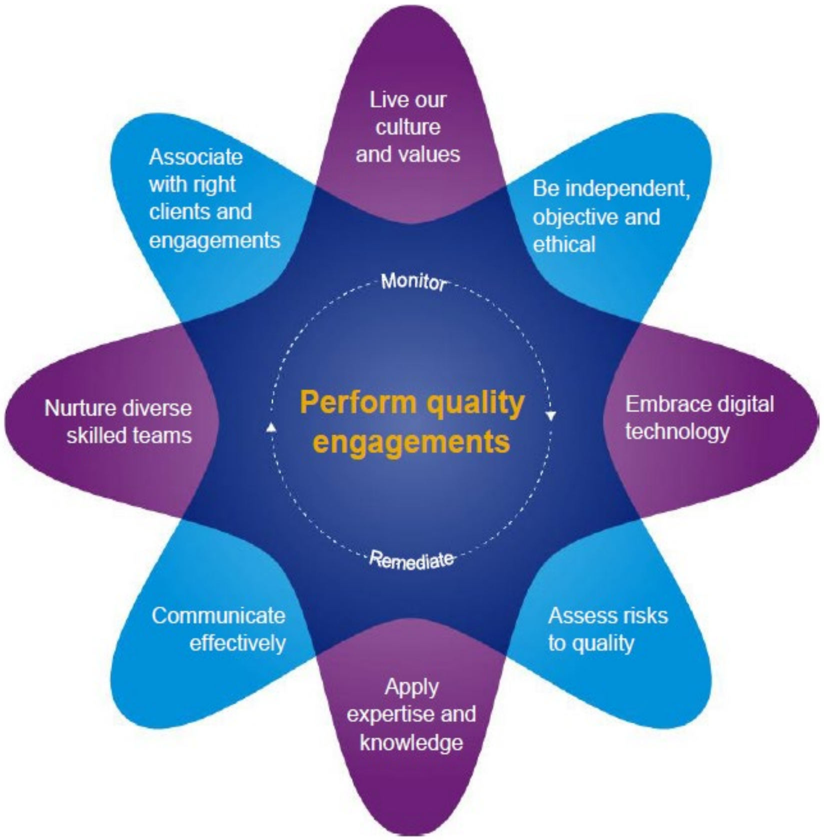
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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

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

We define '**audit quality**' as being the outcome when:

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



Doing the right thing. Always.

Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements (the "financial statements") of the City of Toronto (the "City") 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 6
- New CAS auditing standards – See page 8

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 amongst others:

– Completing our discussions with the Audit Committee;
– Signed Management Representation letter; and,
– Obtaining evidence of the Council's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is attached to the draft financial statements, will be dated upon the completion of <u>any</u> remaining procedures.

Change from Audit Planning Report

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

Adjustments and differences

We have identified corrected and uncorrected audit differences.

We concur with management's representation that the uncorrected differences are not material to the financial statements. Accordingly, the uncorrected differences have no effect on our auditors' report. See page 16.

Significant accounting policies and practices

The significant accounting policies noted in the financial statements of the City are in accordance with the Public Sector Accounting Standards. There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

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

Executive summary (continued)

Control deficiencies

Our audit approach was substantive where we did not place reliance on controls. Our audit opinion is based on the results of these substantive procedures. We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We have identified some opportunities for process improvement at the City. We are currently in the process of providing these to the City Management for their consideration.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework of Public Sector Accounting Standards (PSAS).

Independence

We confirm our independence to the City. We confirm that we are independent of the City in accordance with ethical requirements that are relevant to our audit of the financial statements.

Opening balances – Predecessor review

We reviewed the predecessor auditors' working papers for the 2019 fiscal year to ensure that sufficient and appropriate audit evidence was obtained for prior year financial statements. We are comfortable in using the prior year audited balances as opening balances for the current year. There were no significant issues noted. Our Auditors' opinion includes reference to the change in auditor.

What's new in 2020

COVID-19 pandemic

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
City's financial reporting impacts	— 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. — The areas of the financial statements most affected included: o Government transfers (i.e., the Safe Restart Agreement) – See page 11 under Audit Risk and Results o Impairment of Tangible Capital Assets – No triggers for impairment were identified; assets continue to provide economic benefit to the City. o Disclosures – Management's disclosures were reviewed in the context of the pandemic and determined to be adequately described. The City has included disclosure on the impact of the COVID-19 pandemic as relevant in the notes to the financial statements.
City's internal control over financial reporting	— Along with the City's remote working environment, the financial reporting impacts above necessitated certain changes to the City's internal control over financial reporting. — As a result of the changes to internal control over financial reporting due to the COVID-19 pandemic, we: o Evaluated the design of the new relevant controls implemented in the control environment, the entity's risk assessment process, information and communication, and monitoring components of internal control over financial reporting. o We found that changes to internal controls due to the COVID-19 pandemic were not significant. This included the change from manual to digital approval for review and approval of different processes and transactions. We were able to review approvals and authorizations completed in a digital manner using digital authentication tools.

COVID-19 pandemic

We incorporated revisions to our audit plan arising from the impacts of the COVID-19 pandemic. We adapted our audit to respond to the continued changes in your business, including the impacts on financial reporting and internal control over financial reporting.

Area of Impact	Key Observations
Materiality	— We considered impacts to financial reporting on both the determination and the re-assessment of materiality for the audit of the financial statements. — Materiality has not changed from the amount calculated at planning stage. Planning materiality was set at a lower amount to be conservative and to address uncertainty related to expected total revenue due to the pandemic. The actual results were slightly better than the expected total revenue used for planning purposes.
Risk Assessment	— 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 additional risks of material misstatement as a result of impacts of the COVID-19 pandemic to financial reporting.
Working remotely	— 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. — We used secure and innovative technologies to conduct walkthroughs and perform tests of controls to gain an understanding of the Entity. — 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	— 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 the City's financial reporting and changes in the City's control environment. — Manager and partner 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.
Substantive Testing - Response	— As a result of the significant changes to the entity's business during the year and the difficulties to use prior period trends to predict current period results, we changed our approach for the audit of Payroll costs from performing substantive analytical procedure to performing substantive test of details.

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	— 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 each 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. — Based on our audit procedures performed we concluded that management's estimates and judgements were reasonable. — We involved professionals with appropriate skills and knowledge to assist us in auditing certain estimates as appropriate.

Audit risks and results

Consolidation Process	New or changed?	Estimate?
There is a risk of material misstatement related to the consolidation process due to complex organizational structure and the manual process (in excel spreadsheets) followed by the City.	Same as prior year.	No

Our response

- We gained an understanding of the consolidation process at the City and various elements and inputs for the consolidation. We obtained supporting schedules to understand the inputs into the consolidation workbook and performed further audit procedures related to these supporting schedules.
- We evaluated the design and implementation and operating effectiveness of relevant controls in place over the review and approval of post closing entries related to the consolidation and financial reporting process.
- We performed substantive procedures over the consolidation workbooks including all post-closing adjustments booked as part of the consolidation process.
- We were unable to involve our Information Risk Management specialists as there were no automated inputs into the consolidation process.
- We tested consolidation information related to the significant components to source records for these respective significant components. We obtained financial information of these significant components from the respective component audit teams to ensure use of the audited information for the purposes of the consolidation.
- We performed procedures on the completeness of reporting the City's interest in all entities under its control including Government Business Entities which are accounted for using the modified equity basis (Toronto Hydro Corporation and Toronto Parking Authority) and entities subject to joint control, which are accounted for using the proportionate consolidation method (Toronto Waterfront Revitalization Corporation and PanAm Sports Center).
- We audited the consolidation workbook for accuracy through recalculation and reperformance of the key aspects of consolidation exercise.
- We tested significant manual journal entries by obtaining supporting documentation for the amounts calculated for these manual journal entries.

Significant findings

- We noted a significant level of post-closing activity where post closing adjustments were booked after the financial close date set by the City. Most of these post-closing adjustments were related to the City's various divisions. We did not note any significant issues during our testing of these post-closing entries.
- Management has asserted that the matters identified will be addressed as part of the financial system transformation project currently underway.
- Based on the testing performed, no material misstatements or significant control deficiencies were noted.

Audit risks and results

Fraud risks from revenue recognition and management override

Fraudulent revenue recognition:

There is a presumed risk of material misstatement due to fraud.

We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (obligatory reserve funds).

Management override of controls:

There is a presumed risk of material misstatement due to fraud.

Our response and findings

- To address the risk of fraudulent revenue recognition and fraud related to management override of controls reported in the audit planning report, we performed an extensive amount of testing on the journal entry process including the following:
  - we evaluated the design and implementation of selected relevant controls;
  - we tested journal entries that met specific criteria designed as part of our audit plan;
  - we performed journal entry testing focussed on manual journal entries for revenue and deferred revenue transactions. This criterion is based on areas and accounts that are susceptible to manipulation through management override due to their manual nature; and,
  - we used computer assisted audit techniques to identify any unusual journal entries.
- There were no issues noted as a result of the journal entry testing performed.
- We performed retrospective review of estimates where a look back was the reasonable approach. We also inquired about and discussed management’s rationale for any unusual transactions that may have incurred during the year. We obtained management assessment in form of position papers where necessary and assessed it for reasonableness.
- Based on the testing performed, there were no significant issues noted in regard to the fraud risk noted above.

Audit risks and results

Revenues	New or changed?	Estimate?
The City recognizes revenue from the different streams including property and taxation from other governments, government transfers, user charges, municipal land transfer tax, development charges, rent and concessions, equity pick up from government business enterprises, investment income, and other. Management follows the revenue recognition policies reported in the financial statements note 1 to recognize revenue in accordance with PSAS.	Same as prior year.	No significant estimates.

Our response and findings

Deferred revenue:

- KPMG substantively tested revenues (both recognized and amounts held as deferred at year end) via samples. We obtained and reviewed the continuity for deferred revenue prepared by management. We also recalculated management's calculation of deferred revenue – obligatory reserve funds as at year-end. We also selected a sample of the increases (cash receipts) and decreases (revenue recognition) for deferred revenue during the current year to ensure appropriate revenue recognition.
- Management informed the audit team that there was an overstatement in revenue related to federal gas tax in 2019 for $167 million. This error was discovered in 2020 fiscal year and corrected by management during 2020 as it was considered not material to the consolidated financial statements. While the audit team agrees that a restatement of 2019 financial statements is not required, an uncorrected audit difference is required to be reported to note that the correct adjustment would have adjusted the opening balance of the surplus and not current year revenue.
- The audit team noted that the current year amounts reported in financial statement note 9 for deferred revenue had a disclosure misstatement where 'advance payments and contributions' category was overstated by $88 million and 'obligatory deferred revenues' category was understated by the same amount. The total deferred revenue reported was correct. The audit team proposed a disclosure audit adjustment for this difference which was corrected by management.
- The audit team noted an additional reclassification adjustment that was proposed between deferred revenue and accounts receivable for $14 million for the current year. This adjustment was corrected in the financial statements.

Government Transfers:

- We obtained and vouched revenue to funding agreements from the federal and provincial governments including the amounts received as part of the Safe Restart Program.
- The City received funding as part of the Safe Restart Program and Social Services Relief from federal and provincial governments in the total amount of $1,077 million for 2020. The amount for 2020 was appropriately recognized as revenue. See financial statement note 20. There was nothing reported as deferred revenue as at year end as the 2021 funding was received after December 31, 2020.

Overall:

- We did not note any significant issues as a result of audit procedures related to other categories of revenue.
- Based on the audit work performed, we did not note any material misstatements related to revenue recognized for the City. The disclosures made by the City are in accordance with the accounting standards. See page 16 for uncorrected audit differences.

Audit risks and results

Employee Benefits Liabilities	New or changed?	Estimate?
During the current year, the City engaged an external actuarial consultant, (the "Actuary") to complete an extrapolation of a prior year valuation for the City's non-pension post retirement benefits. This extrapolation was performed to determine the employee benefits liabilities as reported in the City's 2020 financial statements. The employee benefit liabilities as at December 31, 2020 are outlined in note 14 to the financial statements. A discount rate of 1.20% to 2.00% (2019 – 2.40% to 2.70%) was used for the determination of the liability related to different categories of these non-pension post-retirement benefits.	Same as prior year, new extrapolation was completed during the current year.	Estimation uncertainty exists related to the likelihood and measurement of contingent liability. KPMG audit team engaged KPMG Actuarial specialist team to assist in auditing the data, method and assumptions related to this estimate.

Our response

- We assessed the participant data supplied by management to the Actuary for completeness and accuracy.
- We obtained the actuarial valuation report and engaged our KPMG actuarial specialist team to audit the method and assumptions applied in the valuation.
- We evaluated the discount rate in comparison with rates issued by the Canadian Institute of Actuaries ("CIA") and KPMG LLP.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PSAS.

Significant findings

- Based on our review of predecessor auditors' working papers, we did not note any issues in attribute testing of participant data from 2018 that was used by the Actuary to develop this estimate. New participant data will be submitted to the Actuary during the next full valuation which is set to take place in 2021.
- Based on our review of the memo prepared by the Actuary, we noted that method applied for the estimate is acceptable per CIA and PSAS 3250 *Retirement Benefits.*
- KPMG actuarial specialist team assessed the key assumptions used by the Actuary in light of the City's financial results. KPMG specialists noted that the significant assumptions stayed consistent compared to the previous valuation report.
- We note that the discount rate used by the Actuary is a key assumption. KPMG actuarial specialist team evaluated the discount rate used by the actuary against the discount rate curve issued by different reliable sources. Based on the results of this evaluation, we concluded that the discount rate used is reasonable.
- The disclosures included in the financial statements are in accordance with the requirements of the PSAS.
- Based on the audit work performed, we did not note any issues related to the calculation of the City's Employee Benefits Liabilities as at December 31, 2020.

Audit risks and results

Tangible Capital Assets	New or changed?	Estimate?
Tangible capital assets present the biggest non-financial asset for the City. There is a risk of material misstatement related to the existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets.	Same as prior year	Yes, useful lives used for amortization. Risk of material misstatement due to estimation uncertainty is remote.

Our response

- Performed testing over manual and automated controls related to recording costs to the relevant capital projects.
- Performed substantive test of details over additions and disposals using a representative sample.
- Obtained amortization policy and assessed reasonableness of estimated useful lives in use and to address the requirements of new CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives.
- Reviewed assets under construction to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis.
- Obtained an understanding of asset write-downs during the year and the rationale behind these write-downs.
- Reviewed financial statement note disclosure in line with the PSAS.

Significant findings

- Based on testing performed we noted that the process around the transfer of assets under construction to completed tangible capital assets upon substantial completion can be improved and done on a more timely basis.
- We identified errors in the assets under construction (“AUC”) category where the substantially completed assets were not transferred out of AUC in a timely manner. This results in the timing of the commencement of amortization being delayed as well as a potential overstatement of the assets under construction caption and an understatement of the relevant in-service asset categories. We brought the matter to the attention of management and asked management to quantify the potential error. Management prepared an estimate to quantify this error using data and assumptions from tangible capital assets listings and project details in the SAP system. We performed additional audit procedures on the reasonableness of the assumptions applied and accuracy and completeness of data used. We found management’s estimate for the correction to be reasonable. As a result, management has corrected this error whereby $393 million of AUC were reclassified into completed tangible capital assets categories. Total tangible capital assets amount did not require an adjustment as this adjustment was a reclassification between the two categories included within tangible capital assets. The impact on the amortization expense was not significant.
- We noted instances where asset useful lives used by the divisions were not within the range noted in the accounting policy note in the financial statements. We asked management to update the accounting policy note to reflect the rates in use. Management has updated the accounting policy note in the financial statements.
- Based on the audit work performed, there were no other items of significance to be reported.

Audit risks and results

Contingent liabilities	New or changed?	Estimate?
PSAS 3300 *Contingent Liabilities* requires that the City recognize a liability when "it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated." At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, etc. The City has disclosed the provision for property and liability claims in note 10 of the financial statements.	Same as prior year	Estimation uncertainty exists related to the likelihood and measurement of contingent liability. KPMG audit team engaged KPMG Actuarial specialist team to assist in auditing the data, method and assumptions related to the provisions for property and liability claims.

Our response

- We held discussions with the City to understand the process employed to determine the estimates for the liabilities for property and liability claims and legal matters.
- We obtained an understanding of the methodologies applied to compute the estimate, data involved, and assumptions applied.
- We engaged our KPMG Actuarial specialist team to audit the data, method and assumptions related to provision for property and liability claims due to high complexity.
- We obtained and evaluated the City's assessments and claims listing that are used to develop and record these estimated liabilities.
- We obtained a legal confirmation from the internal legal counsel and evaluated the assessments made by internal legal counsel on the pending legal matters in terms of determination of likelihood and measurability. We also obtained external legal confirmations as necessary.

Significant findings

- Due to uncertainty related to the legal matters, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.
- KPMG Actuarial specialist team did not note any material misstatements in the method, data, and assumptions used by the City for property and liability claims provision. KPMG Actuarial specialist team noted some process improvement opportunities related to claims processing at the City and these have been shared with management in a separate document.
- We did not note any material misstatements related to the contingent liabilities reported by the City.

Group audit reporting - Significant components

Below is a summary of results of the audit of the significant components:

Significant component	Audit procedures substantially completed	Corrected Audit Adjustments	Uncorrected Audit Differences	Control Deficiencies	Group reporting received
City of Toronto non-consolidated	√	Yes	Yes	None	**N/A**
Toronto Hydro Corporation (“THC”)	√	None	None	None	√
Toronto Transit Commission (“TTC”)	√	None	None	None	√
Toronto Community Housing Corporation (“TCHC”)	√	Yes	None	None	√

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 and Council that all identified differences be corrected.

Uncorrected differences

1. To decrease opening surplus and current year government transfers revenue in the amount of $167 million for a prior period adjustment corrected in the current year. This adjustment pertains to federal gas tax funding where the City recognized revenue in 2019 but found out after the issuance of 2019 financial statements that the revenue recognition criteria were not met in 2019. 2020 ending balance for accumulated surplus is correct.

2. To decrease opening surplus and current year government transfers revenue in the amount of $45 million for a prior period adjustment corrected in the current year. This adjustment pertains to solid waste management division where the City recognized an accrual related to funding in 2019 but found out in 2020 that the accrual for revenue was overstated. 2020 ending balance for accumulated surplus is correct.

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of the uncorrected differences considered to be immaterial, including the effect of uncorrected misstatement related to prior period on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Based on both qualitative and quantitative considerations, management have decided not to correct this audit difference and represented to us that the difference is, 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 difference is not material to the financial statements. Accordingly, the difference has no effect on our auditors’ report.

Corrected adjustments

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

Audit Value & Delivery

Areas of focus	Value & Delivery
Value	**Audit Observations:** KPMG audit team has identified a number of observations related to potential improvements in financial and operational processes accumulated during the performance of the audit. We are in the process of providing these to the City Management for their consideration.
Innovation	See **Appendix 3** for details on: - Business Process Mining Purchase to Pay Procurement process analysis - Clara advanced capabilities to analyze data for insights - Clara online site for managing audit requests seamlessly in remote audit environment - IT audit Team involvement for general and application controls relevant for the audit
Communication	**Biweekly meetings:** KPMG audit team booked biweekly meetings with senior management from February to June in order to provide timely updates on important matters related to the audit. These matters included: - Status update for the audit of the City - Status update for the audits of the Agencies and Corporations - Audit observations - Accounting updates for upcoming new standards - Presentations on current and hot topics - Findings from the specialists involved including IT audit team, actuarial specialists for Employee Benefits Liabilities and Property and Liability Claims provision **Participation in Financial Close Awareness Presentations by Accounting Services Division:** KPMG audit team participated in presentations made by the Accounting Services Division to all the divisions to create more awareness around the financial close process at the City. KPMG presented the portion on the correlation between financial audit and financial close process at the City.
Forward looking	**Accelerating Financial Reporting:** KPMG audit team is working with management on making the audit process more seamless in the future years. KPMG audit team is passionate about helping the City in accelerating their financial reporting. Our recommendations for some of the audit observations would help the City in achieving this goal. **Green House Gas disclosures:** KPMG is working with the City on an audit readiness project related to the Green House Gas reporting and assisting the City with continuing their leading practices in this area of reporting.

Appendices

Content

Appendix 1: Other Required Communications

Report	Engagement terms
The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.	The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated September 23, 2020 as provided by management.
Report to the Audit Committee and Council	**Representations of management**
This report.	We will obtain from management certain representations at the completion of the audit.
Audit Quality in Canada	**Control deficiencies**
The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committee, Council, and other stakeholders about the results of quality inspections conducted over the past year: • CPAB Audit Quality Insights Report: 2020 Interim Inspection Results • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results Visit our **Audit Quality Resources page** for more information including access to our **Transparency report**	None noted.

Appendix 2: Current Developments

Public Sector Accounting Standards – Upcoming New Standards

Standard	Summary and implications
Impact of COVID-19	– 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. The dates noted below reflect the new revised dates.
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's' fiscal year starting on January 1, 2023. – 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: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's' fiscal year starting on January 1, 2024. – 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.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. This would be applicable to the City's' fiscal year starting on January 1, 2023. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In October 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which were included in the Handbook. The final amendments were issued in October 2020. – The final amendments for the Financial Instruments – Presentation Narrow Scope Amendments and Financial Instruments – Foreign Exchange Narrow Scope Amendments will be issued in the PSA Handbook in April 2021.
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is fiscal years commencing on or after April 1, 2023 (City's year ending December 31, 2024) with early adoption permitted. Application may be retroactive or prospective. This would be applicable to the City's' fiscal year starting on January 1, 2024.

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 completed its review of the stakeholder feedback on the exposure draft in September 2020. – The exposure draft proposed 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 proposed that the public sector entity should 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 fiscal years commencing on or after April 1, 2023 or the City’s year ending December 31, 2024. This would be applicable to the City’s’ fiscal year starting on January 1, 2024.

Public Sector Accounting Standards – Exposure drafts and emerging issues

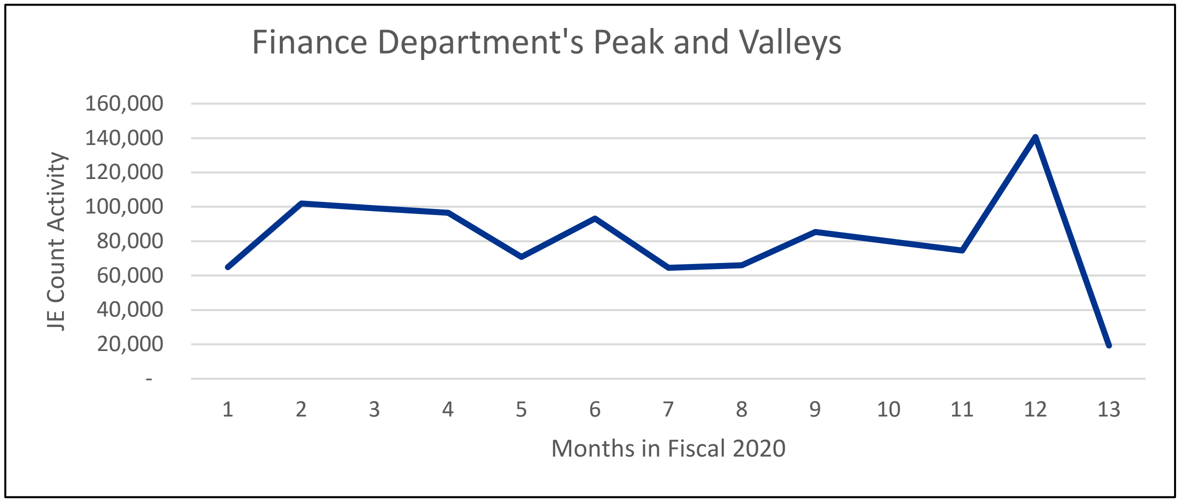
Standard	Summary and implications
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts were due in June 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.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 Employee Benefits as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.

Standard	Summary and implications
International Strategy	– PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021. – An exposure draft to modify the GAAP hierarchy was issued and public comments were accepted up to February 15, 2021.

Appendix 3: Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Technology	Areas of the audit where Advance Technology routines were used	Insights
KPMG Clara Data Management KPMG Clara Data Workbench is the universal data management platform that prepares and processes the data in support of the features and activities team performs within the workflow. This includes the import, data field mapping, account mapping, setting of parameters and processing of data for the KPMG Clara analytics, general ledger routines, data-enabled working papers and GL applications.	This is the first year for the completion of data management set-up for the Entity. KPMG used the data management tool for journal entry and general ledger completeness testing. No issues were noted in the completeness testing. KPMG also performed journal entry analysis discussed on the next page.	KPMG analysed the general ledger for operational activity of the City of Toronto and noted peaks and valleys based purely on journal entry volume. The City has a significantly higher volume of financial activity at year-end. There is an opportunity for the City to leverage its month-end periods to reduce the number of manual adjustments recognized at year-end.



Journal Entry Analysis (JEA)

JEA utilized the journal entry transactional data to allow the audit team to enable drill down capabilities. These drill down capabilities allow our teams to understand the trends, patterns, relationships and screening of journal entries using pre-defined and entity specific criteria.

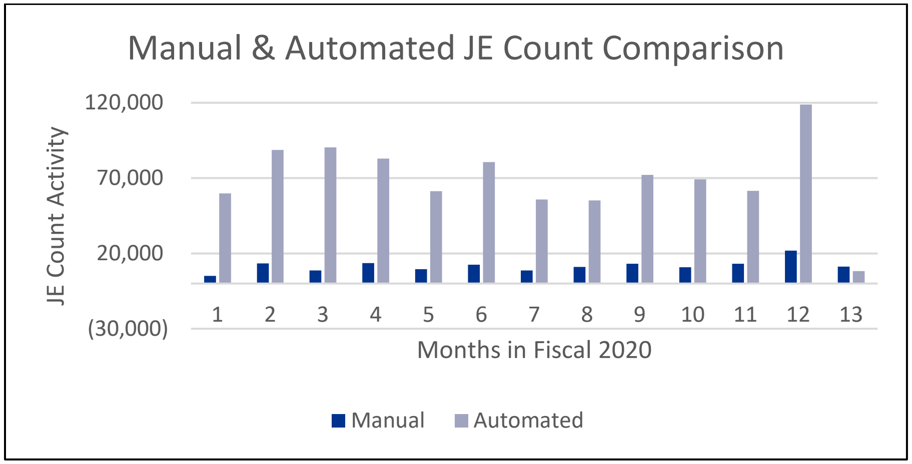
KPMG performed journal entry screening as part of the planning and risk assessment procedures.

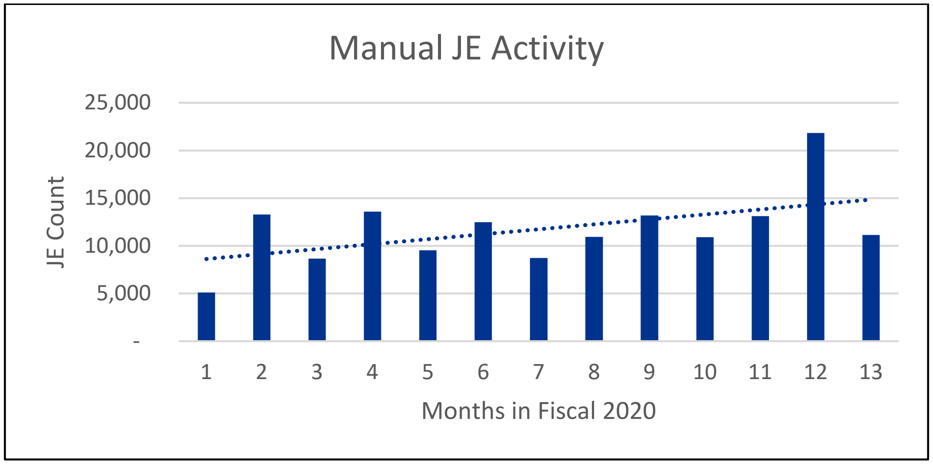
KPMG used this tool for identifying and extracting the journal entries for testing purposes using entity specific high-risk criteria.

Based on this testing, no issues were noted.

KPMG analysed the general ledger of the City of Toronto and noted the following insights:

- The number of manual entries is quite significant especially in period 12 and post close. In 2020, 32,963 manual entries were posted in December and 2021 post closing period. There is an opportunity for the City to capitalize on system solution to alleviate some of these manual entries at year-end.
- Analysis of the split between Manual and Automated noted that on average, the Entity's Journal entries split is 15% Manual and 85% Automated.
- There were no Journal entries missing description.
- There were no journal entries missing user ID.





Business Process Mining

We also incorporated **Business Process Mining (BPM)** technology. BPM provides immediate visualization of how 100% of your transactions are processed to complement your process narratives & flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks & leveraging your team's resources efficiently. It helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.

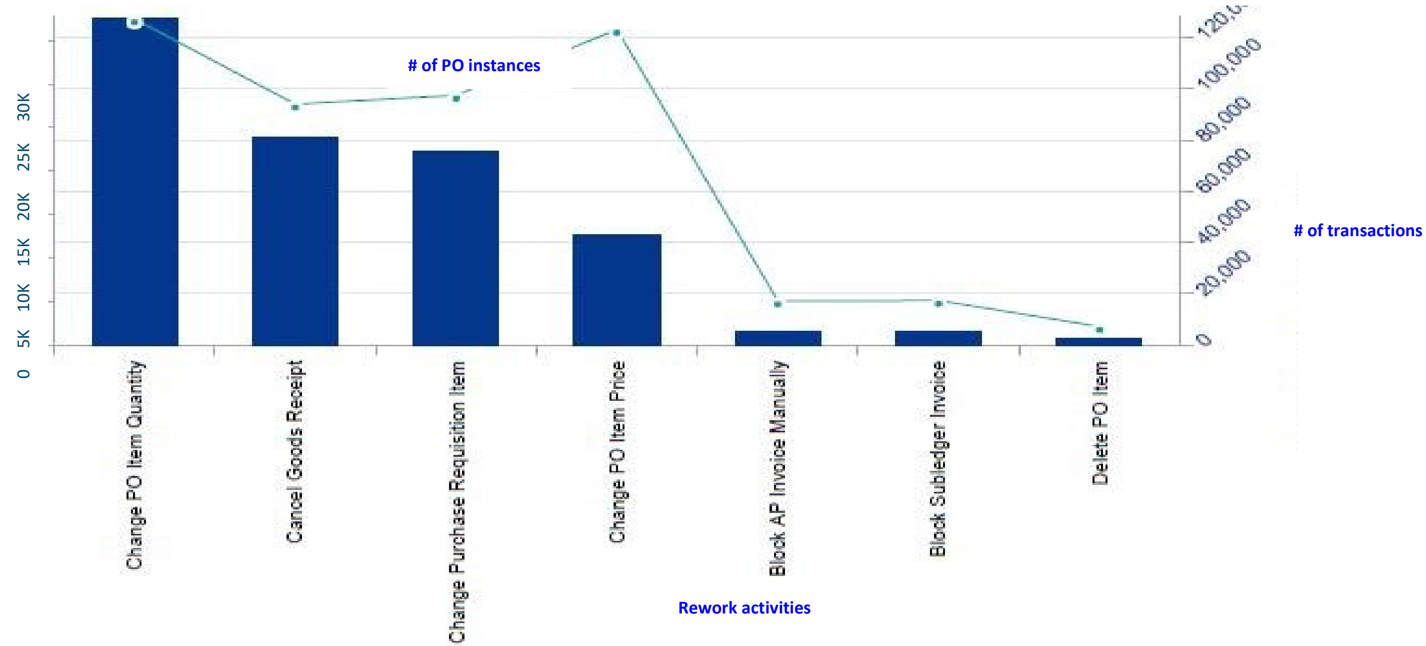
KPMG implemented the BPM technology for the City's Purchase to Pay or Procurement process. KPMG's innovation team delivered a presentation to the senior management in Accounting Services Division to provide insights related to the inefficiencies in the current process.

KPMG also used this tool to pinpoint areas of focus for the purpose of our audit procedures. The insights from the BPM tool were used to complement the process understanding we gained through discussion with City personnel in the procurement division. Currently, the processes in place require a significant amount of rework resulting in less than optimal resource allocation.

KPMG analysed the BPM Purchase to Pay process for the City of Toronto and noted the following insights:

- There is a great opportunity for the City to streamline the variations in the procure to pay process. Currently, there are a significant number of process variations (upwards of 26K approx.). These variations increase the risk of errors and omissions and decreases efficiencies.
- There is an opportunity for the City to reduce rework. We encourage the City to incorporate these findings into the Financial System Transformation project. KPMG Business Process Mining team has the capability to provide deeper insights as needed.

Re-work Analysis



Account Analysis		
Account analysis is a risk assessment tool that performs an automated analysis of an entity's journal entries, comparing them with predetermined assumptions and determining whether those entries reflect 'expected', 'unexpected' or other types of account combinations (also referred to as account pairing). Account analysis results assist us in obtaining an understanding of the entity's accounting processes and recording of transactions, while identifying and assessing potential risks of material misstatements and enabling the determination of an audit approach specifically responsive to such risks.	KPMG performed Account Analysis on some of the significant accounts for the entity. These accounts included tangible capital assets, long-term debt, and cash and cash equivalents. This analysis was used as part of the risk assessment process for the audit of the Entity's financial statements. This tool helped KPMG in highlighting areas to focus on as part of substantive testing by identifying expected and unexpected entries for these significant accounts.	Nothing to note.
KPMG Clara Client Collaboration site		
KCCC is our secure audit platform and a one-stop shop through which we manage the audit requests for planning, interim and year-end audit. This tool also provides Management with real-time access to the status of information requests by category i.e. received to date, pending past due date, and pending not due. This provides exchange of information and real time project management reporting to Management in one central location.	This is our first year of auditing the City and using this tool as part of the City's year-end audit process. As a result of using this audit, we were able to transition in as the new auditor in a fully virtual environment in a smooth and seamless manner.	Nothing to note.
IRM Involvement		
We leverage General IT Controls and IT Application Controls in our audit approach related to payroll. Our IRM team employs their knowledge and understanding of the IT systems and controls in place and performs their testing based on this understanding.	Involvement of IRM in our audit team provided us with audit evidence related controls in place for payroll and allowed us to build and design a better overall audit approach.	Nothing to note.

Appendix 4: Audit and Assurance Insights

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

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

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