

Toronto Parking Authority

Audit Findings Report
for the year ended
December 31, 2020

KPMG LLP

April 20, 2021

kpmg.ca/audit



Attachment 1 - Toronto Parking Authority Audit Findings Report for the Year Ended December 31, 2020



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Our refreshed Values

What we believe

 **Integrity**
We do what is right.

 **Excellence**
We never stop learning
and improving.

 **Courage**
We think and act boldly.

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

 **For Better**
We do what matters.

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 report¹

The purpose of this Audit Findings Report is to assist you, as a member of the Toronto Parking Authority (“the Authority”) Board of Directors, in your review of the results of our audit of the financial statements as at and for the period ended December 31, 2020.

What’s new in 2020

We have tailored our audit approach as a direct result of the COVID-19 pandemic. See page 5 to 7.

Finalizing the audit

As of April 28, 2021, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with the Board of Directors
- Obtaining evidence of the Board’s approval of the financial statements
- Receipt of the signed management’s representation letter (dated upon Board approval of the financial statements)
- Completion of subsequent event procedures to the date of our auditor’s report

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

Audit materiality

Materiality has been determined based on total revenue. We have determined the materiality to be \$2,247,000 (2019 - \$7,876,000). See page 8.

Audit differences

We did not identify audit differences.

Prior period adjustment

The 2019 comparative information presented in the current year financial statements has been adjusted for an immaterial prior period adjustment relating to the results of the Bike Share program. See page 10.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Entity’s relevant financial reporting framework of International Financial Reporting Standards (IFRS).

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

What's new in 2020

COVID-19 pandemic

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
Company'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: ○ Revenue and Net Income – due to the various emergency measures implemented by the City of Toronto (the City) and the Province of Ontario to combat COVID-19 in the current fiscal year, revenue and net income levels have lowered. Measures such as the stay-at-home order have directly caused the lack of demand for parking services, which decreased parking revenue and income in the current year. ○ Government grant – As a part of the Safe Restart Agreement, the Authority received \$4.89 million of emergency funding allocation from the City to support its operations.
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 decreased from the prior year as determined by the predecessor auditor. This reduction is due to a lower benchmark value for the current year. This had a direct impact on our identification and assessment of risks of material misstatement and our response to such risks. Materiality is discussed in further details on page 8.
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).

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
	— We did not identify any additional risks of material misstatements as a result of impacts to financial reporting that required an audit response.
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, perform tests of controls and observe and perform test counts of inventory. — 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, senior 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 Company's financial reporting. — Managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.
Direction and Supervision of the audit – Group audits	— We increased our involvement in the review of audit documentation prepared by certain component auditors. In the rare circumstance where remote access was not possible, we obtained more detailed inter-office memorandums and held more detailed discussions with those component auditors – this was not an issue for the current year's audit
First time audit	— We conducted our review of the predecessor auditor's working papers remotely to ensure a thorough understanding of the approach used for prior year audit.

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 <u>each</u> accounting estimate such as the method, the assumptions used, the data used and the application of the method. — We considered the potential for management bias. — We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed.

New accounting Standards

The following new accounting standards that are effective for the current year.

Standard	Key observations
Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (Phase 1)	— The amendments require companies to provide additional information about their hedging relationships which are directly affected by the amendments. We evaluated the additional disclosures to assess their compliance with the new requirements. — This amendment did not have a material impact on the financial statements.
Amendments to IFRS 3 - Definition of a business	— The amendments made clarifications on whether a transaction results in an asset or a business acquisition and introduced a voluntary “concentration test” - a simplified assessment that results in an asset acquisition. Consequently, we evaluated the Company’s assessments of whether acquisitions in 2020 constitute an asset or a business acquisition against the new requirements. — This amendment did not have a material impact on the financial statements.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amounts for the previous year's audit was \$7,876,000.	\$2,247,000
Benchmark	Based on actual revenue for the current year. This benchmark differs from prior year, where net income and comprehensive income was used by the predecessor auditor.	\$89,906,000
% of Benchmark	The corresponding percentage used by the predecessor auditor for the prior year's audit was approximately 10% of net income and comprehensive income.	2.5%
Performance materiality	We used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$1,685,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$112,000

We will report to the Board of Directors:



Corrected audit misstatements



Uncorrected audit misstatements

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Audit risks and results

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

Significant financial reporting risk

Risk of material misstatement due to fraud resulting from fraudulent revenue recognition

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

Our response

- Fraud risk from revenue recognition has been rebutted. We have not identified any risk of material misstatement resulting from fraudulent revenue recognition. Our audit methodology incorporates the required procedures in professional standards to address and rebut this risk. These procedures include substantive revenue testing, testing of relevant journal entries and other adjustments and evaluating the business rationale of significant unusual transactions.
- As this presumed risk of material misstatement due to fraud resulting from management override of controls is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Significant findings

- We tested manual and automated journal entries and other adjustments by using Data & Analytics routines. Using extractions from the complete general ledger, we selected a sample of journal entries meeting pre-determined high-risk criteria and verified if they were supported by proper documentation and appropriately recorded in the general ledger. We also followed the journal entry initiation and approval controls and process in place.
- We did not identify any issues or concerns after performing our review of estimates.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.
- In addition, we incorporated an element of unpredictability into our audit procedures over manual journal entries.

Audit risks and results

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

Area of focus

Presentation of operating results of Bike Share Program

Background

- In 2019 and previous years, the Authority reported the revenue and expenses related to the Bike Share Program (the “Program”) on a net basis.
- The City provided subsidies to cover operating losses up to and including 2018. During the 2021 budget process, the City notified the Authority that it would no longer be able to provide tax supported funding to offset operating losses in 2019 and onwards.

Significant findings

- A recast was needed for the prior year financial statements due to the 2 reasons listed below:
 - 1) Subsequent to the issuance of the 2019 audit, a decision was made that TPA would assume full responsibility for funding any Program operating deficits. The Authority did not report a deficit of \$3.1 million related to the Program in the 2019 financial statements based on the expectation that the City would continue to provide a subsidy for any operating deficit related to this Program.
 - 2) Based on an assessment performed under the IFRS revenue standard, the Authority qualifies as the principal for activities related to the Program and should be presenting this program under a gross basis.
- The comparative information presented in the current year financial statements have been recast to reflect an immaterial adjustment to the prior period relating to the Bike Share Program
- Note 23 was added to the financial statements to provide disclosure for the recast

Audit risks and results

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

Area of focus

Cash and cash equivalents

Due from related parties

Our response

- Our procedures over Cash and cash equivalents is as follows:
 - Obtain confirmations of the year-end cash balances from third parties.
 - Review of bank reconciliations and vouch significant reconciliation items to supporting documentation.
 - Review financial statements note disclosures.
- Our procedures for Due to/from related parties included:
 - Obtain confirmations from City of Toronto to ensure existence, accuracy and completeness of the intercompany receivable and payable balance.
 - Review financial statements note disclosures.

Significant findings

- Based on work performed, we did not find any significant matters to report.

Audit risks and results

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

Area of focus	Estimate?
Property and equipment Amortization of property and equipment	Yes. All useful lives are based on corporate policies and did not change from prior year. We reviewed the useful lives used in amortization calculation and ensured that all were in line with the authority's policy. The estimation uncertainty related to useful lives does not result in a risk of material misstatement.

Our response

- Our procedures for Property and equipment and Amortization of property and equipment included:
 - Select a sample of additions and agree to original invoices to ensure proper accounting treatment.
 - Review any significant disposals, if any.
 - Assess the reasonableness of amortization expense by performing recalculation.
 - Review financial statements note disclosures.

Significant findings

- Based on work performed, we did not find any significant matters to report.

Audit risks and results

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

Area of focus	Estimate?
Accounts payable and accrued liabilities and Direct expenses	For certain accrued liabilities, management performs their best estimate based on the available information prior to year end closing. KPMG reviewed large accruals to ensure the estimate is reasonable. The estimation uncertainty related to liabilities does not result in a risk of material misstatement.

Our response

- Our procedures for Accounts payable and accrued liabilities and Direct expenses included:
 - We performed a search for unrecorded liabilities by extracting lists of subsequent payments and accounts payable details and selected samples for testing.
 - Select a sample of expense transactions and agree to original invoices to ensure the proper classification of expenses.
 - Review supporting documentation for significant accruals.

Significant findings

- Based on work performed, we did not find any significant matters to report.

Audit risks and results

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

Area of focus	Estimate?
Revenue	No
Accounts Receivable	Yes, allowance for doubtful accounts (AFDA) within the AR balance is an estimate. We performed steps, as listed below, to evaluate the reasonability of management's estimate. The estimation uncertainty related to AFDA does not result in a risk of material misstatement.

Our response

- Our procedures revenue and accounts receivable included:
 - Obtaining an understanding over the account receivable and revenue process
 - Obtaining the accounts receivable aging subledger and testing the subsequent receipt of payment for samples to ensure management's assessment over the collectability is appropriate, considering the impact of Covid-19.
 - Assessing management's approach in identifying customers at risk of non-payment and ensuring the sufficiency of the provision to net against the accounts receivable balance
 - Select a sample of parking revenue and Bike Share revenue. Vouch to supporting documentation and ensure revenue recognition was appropriate.

Significant findings

- Management has appropriately identified customers at risk of non-payment and has increased the allowance provision to ensure the net accounts receivable balance accurately reflects the underlying amounts expected to be collected

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

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

Appendices

Content

Appendix 1: Other Required communications

Appendix 2: Technology in the Audit

Appendix 3: Audit and Assurance Insights



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.	A copy of the engagement letter has been provided to the management of the Authority.
Reports to the Board of Directors	Representations of management
We will provide this report to the Board of Directors.	A copy of the management representation letter is provided to management for signing.
Audit Quality in Canada	Control deficiencies
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: 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	No significant control deficiencies were identified during the audit.

Appendix 2: 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
Journal Entry Analysis	We evaluated the completeness of the journal entry population through a roll-forward of the entire GL. We used KPMG application software (IDEA) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. The GL roll consists of a summation of all automated and manual journal entries posted during the fiscal year and a comparison of the calculated amounts to the account balances as at and for the year ended December 31, 2020 as reported by management. The GL extraction was found to be complete and containing all automated and manual journal entries recorded during the year. We were able to use this complete extraction for our testing of high-risk journal entries. We developed a set of high-risk criteria and applied the criteria to the entire population of journal entries. Journal entries containing high risk conditions were tested to ensure they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.	No issues were identified.
KPMG Clara Client Collaboration Portal	We used the KPMG Clara Client Collaboration (KCCC) Portal for our PBC request management. This tool allowed our team to communicate requests with management in a timely and organized manner. Furthermore, this tool is used to help both our team as well as management stay organized with requests that are made and facilitates two-way communication via the use of “comments” that can be attached to each request.	This tool allowed for the audit to progress in a timely fashion in the virtual environment.

Appendix 3: Audit and Assurance Insights

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

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada.	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
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	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
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more



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