Date to be determined

Toronto Atmospheric Fund
75 Elizabeth Street
Toronto, Ontario
M5G 1P4

PRIVATE AND CONFIDENTIAL

Attention: Ms. Julia Langer

Dear Madam:

Re: Audit of the December 31, 2021 TAF Financial Statements

During the course of our audit of the financial statements of the Toronto Atmospheric Fund ("TAF") for the year ended December 31, 2021, we identified some matters which may be of interest to management.

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. In addition, an audit cannot be expected to disclose defalcations and other irregularities and it is not designed to express an opinion as to whether the systems of internal control established by management have been properly designed or have been operating effectively.

As a result of our observations, we have outlined matters below along with some suggestions for your consideration.

Please note that under Canadian generally accepted auditing standards we must report significant deficiencies in internal control to those charged with governance.

This letter is not exhaustive, and deals with the more important matters that came to our attention during the audit. Minor matters were discussed verbally with your staff.

Issue # 1 - Prepare a consolidated general ledger and trial balance

During the course of the audit, we noted at the start of the audit that TAF had changed its accounting software from Quickbooks to MS Dynamics in order to upgrade its capacity for separate fund accounting and the size and nature of its operations. This introduced significant complexity to the audit process including the requirement for extra sampling and reconciliation between the two systems. Since the financial statements are prepared on a consolidated basis, it is imperative that TAF is able to produce a consolidated trial balance and general ledger at year-end which is complete and accurate. However, we noted at the start of the audit that the consolidated trial balance and general ledger could not initially be provided by TAF. In moving to MS Dynamics, TAF is afforded additional functionality with respect to tracking its various endowments (funds) and TAF should work with MS Dynamics or other service providers to ensure this functionality is made available for this purpose.

Management Response: *TAF is aware of the challenges posed by the transition of accounting systems and other aspects of audit preparation noted. We are confident that the consolidated trial balance will be completed and be provided to the Auditor in a timely manner for the 2022 audit.*

Issue # 2 - Readiness for the annual audit

TAF has grown to a level of size and complexity where waiting until year-end to prepare a final set of accounts is no longer feasible, as the number of adjusting entries and reconciliations to prepare has grown significantly in scope. We recognize that the TAF finance group did not have the capacity to perform this preparation for fiscal 2021. We recommend making additional resources available to support the preparation of financial records, schedules, and reconciliations on a monthly basis. We have also made some recommendations that should assist with preparing for the year-end audit by implementing a number of specific processes and procedures (outlined below) that will help alleviate the capacity constraints at year-end and also improve the overall control environment at TAF to better support its ongoing growth.

Additionally, auditors are required to maintain their independence when performing an audit engagement. If the schedules necessary to support the financial statements are prepared by the auditor, it is an impairment of independence, for which the auditor needs to implement additional safeguards in the review process. The relevance of management preparation of the necessary schedules to support the financial statements is thus two-fold - to improve the efficiency and timeliness of preparation for the audit, and to improve the efficiency of the audit team in the execution of their testing and review procedures.

Management Response: *TAF recognizes the challenges and will take steps to ensure that capacity is in place to undertake all the relevant functions throughout the year and in the context of the audit.*

Issue # 3 - Journal entries: support, review, and evidence of review

During the course of our audit, we noted that journal entries were made without supporting documentation or explanations of the entry being filed. We also noted that journal entries are not consistently being reviewed and approved, which resulted in year-end corrections being required. There is a risk that the financial statements may contain errors arising from improper journal entries that are not corrected at year-end. We recommend that all journal entries be filed on a monthly basis, either in hard copy or electronically, with supporting documentation and/or explanation attached. We also recommend that management establish appropriate policies for the review and approval of journal entries.

Management Response: *TAF notes that journal entries are available electronically within both QuickBooks and Dynamics, as are the related Excel files. Going forward, TAF will take action to organize and link the backup documentation with the journal entries in a more transparent and accessible fashion, which will be facilitated by full transition to the Dynamics platform.*

Issue # 4 - Timely review of bank and investment reconciliations

During the course of the audit, we noted that bank and investment reconciliations are prepared monthly but there was no evidence that the reconciliations were reviewed and approved in a timely manner. Without such review, errors in the accounting records and bank balances could go undetected over many months. The accounting records should be monitored on a regular basis to identify whether there are inaccuracies or miscalculations in the reconciliations or the bank/broker statements. We recommend that bank/broker reconciliations be reviewed on a monthly basis by someone independent of the preparer and that they be initialed and dated to provide evidence of review.

Management Response*: TAF notes that the lack of signatures on the bank reconciliations is a product of operating remotely but can indicate with confidence that all bank reconciliations are reviewed quarterly. Going forward, these will be signed electronically. TAF also notes that bank transactions are reviewed weekly to ensure all transactions are legitimate and justified. Public Equity reconciliations are done quarterly, and Private Equity reconciliations are done when cash receipt information becomes available, although TAF acknowledges there needs to be secondary followup with Private Equity companies to get more specifics on cash receipts.*

Issue # 5 - Supporting schedule preparation

During the course of our audit, we noted that a number of supporting schedules were not prepared or were prepared but did not reconcile to the trial balance. Examples included supporting schedules for accounts receivables, accounts payables, accrued liabilities, fixed asset schedule supporting cost and accumulated amortization, etc. In order to facilitate the audit process and improve efficiency, we recommend that TAF prepare schedules reconciled to the trial balance and general ledger at year-end, and that management reviews schedules before they are released to the auditor to ensure they are accurate.

Management Response: *TAF agrees that preparation of supporting schedules was a challenge during this year's audit because of the capacity and software transition reasons noted above. This will be rectified for subsequent audits.*

Issue # 6 - Segregation of duties in payroll process

During the course of our audit, we noted that the payroll process is completed solely by the Director of Finance. Without a review by someone other than the preparer of payroll, errors in the payroll can exist and go undetected. The payroll process can be improved by segregating duties of the preparer and the reviewer to reduce the risk of errors or fraud. Once these duties are segregated, we recommend that the payroll registers be initialed to provide evidence of the review.

Management Response: *TAF has initiated a gross wage reconciliation to a master gross earnings schedule as of Q1 2022 for each pay period before the pay is electronically uploaded. Furthermore, the reconciliation is reviewed by a second senior team member who samples gross earnings against employee contract files and has access to the detailed employee pay reconciliation.*

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours very truly,

Welch LLP

Umar Saeed, CPA, CA
Partner