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

June 20, 2023

John Elvidge
City Clerk
Toronto City Hall
100 Queen Street West
Toronto, ON   M5H 2N2

Dear John Elvidge:

At its meeting on Monday, June 12, 2023 the TTC Board considered the attached report titled, "KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022".

In doing so, the TTC Board:

1. Received the KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022; and

2. Authorized forwarding a copy of this report to the City Clerk for submission to the City of Toronto Audit Committee.

The foregoing is submitted to the Audit Committee for consideration.

Sincerely,

Chrisanne Finnerty

Chrisanne Finnerty
Director - Commission Services

1-17
Attachment

For Action

KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022

Date: June 12, 2023
To: TTC Board

Summary

The subject report was reviewed by the TTC Audit & Risk Management Committee on June 1, 2023 and is forwarded to the TTC Board for its consideration.

Recommendations

It is recommended that the TTC Board:

1. Receive the KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022.

2. Forward a copy of this report to the City Clerk for submission to the City of Toronto Audit Committee.

Attachments

Attachment 1 – KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022

For Action

KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2022

Date: June 1, 2023
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, 2022. The KPMG Audit Findings Report in addition to providing an overview of the audit results, specifically details the 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, 2022.

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, 2022 in Attachment 1; and

2. Forward a copy of this report to the TTC Board for its meeting on June 12, 2023 and subsequently to the City Clerk for appropriate handling to the next City Audit Committee meeting.

Implementation Points

The appended 2022 audit findings report for the year ended December 31, 2022 from KPMG requires review at the June 1, 2023 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 12, 2023 TTC Board meeting and then to the Audit Committee meeting of the City of Toronto.

Financial Summary

There are no financial implications resulting from the adoption of this report. The attachment summarizes KPMG's findings from the audit of the TTC's 2022 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 annually audit the accounts and transactions of the City and its local boards and to express an opinion on their financial statements.

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

https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Audit-and-Risk-Management/2017/Feb-9/2_TTC_Audit_-and_Risk_Management_Committee_Terms_Of_Referenc.pdf?rev=40d4ed703a344b1e8d1816787cd3cabc&hash=F50FB7E52C62C3CFEE7A8D3A1AEB2758

Issue Background

This report presents the financial audit results of the consolidated financial statements of the TTC for the fiscal year ended December 31, 2022.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2022 were prepared by Management. They were audited by KPMG in accordance with the plan approved by the Audit and Risk Management Committee at its February 13, 2023 meeting.

https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Audit-and-Risk-Management/2023/February-13/1_KPMG_LLP_Audit_Plan_for_Year_Ended_December_31_2022.pdf?rev=25d735fe4931490cb2eeb70c267a5ac5&hash=684F86821F14000D0ABE3BC0167B44D6

The attached report was prepared by KPMG and it presents their 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 2022 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 at the Audit and Risk Management Committee meeting to present this report. Committee members may wish to request the auditors to address any specific areas related to the audit.

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, 2022

KPMG

Toronto Transit Commission

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Licensed Public Accountants

Prepared April 28, 2023 for presentation to the Audit and Risk Management Committee on June 1, 2023

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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Table of contents

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 of the Toronto Transit Commission (the "Entity") as at and for the period ended December 31, 2022. This report builds on the Audit Plan we presented to the Audit and Risk Management Committee. 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

Status of the audit

We have completed the audit of the financial statements ("financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on page 5 of this report.

Uncorrected audit differences

Professional standards require that we request of management and the Audit and Risk Management Committee that all identified audit misstatements be corrected. We have already made this request of management. See page 13 of this report.

Significant unusual transactions

No matters to report.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. See page 14 for certain required communications regarding control deficiencies.

Significant changes to our audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Corrected audit differences

No matters to report.

Accounting policies and practices

No matters to report.

Audit risks and results – significant risks and areas of focus

Please see pages 6-11.

Audit risks and results – going concern assessment

No matters to report.

Other financial reporting matters

No matters to report.

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

Our auditor's report, a draft of which is provided in **Appendix 2: Draft Auditor's Report**, will be dated upon the completion of any remaining procedures.

KPMG Clara for Clients (KCfc)

Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with your team and provide visual insights into the status of the audit!

On your audit we used KCfc to coordinate over 100 requests from TTC's employees during interim and year end work

Learn more

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 other matters identified.

Significant risk	Estimate?
Risk of material misstatement due to fraud resulting from management override of controls	No

Our response

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

Our procedures included:

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

Significant Findings

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

Audit risks and results (continued)

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

Our response

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

Our procedures included:

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

Significant Findings

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

Audit risks and results (continued)

Area of focus	Estimate?
Passenger Services Revenues	No

Our response

Total passenger services revenue for the year was $743M (2021 - $456M). Of this amount, passenger services revenue earned related to PRESTO was $675M (2021 - $408M). Additionally, there was unearned revenue from PRESTO of $9M (2021 - $5M), which is recorded as deferred revenue as at December 31, 2022, and will be recognized as revenue in fiscal 2023. As passenger services revenue is significant, in our testing, we took a combined approach to test the operating effectiveness of controls, and substantively test the account balance.

Our procedures included:

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

Significant Findings

- No exceptions were noted during testing

Audit risks and results (continued)

Area of focus	Estimate?
Unsettled Accident Claims	Yes – Unsettled accident claims is a calculation as determined by actuarial experts. This calculation involves numerous inputs and assumptions.

Our response

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

Our procedures included:

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

Significant Findings

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

Audit risks and results (continued)

Area of focus	Estimate?
Employee Future Benefits Liabilities	Yes – Employee future benefits is a calculation as determined by actuarial experts. This involves numerous inputs and assumptions.

Our response

The TTC's employee benefit plans include post-employment plans, post-retirement plans, and pension plans. As at December 31, 2022, the liability amount was $912M (2021 - $851M). Employee future benefits represent a liability computed by management's actuarial experts. As the employee future benefits liabilities are significant and complex estimates, KPMG actuarial specialists were involved in completing the audit procedures.

Our procedures included:

- Review of the actuarial report prepared by management actuarial expert for determining employee future benefits liabilities
- We obtained assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the employee future benefit liabilities
- Assess the competence, capability and objectivity of management's actuary and evaluate adequacy of their work
- Review the methodology and underlying assumptions used to formulate management's estimate
- Perform testing of underlying membership data to source data

Significant Findings

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

Audit risks and results (continued)

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

Our response

The net book value of tangible capital assets (“TCA”) as at December 31, 2022 was $12.6 billion (2021 – $12.4 billion). During the year, the TTC recognized $885M (2021 - $837M) in additions to TCA. During the year, TTC incurred an amortization expense of $749M (2021 - $723M).

Our procedures included:

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

Significant Findings

- No exceptions were noted during testing

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content	The form, arrangement and content of the financial statements is adequate
Concerns regarding application of new accounting pronouncements	No matters to report
Significant qualitative aspects of financial statement presentation and disclosure	We did not note any material disclosure omissions in the financial statements

Uncorrected and Corrected Audit Differences

Uncorrected audit differences include financial presentation and disclosure omissions.

Differences and adjustments include disclosure and presentation differences and adjustments.
Professional standards require that we request of management and the Audit and Risk Management Committee that all identified differences be corrected.

Uncorrected audit differences

Refer to the management representation letter in Appendix 3, which discloses the impact of all uncorrected differences considered to be other than clearly trivial.

We did not identify any factual differences. We concur with management's representation that the judgmental uncorrected difference noted is not material to the financial statements. It reflects the reversing impact of an item noted during the 2021 audit. Accordingly, the uncorrected difference has no effect on our auditor's report.

Corrected audit differences

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

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 significant deficiency in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

No deficiencies in internal controls were identified during the audit

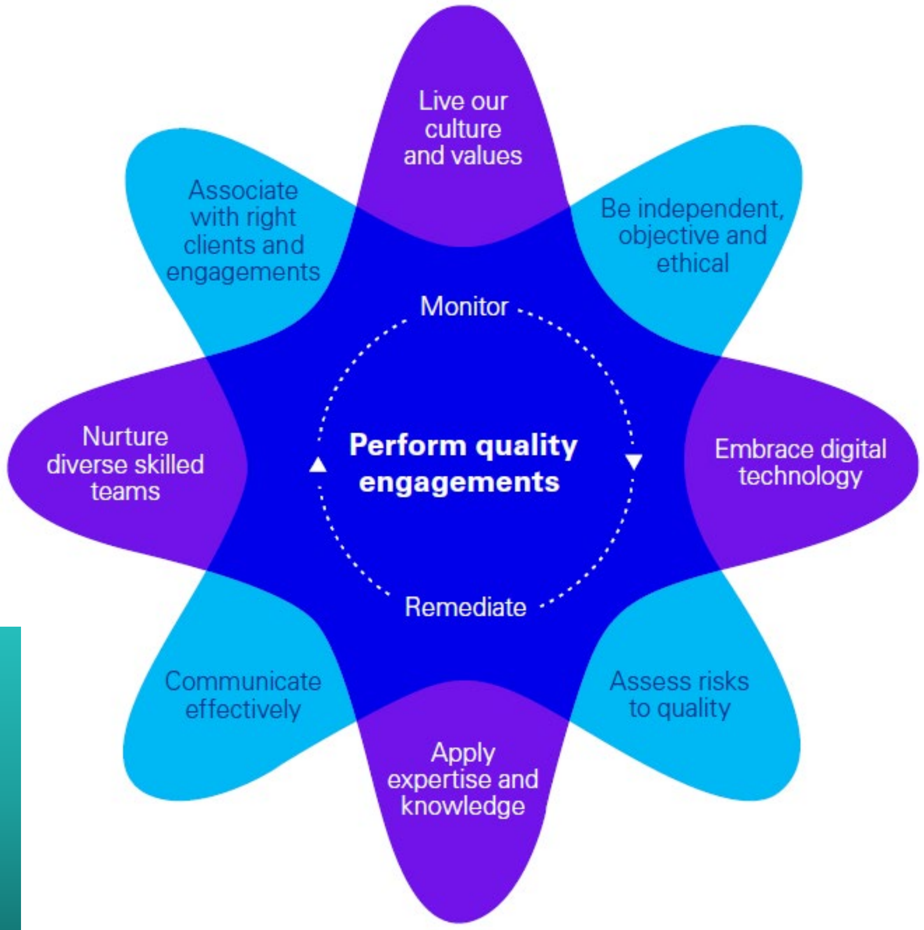
Audit quality: How do we deliver audit quality?

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.

Perform quality engagement 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.

KPMG 2022 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 controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**

Appendices

1 **Other required communications**

2 **Draft auditor's report**

3 **Management representation letter**

4 **Changes in accounting standards**

5 **Audit and assurance insights**

6 **Technology in Audit**

7 **Independence Matters**

8 **Environmental, Social and Governance (ESG)**

Appendix 1: 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
- CBAB Audit Quality Insights Report: 2022 Annual Inspections Results

Appendix 2: Draft auditor's report

(see attachment below)

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, 2022
- 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, 2022, 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.

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 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 3: Management representation letter

(see attachment below)

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

June 12, 2023

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, 2022.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 23, 2020, including 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.

Misstatements:

10) 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.

Non-SEC registrants or non-reporting issuers:

11) 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).

12) 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

Alex Cassar, Director – Budgets, Costing and Financial Reporting

Jennifer Imbrogno, Director – Capital Accounting

Mark Del Vecchio, Capital City Projects Coordinator

Natalie Scarcello, Manager – Financial Statements

Kelly Spence, Assistant Manager – Financial Statements

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.

Company Toronto Transit Commission

Summary of Uncorrected Audit Misstatements

For Year Ended

Amounts in CAD

Method Used to Quantify Audit Misstate Rollover

Attachment II - Uncorrected Misstatements

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	Type 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													
No factual differences noted													
JUDGMENTAL DIFFERENCES													
1	To reverse PY adjustment for Inter entity confirmation differences with the CITY of TORONTO	Judgmental	Net gain		(4,200,000)		(4,200,000)				4,200,000		
			Accumulated Surplus	4,200,000		4,200,000	4,200,000				(4,200,000)		

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 2022:

- 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 2022*:

- Jaye Robinson – Chair (Jan – Nov 2022)
- Jon Burnside – Chair (Dec 2022)
- Joanne De Laurentiis – Vice Chair (Jan – Dec 2022)
- Brad Bradford – Commissioner (Jan – Nov 2022)
- Shelley Carroll – Commissioner (Jan – Nov 2022)
- Fenton Jagdeo – Commissioner (Jan – Dec 2022)
- Cynthia Lai – Commissioner (Jan – Nov 2022)
- Ron Lalonde – Commissioner (Jan – Dec 2022)
- Jennifer McKelvie – Commissioner (Jan – Nov 2022)
- Denzil Minnan-Wong – Commissioner (Jan – Nov 2022)
- Julie Osborne – Commissioner (Jan – Dec 2022)
- Paul Ainslie – Commissioner (Dec 2022)
- Stephen Holyday – Commissioner (Dec 2022)
- Nick Mantas – Commissioner (Dec 2022)
- Chris Moise – Commissioner (Dec 2022)

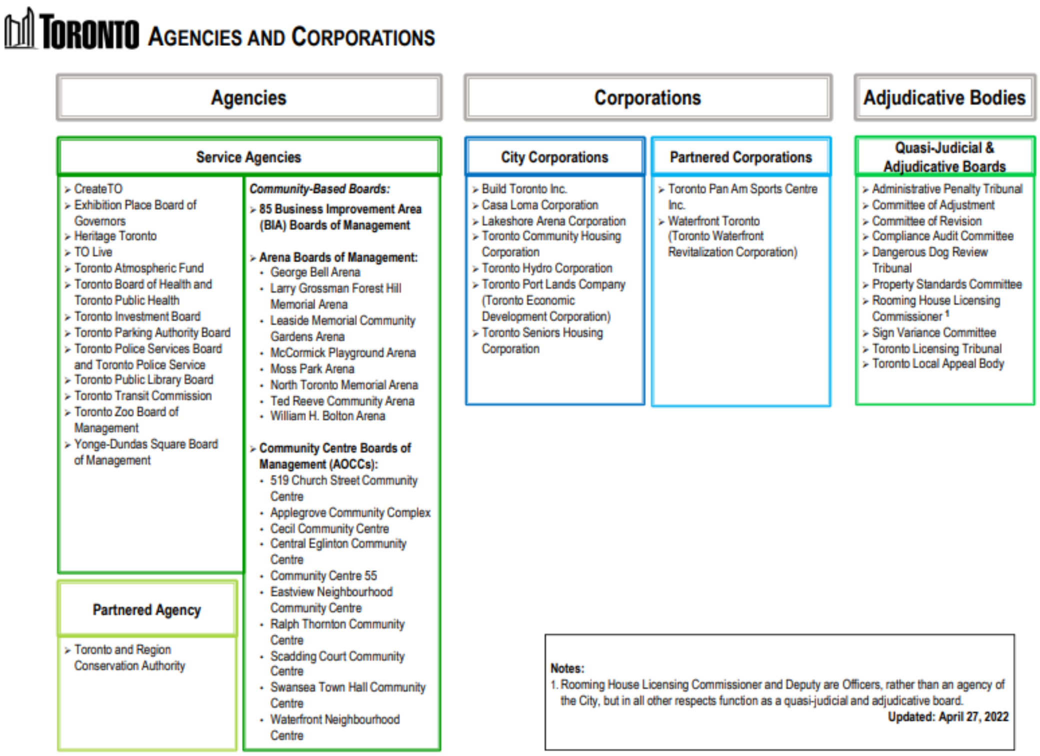
Senior Management as at December 2022*:

- Richard J. Leary – Chief Executive Officer
- Michael Atlas – Head of Legal & General Counsel

- Keisha Campbell – Chief Diversity & Culture Officer
- Angela Gibson – Chief Strategy & Customer Officer (Acting)
- Gary Downie – Chief Capital Officer
- Betty Hasserjian – Chief Safety Officer
- Josie La Vita – Chief Financial Officer
- Scott Haskill – Chief Strategy & Customer Officer (Acting)
- Fortunato Monaco – Chief Operations and Infrastructure Officer
- Matt Hopkins – Executive Director – People
- Natalie Poole-Moffatt – Chief Corporate Affairs Officer
- James Ross – Chief Operating Officer
- Joan Taylor – Chief of Staff
- 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 - Presentatio CHART APRIL 27 2022.pptx [Read-Only] (toronto.ca)]

Appendix 4: Changes in accounting standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* is effective for fiscal years beginning on or after April 1, 2022 *(TTC's December 31, 2023 year-end)*.
	• The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.
	• The asset retirement obligations ("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 if the asset is in productive use.
	• As a result of the new standard, the public sector entity will:
	  • 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 ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.

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.

Appendix 4: Changes in accounting standards

Standard	Summary and implications
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.
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.

Appendix 4: Changes in accounting standards

Standard	Summary and implications
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.

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 4: Changes in accounting standards

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 4: Thought leadership and insights

Thought leadership – Public sector

Voices on 2030: Digitalizing Government

What will the world look like in 2030? How will citizen and customer expectations evolve? And what can public sector organizations be doing today to help ensure they can meet these expectations? We spoke with leaders and disruptors from around the world, across the public and private sector to explore answers to these questions.

Click here to access KPMG's portal.

Why Audit Committees Should Know About Asset Retirement Obligations

Many public sector entities are currently working through the various aspects of the implementation of the Asset Retirement Obligation standard. In this publication we have provided some key insights to make this complex topic easy to understand by senior level management and those charged with governance at these organizations.

Click here to access KPMG's portal.

Perspectives on PS 3280 Asset Retirement Obligations

This guide provides KPMG's perspective on key implementation issues and technical interpretations of the guidance in PS 3280.

Contact your KPMG team for your copy of the guide.

Appendix 4: Thought leadership and insights

Thought leadership – Transportation

Future of Public Transport

The landscape is changing rapidly as the public transport sector looks to leave the impact of COVID-19 behind and boldly embrace the future. Priorities are shifting as decision-makers listen to the voice of their constituents and look beyond the operation of transport infrastructure, fleets and workforce to fully consider the advantages of a connected, 21st century ecosystem.

KPMG International, in a commissioned survey conducted by Forrester Consulting , engaged 483 leaders from public transportation organizations across the globe to understand their perspectives on the sector's future.

Click here to access KPMG's portal.

Accelerating mobility

Overall transit ridership in the United States has declined by nearly 5% over the last decade, driven by a cumulative 15% decline in bus ridership over the same period. To remain relevant, cities and transit agencies need to meet the changing expectations of today's consumers. To achieve long-term success in managing congestion, providing equitable transportation options and achieving sustainability goals, we believe leaders in both the public and private sectors can embrace emerging technology and technology-driven partnerships.

Click here to access KPMG's portal.

Appendix 4: Implications of PS 3280 Asset Retirement Obligations

PS 3280 Asset Retirement Obligations (“PS 3280”) is a new accounting standard effective for the fiscal years beginning on or after April 1, 2022 *(TTC’s December 31, 2023 year end).* This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.
Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.
The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset’s life. There is no change to the total cost recorded over an asset’s life.

A rigorous process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset’s life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government to determine the impact of PS 3280 on current requirements.

Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

Appendix 5: 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 centre 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 6: Technology – Continuous improvement powered by transformation

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.

Standardization
+
Consistency
+
Measurement

Methodology and Approach

Data and tech enablement
+
Center for Audit Solutions Methodology, Process & Technology
+
Next-gen auditor

Quality Management System

Enhanced audit quality
+
Increased efficiency
+
Exceptional experiences

Appendix 7: Independence Matters

(see attachment below)

KPMG

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 28, 2023

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 be 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, 2022 to April 28, 2023.

Description of professional services
Audit – Audits of the financial statements of the following entities for the year ended December 31, 2022: • 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
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 (Energy Programs, Innovation and Sustainability Program (ISP), Autonomous Vehicles, Corporate Plan) • Provision of support to assist management in reviewing / optimizing medical holds process • Provision of support to assist management with the modernization of finance function • 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

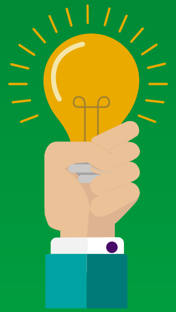
Kevin Travers

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 8: Environmental, Social and Governance (ESG)

All companies 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 the 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 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

Appendix 8: Environmental, Social and Governance (ESG)

All companies 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 the industry-specific risks.

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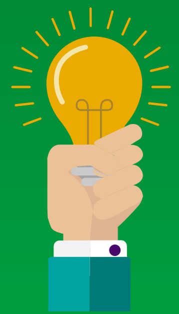

- 01 Long-lived assets
- 02 Leases
- 03 Impairment of nonfinancial assets
- 04 Financial instruments
- 05 Contingencies and insurance
- 06 Revenue and inventories
- 07 Compensation and benefits
- 08 Income taxes
- 09 Acquisitions and restructuring
- 10 Fair value measurement and projections
- 11 Presentation and disclosure

See here for more information

Appendix 8: Environmental, Social and Governance (ESG)

The Sustainability reporting journey: Regulatory update

	International (ISSB)	EU (EFRAG)	US (SEC)	Canada (CSA)
Recent activity[1]	• Proposals published in March 2022 include **IFRS S1** – general requirements for disclosure of sustainability-related financial information and **IFRS S2** – climate-related disclosures, which would require investor-focused information on all sustainability-related risks and opportunities that the company is exposed to • Applicability will be determined by national jurisdictions • The ISSB has been actively redeliberating its two proposals with goal of finalizing as early as possible in 2023 • Some of the key items discussed at recent meetings include: keeping Scope 3 emissions disclosures in the final standards, requirement to report at the same time as financial statements, and maintaining the concept of investor materiality	• Proposals published in April 2022 would require companies to report information to meet the needs of all stakeholders across a range of sustainability topics specified in the CSRD • In November, the European Parliament and European Council approved and adopted the CSRD, which amends and significantly expands the existing EU requirements for sustainability reporting • In December, the CSRD was published in the Office Journal of the EU and will enter into force in early 2023. Member states will then have 18 months to transpose it into national law, and may make revisions as part of that process • Notwithstanding that the CSRD is an EU Directive, there are considerable ESG reporting implications for non-EU based companies[2]	• Proposal published in March 2022 would require investor-focused climate disclosures • Due to a technological error, the SEC reopened the comment period through November 1 for its proposed climate rules and its proposed ESG rules for investment companies and advisers (along with other proposed rules) • The SEC expects to release its final climate rules in April 2023 • The SEC's recent agenda also includes looking at disclosure rules on human capital management, with a proposal expected to be released in April 2023	• Proposal published in October 2021 would require investor-focused climate disclosures • In October 2022, the CSA stated that it continues to actively consider international developments and how they may impact or inform its proposed climate-related disclosure rule **What about the CSSB?** • The Canadian Sustainability Standards Board (CSSB) is in the early stages of development and aims to be operational by April 2023 • In December, the CSSB was appointed an inaugural member of the SSAF, which will work with the ISSB towards a comprehensive global baseline of sustainability-related disclosure for capital markets

1. Refer to our *Q4 2022 Current Developments – Spotlight on IFRS*, *Q4 2022 Current Developments – Canadian Securities* and *Q4 2022 US Quarterly Outlook* publications for more details
2. Refer to our publication *ESG in Europe – Requirements covering non-EU companies formally adopted*

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