Toronto Parking Authority

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Licensed Public Accountants

April 18, 2023

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

Kevin Travers

Lead Audit Engagement Partner

416-228-7004

ktravers@kpmg.com

Elliot Cheng

Audit Senior Manager

416-228-4364

elliotcheng@kpmg.com

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the <consolidated> financial statements as at and for the period ended <balance sheet date>. This report builds on the Audit Plan we presented to the Audit Committee. This 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 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 slide 5 of this report.

Uncorrected audit misstatements

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 slide 9 for certain required communications regarding control deficiencies.

Changes to our audit plan

We updated our audit materiality calculation from what was reported to you in our Audit Planning Report. This update is due to use of actual total revenue for the year ended December 31, 2022 to determine materiality, which was higher than the budgeted total revenue used to determine the planning materiality. We have determined materiality to be $3,100,000, increase from planning materiality of $2,900,000.

Corrected audit misstatements

No matters to report.

Accounting policies and practices

No matters to report.

Audit risks and results – significant risks

No matters to report.

Significant unusual transactions

No matters to report.

Other financial reporting matters

No matters to report.

Audit risks and results – other areas of focus

Other areas of focus are discussed on slides 7 and 8.

Status of the audit

As of April 18, 2023, 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 and the Board of Directors
- Obtaining evidence of the Board of Directors' approval of the financial statements
- Receipt of the signed management representation letter (dated upon Board approval of the financial statements)
- Completion of subsequent events procedures, up to the date of approval of the financial statements

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

Our auditor's report, will be dated upon the completion of <u>any</u> 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 requests from employees.

Learn more

Significant risks and results

Management Override of Controls

RISK OF
FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

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. These procedures include:

- 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 note any significant control deficiencies in our evaluation of the design and implementation and test operating effectiveness of selected relevant controls over financial reporting.
- 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.

Technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

Significant risks and results

We highlight our significant findings in respect of other areas of focus as well as any additional areas of focus identified.

Matter	Finding
Cash	• Obtained confirmations of the year-end cash and cash equivalents balances from third parties. • Reviewed bank reconciliations and vouched significant reconciliation items to supporting documentation. • Reviewed financial statements disclosures.
Due to/from related parties	• Obtained confirmation from City of Toronto to ensure existence, accuracy and completeness of the intercompany receivable/payable balance and revenue received. • Reviewed financial statements note disclosures.
Property and equipment, and Amortization	• Selected a sample of additions and agreed to original invoices to ensure proper accounting treatment. • Assessed the reasonableness of amortization expense. • All useful lives are based on corporate policies and did not change from prior year. KPMG 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.

Significant risks and results

We highlight our significant findings in respect of other areas of focus as well as any additional areas of focus identified.

Matter	Finding
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. • Performed a search for unrecorded liabilities by extracting lists of subsequent payments and accounts payable details and selected samples for testing. • Selected a sample of expense transactions and agree to original invoices to ensure the proper classification of expenses. • Reviewed supporting documentation for significant accruals.
Revenue and Accounts receivable	• Allowance for doubtful accounts (AFDA) within accounts receivable 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. • Obtained an understanding over the revenue and accounts receivable process, obtained the accounts receivable aging subledger and sampled subsequent receipt of payment to ensure management's assessment over the collectability is appropriate. • Assessed management's approach in identifying customers at risk of non-payment and ensuring the sufficiency of the provision to net against accounts receivable • Selected samples of parking and bike share revenue, agreed to supporting documentation and ensured revenue recognition was appropriate.

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.

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.

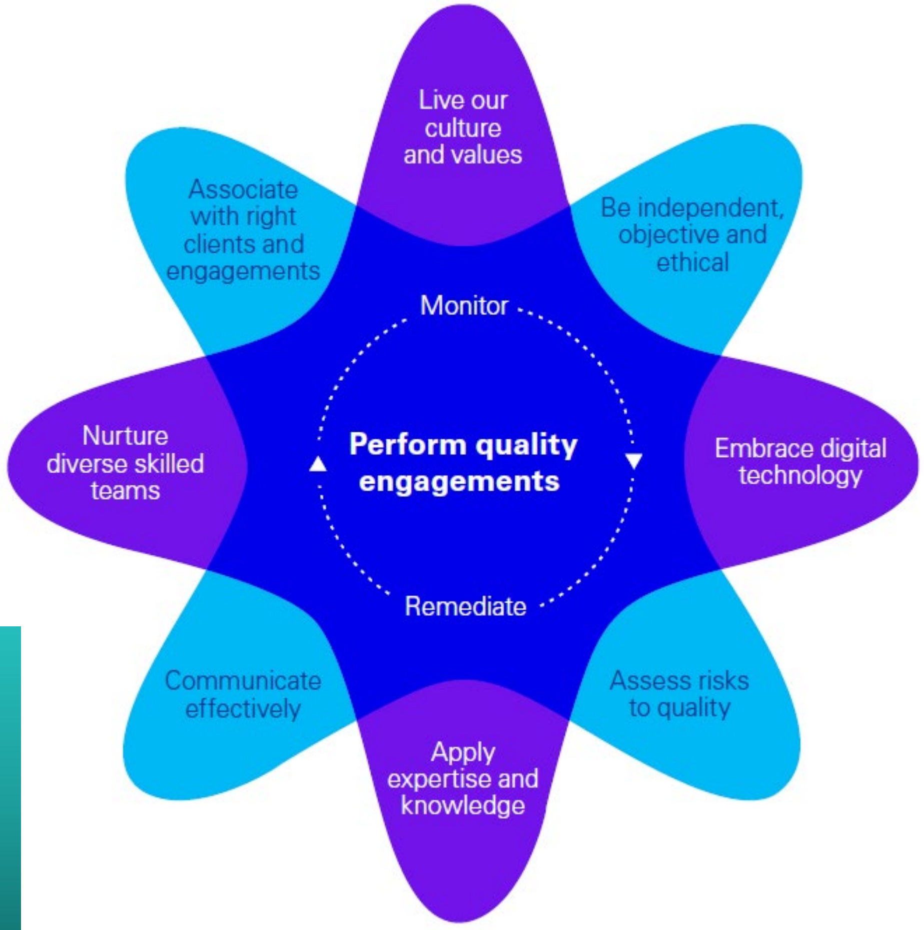
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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

A — Other required communications

B — Newly effective auditing standards

C — Newly effective and upcoming changes to accounting standards

D — Audit and assurance insights

E — Environmental, social and governance (ESG)

Appendix A: Other required communications

Engagement terms

Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter provided by City's management.

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
- The 2022 Annual Inspection Results will be available in March 2023

Appendix B: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.

A **risk of material misstatement** exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada

We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

Appendix B: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including: • New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement • New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement • New requirement to separately assess inherent risk and control risk for each risk of material misstatement • Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk	When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement. We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement. If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.	If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk. We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.

Appendix B: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement	When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a ‘stand back’ at the end of the risk assessment process	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.

Appendix B: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Modernized to recognize the evolving environment, including in relation to IT	New requirement to understand the extent to which the business model integrates the use of IT. When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit. Based on the identified controls we plan to evaluate, we are required to identify the: • IT applications and other aspects of the IT environment relevant to those controls • related risks arising from the use of IT and the entity's general IT controls that address them. Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.	We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals. Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response. Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.
Enhanced requirements relating to exercising professional skepticism	New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.	We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.

Appendix B: Newly effective auditing standards

Key change	Impact on the audit team	Impact on management
Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control	We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows: • Controls that address a significant risk. • Controls over journal entries, including non-standard journal entries. • Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures	We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them. We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.

Appendix C: Newly effective and upcoming changes to accounting standards

For more information on newly effective IFRS Standards see Current Developments

Effective 2022*

IAS 16 – Amendments to IAS 16 Property, Plant and Equipment – proceeds before intended use

IFRS 3 – Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework

IAS 37 – Amendments to IAS 37 provisions, contingent liabilities and contingent assets – onerous contracts – costs of fulfilling a contract

IFRS updates – Annual improvements to IFRS Standards 2018–2020

Effective 2023 & 2024*

IFRS 17 – IFRS 17 and subsequent amendments**

2023

IAS 8 – Definition of accounting estimates (Amendments to IAS 8)

2023

Disclosure – Disclosure initiative – accounting principles (Amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*)

2023

IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)

2023

IAS 1 – Classification of liabilities as current or non-current (Amendments to IAS 1) & Non-current Liabilities with Covenants (Amendments to IAS 1)

2024

IFRS 16 – Lease liability in a sale and leaseback (Amendments to IFRS 16)

2024

IFRS Standards are effective for annual periods beginning on or after January 1, 2022/2023/2024 as indicated. IFRS Standards effective January 1, 2023/2024 are available for early adoption

***Subsequent amendments: Amendments to IFRS 17 and Initial application of IFRS 17 and IFRS 9 – Comparative information. Early adoption of IFRS 17 and Amendments is permitted only for companies that also apply IFRS 9.*

Appendix D: 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 E: Environmental, Social and Governance (ESG)

KPMG Ready for Assurance Services

Companies need to get started on the ESG journey as soon as possible to get prepared – they need to be able to gather, measure, and report their ESG metrics. This also means having the information assured by an external party so that it is credible, robust and trusted in the market. Given the pace at which things are moving, a fast start is needed to get your journey underway.

The first step in the assurance journey

KPMG Ready for Assurance service is the foundation for full ESG assurance. It reduces the risk of poor outcomes in the future by identifying areas that need to be addressed and providing clarity over specific issues that need to be resolved so you can move ahead with confidence.

Findings and observations

KPMG Ready for Assurance service consolidates findings and observations in a report that also identifies impediments to preconditions. Your organization can address these issues ahead of undergoing full ESG assurance.

Working with your people

We will leverage our existing understanding of your business, processes and people to help make the KPMG Ready for Assurance service process mirror the experience that you have with us as your auditor. Our interactions with you will be similar to those of the process understanding and walkthroughs performed as part of the audit, and we will work closely with you to minimize the required efforts of your personnel where possible.

Assurance quality and consistency

Your KPMG audit and assurance professionals can provide insights into whether current systems and processes can support assurance of ESG reporting in varying frameworks (GRI, SASB, TCFD, etc.) and standards in the countries where you have operations.

See here for more information

KPMG Ready for Assurance service is an engagement that determines whether the necessary preconditions for ESG assurance are present to allow us to assure your ESG reporting in the future.

In particular, KPMG Ready for Assurance service examines your organization's criteria for ESG measures and determines if you have the evidence that would be required to support the disclosures you want to make, regardless of the reporting framework. Being able to perform this work now will reduce your risk when you are required to have your information assured in the future.

It is a service that can be performed on new information that you add to your ESG reporting disclosures over time as stakeholder needs evolve.

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