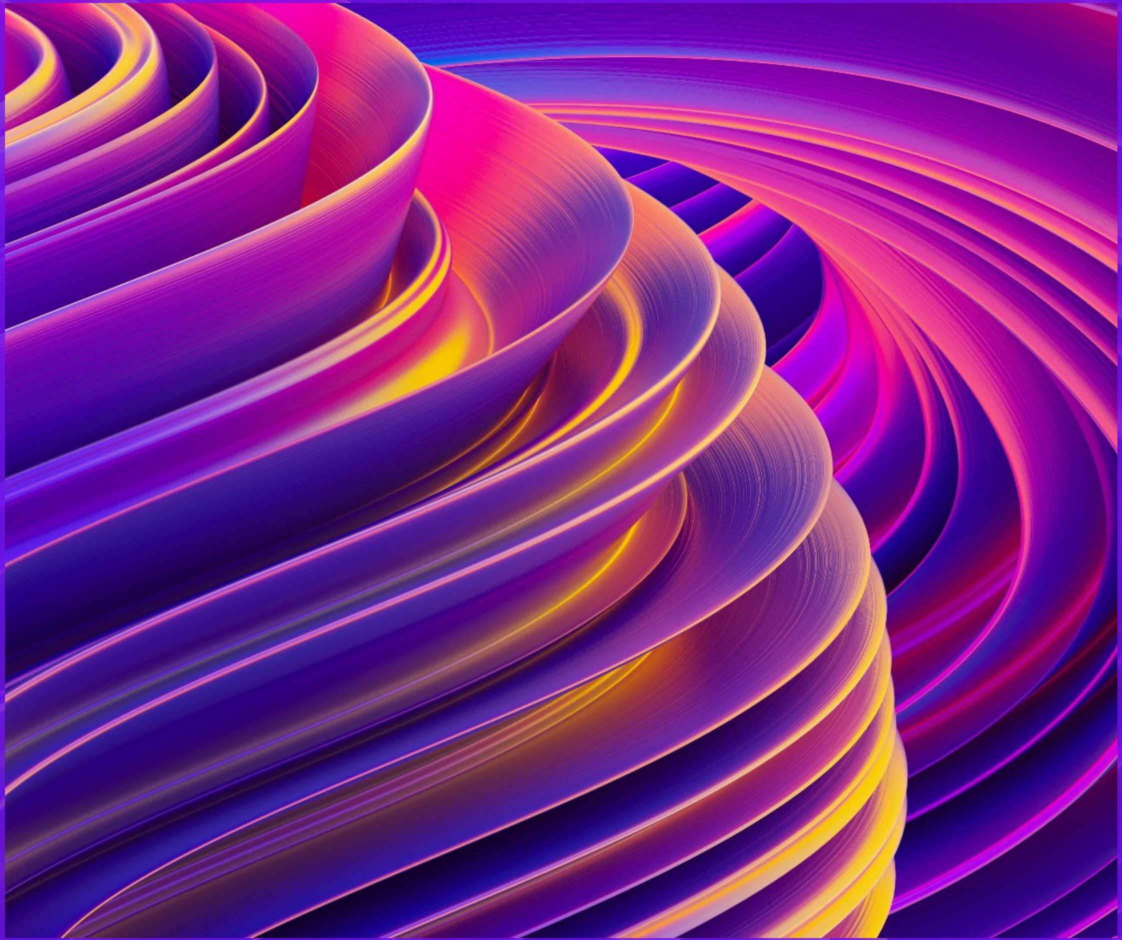
City of Toronto

Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared June 17, 2024 for presentation to the Audit Committee on **July 5, 2024.**



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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 financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and the City Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this 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.

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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

No matters to report | Matters to report – see link for details

Status

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

Significant changes

Significant changes since our audit plan

There were no significant changes since our audit plan.

Risks and results

Significant risks

- Management override of controls (non-rebuttable significant risk of material misstatement)
- Consolidation Process
- Presumption of the risk of fraud involving improper revenue recognition

Other risks of material misstatement

- Asset Retirement Obligations
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- Cash and Investments
- Taxes receivable and Taxation Revenue
- Tangible Capital Assets
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- Employee benefit liabilities
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- Environmental and contaminated sites
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Significant unusual transactions

Accounting policies and practices

Specific topics

Uncorrected misstatements

Uncorrected misstatements

Corrected misstatements

Corrected misstatements

- See management representation letter for details

Control deficiencies

Significant deficiencies

Technology highlights

As previously communicated in our audit planning report, we have utilized technology to enhance the quality and effectiveness of the audit.

Summary of advanced technologies

KPMG Clara Workflow
A modern, intuitively written, highly applicable audit methodology that allowed us to deliver a globally consistent engagement.

KPMG application software
One way we used KPMG application software (“IDEA") was to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for testing.

KPMG Clara analytics
Using the latest technologies to analyze data, KPMG Clara allowed us to visualize the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures

KPMG’s software audit tools are intended to be used as internal enablement tools in conjunction with the performance of audit services. Information resulting from use of software audit tools may not be used as a basis for management’s conclusions as to the fairness of presentation of its financial statements or form a part of the internal control.

Status

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the Audit Committee
- Obtaining evidence of the Council’s approval of the financial statements
- Receipt of the signed management representation letter
- Completion of subsequent event review procedures
- Completion of our audit quality control review process
- Pending Testing:
  - Council approval of grant (COVID Impact funding) expected at the end of June

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 any remaining procedures.

Significant risks and results

We highlight our significant findings in respect of **significant risk.**

Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF **FRAUD**

Significant risk	Estimate?
Under Canadian auditing standards, there is a presumed fraud risk over management override of controls. The risk resides with management's ability to perpetrate fraud from its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This is a presumed risk of material misstatement due to fraud. We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (obligatory).	No

Our response

To address the risk of fraud related to management override of controls reported in the audit planning report, we performed an extensive amount of testing on the journal entry process including the following:

- we evaluated the design and implementation of selected relevant controls;
- we tested journal entries that met specific criteria designed as part of our audit plan;
- we performed journal entry testing focussed on manual journal entries for revenue and deferred revenue transactions. This criterion is based on areas and accounts that are susceptible to manipulation through management override due to their manual nature; and,
- we used computer assisted audit techniques to identify any unusual journal entries.

Significant findings

We did not identify any issues as a result of our audit work.

Significant risks and results

Presumption of the risk of fraud involving improper revenue recognition

RISK OF FRAUD

Significant risk	Estimate?
This is a presumed risk of material misstatement due to fraud. We have considered the type and complexity of revenue transactions, and the perceived opportunities and incentives to fraudulently misstate revenue for the Entity and its subsidiaries. The fraud risk resides within overstatement of revenue through posting manual journal entries and other adjustments relating to deferred revenue (including obligatory) and government transfers.	No

Our response

Deferred revenue (including obligatory):

- We evaluated the design and implementation of selected relevant controls.
- We performed substantive procedures on manual journal entries and other adjustments associated with deferred revenue (including obligatory).
- We obtained the detailed continuity for deferred revenue. Tested a sample of cash receipts and revenue recognized using representative sampling techniques.
- We obtained the supporting documentation related to the samples tested for the cash receipts and revenue recognized and assessed the support to ensure that recognition for revenue is in accordance with the PSAS.
- We reviewed financial statement disclosures in accordance with PSAS.

Government Transfers:

- We evaluated the design and implementation of selected relevant controls.
- We performed substantive procedures on manual journal entries and other adjustments associated with government transfers.
- We obtained a listing of government transfer revenue reported by the City and performed test of details including a combined approach of substantive analytical and representative sampling methods. These calculations come from different divisions at the City.
- We obtained supporting documentation for the eligibility criteria for the sample selected to determine if the government transfers reported in the financial statements meet the criteria outlined in the PSAS.
- We reviewed financial statement disclosures in line with PSAS.

Significant findings

We did not identify any issues as a result of our audit work.

Significant risks and results

Consolidation Process

RISK OF ERROR

Significant risk	Estimate?
Risk of material misstatement related to the consolidation process due to complex organizational structure and the manual process (in excel spreadsheets) followed by the City.	No

Our response

- We evaluated the design and implementation of selected relevant controls in place over the consolidation and financial reporting process.
- We performed substantive procedures over the consolidation workbooks including material adjustments booked as part of the consolidation process.
- We involved our IT Audit specialists to gain an understanding of the automated inputs into the consolidation process, as relevant.
- We updated our understanding of the consolidation process at the City and various elements and inputs for the consolidation. We obtained supporting schedules to understand the inputs into the consolidation workbook and performed further audit procedures related to these supporting schedules.
- We performed procedures on the completeness of reporting the City's interest in all entities under its control including those that qualify as Government Business Entities which are accounted for using the modified equity basis (Toronto Hydro Corporation and Toronto Parking Authority) and entities subject to joint control, which are accounted for using the proportionate consolidation method (Toronto Waterfront Revitalization Corporation).
- We audited the consolidation workbook for accuracy through recalculation and reperformance of the key aspects of consolidation exercise.
- We tested significant manual journal entries by obtaining supporting documentation for the amounts calculated for these manual journal entries.
- We tested consolidation information related to the significant components to source records for these respective significant components. We obtained financial information of these significant components from the respective component audit teams to ensure we are using the audited information for the purposes of the consolidation.

Significant findings

The audit team noted that certain entities under control of the City were not consolidated into the financial statements of the City. Based on discussion with management, these entities were excluded from consolidation due to the immaterial balances involved. During the year, management performed an in-depth analysis of the financial impact of including these immaterial entities and the amount of effort involved to gather all necessary information for consolidation. Management concluded that the efficiencies gained in terms of timely financial reporting for the consolidated financial statements far out weighed the benefit of including these immaterial balances. The audit team reviewed this assessment and agreed with management that the exclusion of these immaterial balances has no significant impact on the financial statements and our audit opinion. These immaterial balances are above the audit misstatement posting threshold and are reported as uncorrected audit adjustments in accordance with the requirement of the auditing standards.

Other risks of material misstatement and results

We highlight our significant findings in respect of **other risks of material misstatement**.

Asset Retirement Obligations

Other risk of material misstatement	Estimate?
The new standard PS 3280 Asset retirement obligations ("ARO") came into effect for fiscal year ended on December 31, 2023. The new ARO standard requires 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 assessment of these future legal obligations requires management to perform a comprehensive analysis of controlled assets, along with the development of estimates to evaluate an estimated liability at the financial reporting dates of December 31, 2023 and December 31, 2022. The City has adopted the modified retroactive approach, which entails a recognition of the ARO liability as at January 1, 2022. Using the modified retroactive method, the City has recognized ARO as at January 1, 2022 with a restatement of the opening accumulated surplus as at January 1, 2022. See note 2 in the financial statements for the change in accounting policy.	Yes

Our response

- We obtained the City's ARO policy and the corresponding ARO implementation memo and performed a review to ascertain their alignment with the requirements of the PS 3280. We performed an assessment of the reasonableness of the City's scoping decisions and the rationale for excluding certain TCA items to determine whether they are in compliance with standard guidelines and general practice across industry.
- We obtained City's ARO model assessment and performed the following procedures:
    - We reviewed the City's ARO model and performed an assessment of the mathematical accuracy and related calculations of ARO liability at asset category level.
    - We obtained an understanding of significant assumptions made in the development of the ARO model and evaluated these assumptions for their reasonableness.
    - We reviewed the cost per square foot analysis for asbestos, as developed by management, and ensured reasonable and accurate cost was applied to all in-scope assets in the ARO model. For any inputs that incorporated significant assumptions, we evaluated the reasonableness of these assumptions and compared to the external sources or general industry practice.
    - We selected samples of in-scope assets where measurement of ARO has been calculated and agreed to relevant inputs to supporting documentation.
- We conducted meetings with significant internal subject matter expects involved in the ARO model development to evaluate their extent of involvement, area of expertise and relevant skills and capabilities. We assessed the qualifications, competence and objectivity of these internal experts as required by the Canadian auditing standards.
- We assessed the disclosures in the financial statements against the requirements of the PS 3280 to ensure disclosures are in accordance with PS 3280.

Significant findings

We did not note any issues in the City's adoption process of new ARO accounting standard. The measurement and recognition of the ARO obligation is reasonable.

Other risks of material misstatement and results

Financial Instruments

Other risk of material misstatement	Estimate?
The new standard PS 3450 Financial instruments came into effect for the fiscal year ended on December 31, 2023, and is to be prospectively applied from January 1, 2023. This standard sets forth the guidelines for accounting for financial assets and liabilities, including derivative financial instruments. For items that are reported at fair value, the unrealized gains and losses are required to be reported on a new statement called Statement of Remeasurement Gains and Losses. This standard requires mandatory fair value reporting for certain financial instruments, specifically equity and derivatives (including embedded derivatives). The standard allows reporting of all other financial instruments (assets/liabilities) at cost or amortized cost, however an election can be made for fair value reporting for any financial instruments. Such an election is irrevocable. Other new standards coming into effect starting fiscal 2023 include PS2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation, PS 3041 Portfolio Investments. These other standards are required to be adopted concurrently with PS 3450 Financial Instruments. The City has adopted this standard and has reported equity and derivatives (including embedded derivatives) at fair value. In addition to this, the City has elected to report all other financial instruments at fair value as well, to align their financial statements with City's overall financial management process. These other financial instruments include: investments that are not equity or derivatives and debt. During the year, the City recognized $128M as unrealized gain attributable to Equity investments, $398M as unrealized losses attributable to debt designated to fair value and unrealized gains of $190M for other financial instruments, as reflected in the Statement of Remeasurement Gains and Losses. The City has reported $1,050M in unrealized gains for Financial Instruments held as of January 1, 2023 which has been presented in the Statement of Remeasurement Gains and Losses as a transition adjustment.	Yes

Other risks of material misstatement and results

Financial Instruments

Our response

- We obtained and reviewed management's support for fair value reported by the City for financial instruments. We obtained investment confirmations from third party financial institutions to examine accuracy and existence of reported fair value.
- We performed additional procedures to gain comfort over the valuation of the fair value by using the actively traded data information from the issuer's website.
- We reviewed the newly introduced Statement of Remeasurement Gains and Losses, and assessed the accuracy of the presentation of unrealized gains and losses incurred on the fair value of financial instruments.
- We obtained agreements for the unsecured debentures issued by the City and related supporting documentation.
- The City has added additional disclosures related to the financial risks associated with their financial instruments as required by PS 3450 Financial Instruments.
- We assessed the disclosures in the financial statements including the new statement of remeasurement gains and losses against the requirements of the PS 3450.

Significant findings

We did not note any issues in the City's adoption process of new Financial Instruments accounting standard.

Other risks of material misstatement and results

Cash and Investments

Our Response	Estimate?
As previously communicated in our audit plan, we:	No

- Performed testing over manual and automated controls related to bank and investment reconciliation process.
- Performed test of details over significant reconciling items for cash and investments (page 12).
- Performed substantive test of details over additions and disposals of investments and for any derivative financial instruments included in City's financial statements.
- Obtained supporting documentation regarding the investment income earned on deferred revenue to ensure appropriate revenue recognition.
- Obtained confirmations from third parties.
- Reviewed financial statement note disclosure to ensure it is in line with the Public Sector Accounting Standards (PSAS).

Significant findings

We did not identify any issues as a result of our audit work.

Taxes receivable and Taxation revenue

Our Response	Estimate?
As previously communicated in our audit plan, we:	No

- Perform substantive audit procedures to recalculate taxation revenue using approved tax rates and assessment data.
- Based on the audit work performed, there were no items of significance to be reported.

Significant findings

We did not identify any issues as a result of our audit work.

Other risks of material misstatement and results

Tangible Capital Assets

Our Response	Estimate?
As previously communicated in our audit plan, we: • Performed substantive test of details over additions and disposals using a representative sample. • Obtained the amortization policy, verify the mathematical accuracy of amortization and assess reasonableness of the estimated useful lives in use to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure related to useful lives. • Reviewed assets under construction to ensure amounts are properly transferred to correct capital asset classes and amortization commences on a timely basis. • Obtained an understanding of asset write-downs during the year and the rationale behind these write-downs. • Reviewed financial statement note disclosure to ensure it is in line with PSAS.	No

Significant findings

- Prior to KPMG's testing of assets under construction "AUC" transfers, management performed testing over AUC transfers and identified assets not transferred out of AUC in a timely manner. Management recorded an adjustment to amortization for these assets in the current period. KPMG tested management's error listing as part of its procedures over AUC transfers. KPMG proposed a $41 million amortization adjustment for the portion of the factual error identified by management that relates to prior periods. Management corrected the entire error through the current year due to the immaterial nature of the adjustment. The ending accumulated surplus has been presented accurately as of December 31, 2023.
- Prior to KPMG's testing, management identified an error in asset additions. AUC and land with a book value of $54 million was transferred from Toronto Waterfront Revitalization Corporation ("TWRC") to the City in 2022 and were recorded by the City in 2023. This results in the opening TCA being understated, as well as the understatement of the assets under construction and relevant in-service asset categories. We obtained a confirmation from TWRC to confirm this transfer. 1/3 of TWRC's assets are included in the City's consolidated statements, therefore KPMG proposed a $36 million adjustment to opening TCA and opening accumulated surplus for the 2/3 not recorded in the prior year.
- We identified errors in the assets under construction ("AUC") category during our testing over the completeness of AUC transfers, where substantially completed assets were not transferred out of AUC. This resulted in the timing of the commencement of amortization being delayed as well as an overstatement of the assets under construction and an understatement of the relevant in-service asset categories. Management prepared and recorded a projected error in the current year. We performed testing over this assessment and assessed it as reasonable. Of the $33 million amortization adjustment recorded in the current period, $23 million relates to prior periods. We proposed an adjustment for the out of period error and did not record the $10 million current period as it is lower than KPMG's posting threshold. Management corrected the entire projected error through the current year due to the immaterial nature of the adjustment. The ending accumulated surplus has been presented accurately as of December 31, 2023.

See slide 20 and 22 for details of the related audit misstatements.

Based on the audit work performed, there were no other items of significance to be reported.

Other risks of material misstatement and results

User charges and other revenue sources

Our Response	Estimate?
As previously communicated in our audit plan, we: • Updated our understanding of the activities over the initiation, authorization, processing, recording and reporting of other revenue. • Obtained the City-prepared calculation of other revenue balances and perform test of details using a combination of substantive analytical and representative sampling approaches.	No

Significant findings

We did not identify any issues as a result of our audit work.

Employee benefit liabilities

Our Response	Estimate?
As previously communicated in our audit plan, we: • Updated our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the actuaries engaged by the City (preparer of the estimate), and the historical accuracy of the estimates. • Obtained an update on the actuarial valuation prepared by management's expert (actuaries engaged by the City) for the year ended December 31, 2023. • Performed audit procedures on the method, data and, assumptions used by actuary and management to address the CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to employment benefit liabilities. • Engaged KPMG actuarial specialists to complete audit procedures related to assumptions used by management and management's expert. • Reviewed financial statement disclosures in accordance with PSAS.	No

Significant findings

We did not identify any issues as a result of our audit work.

Other risks of material misstatement and results

Expenses – salaries and benefits

Our Response	Estimate?
As previously communicated in our audit plan, we: • Performed testing over manual and automated controls related to payroll process. • Vouched a sample of employees' salary and benefit expense to payroll information.	No

Significant findings

We did not identify any issues as a result of our audit work.

Accounts payable, accrued liabilities and expenses

Our Response	Estimate?
As previously communicated in our audit plan, we: • Performed a search for unrecorded liabilities. • Examined significant accrued liabilities for existence, accuracy and completeness and to address the requirements of CAS540, Auditing Accounting Estimates and Related Disclosure requirements related to accrued liabilities. • Performed substantive test of details on selected non-payroll expenditures.	No

Significant findings

- Identified errors in accounts payable in which deposits representing deferred revenue were recorded in accounts payable. Management has corrected this presentation in the consolidated financial statements.
- The audit team will be taking this projected error into consideration as part of next year's risk assessment process for the audit approach related to expenses.

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Other risks of material misstatement and results

Commitments and Contingencies

Our Response	Estimate?
As previously communicated in our audit plan, we: • Performed a detailed review of Council Meeting minutes. • Directly communicated with the internal legal counsel (and external as necessary) to ensure significant contingent liabilities were appropriately disclosed and/or recorded. • Reviewed financial statement disclosures in accordance with PSAS.	No

Significant findings

We did not identify any issues as a result of our audit work.

Investment in Government Business Enterprises (GBEs)

Our Response	Estimate?
As previously communicated in our audit plan, we: • Obtained a listing and assessment of the GBEs as prepared by management of the City including any changes from prior year, including impairment assessment. • Obtained support for adjustments made to the investments in GBEs including income from operations, dividends received, distributions to City and any other adjustments. • Reviewed financial statement disclosures in accordance with PSAS.	No

Significant findings

We did not identify any issues as a result of our audit work.

Other risks of material misstatement and results

Environmental and contaminated sites

Our Response	Estimate?
As previously communicated in our audit plan, we: • Obtained management specialist report for the estimated liabilities and updated our understanding of the process in place to determine the estimated liability. • Performed audit procedures on the data, method and assumptions included in management's specialist reports to address the CAS 540, Auditing Accounting Estimates and Related Disclosure requirements related to environmental and contaminated site liabilities. • Reviewed disclosures related to long-term debt to ensure it is in accordance with PSAS.	No

Reserves and reserve funds (accumulated surplus)

Our Response	Estimate?
As previously communicated in our audit plan, we: • Updated our understanding of the reserves and reserve funds (accumulated surplus) set up at the City. • Reviewed the continuity for reserves and reserve funds (accumulated surplus) and ensured that it agreed to the financial statements.	No

Significant findings

We did not identify any issues as a result of our audit work.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

- The management representation letter includes the Summary of Uncorrected Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial
    - This includes the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole
- Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements —individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.
- We concur with management’s representation that the uncorrected misstatements are not material to the financial statements. Accordingly, the uncorrected misstatements have no effect on our auditor's report.

Uncorrected audit misstatements

As at and for the year ended December 31, 2023	Income effect	Financial position			
Description of individually significant misstatements	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening Accumulated Surplus (Decrease) Increase**	**Closing Accumulated Surplus (Decrease) Increase**
To adjust for the impact on entities under control of the City not being consolidated into the financial statements of the City due to the immaterial balances involved.	$6M	$16M	$5M	-	$11M
Out of period adjustments relating to prior periods that were corrected through the current year:					
To recognize prior period impact relating to understatement of depreciation expense as a result of a classification error between assets under construction and completed assets	$41M	-	-	($41M)	-
To reverse out the opening balance impact on the transfer of assets from TWRC in prior years recorded by management in 2023.	-	($36M)	-	($36M)	-
To reflect impact of management's estimated error of classification between AUC and Final assets. This entry indicates the out of period error impact related to expenses, corrected in the current year.	($23M)	-	-	($23M)	-
Total uncorrected misstatements	**($24M)**	**($20M)**	**$5M**	**($100M)**	**$11M**

Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.

Corrected misstatements

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

As at and for the year ended December 31, 2023:

Description of misstatement	$	
	Debit	Credit
Reclassification of Municipality Service Damage Guarantee ("MSDG") deposits from accounts payable to deferred revenue.		
Accounts Payable	$61.7M	
Deferred Revenue		$61.7

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 deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

No significant deficiencies in internal control were noted during the audit. Observations and opportunities for process and reporting improvements will be shared with management.

Accounting policies and practices

Initial selection

The following new accounting standards came into effect for the year ended December 31, 2023 and were implemented by the City:

- PS 3280 *Asset Retirement Obligations*
- PS 3450 *Financial Instruments*, PS 2601 *Foreign Currency Translation*, PS 1201 *Financial Statement Presentation*, PS 3041 *Portfolio Investments*

Revised

No changes in 2023.

Significant qualitative aspects

Significant accounting policies are disclosed in Note 1 to the consolidated financial statements

Estimates and assumptions are disclosed in Note 1(d)

Specific topics

We have highlighted the following that we would like to bring to your attention:

Matter	Finding
Illegal acts, including noncompliance with laws and regulations, or fraud	No matters to report
Other information in documents containing the audited financial statements	No matters to report
Significant difficulties encountered during the audit	No matters to report
Difficult or contentious matters for which the auditor consulted	No matters to report
Management's consultation with other accountants	No matters to report
Disagreements with management	No matters to report
Related parties	Refer to uncorrected misstatements section for impact of City agencies not consolidated in the financial statements.
Significant issues in connection with our appointment or retention	No matters to report
Other matters that are relevant matters of governance interest	No matters to report

Appendices

Appendix A: Draft auditor's report

(see attachment below)

INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council, Inhabitants and Ratepayers of the City of Toronto

Opinion

We have audited the consolidated financial statements of the City of Toronto (the City), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net debt for the year then ended
- the consolidated statement of remeasurement gains and losses 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 City as at December 31, 2023, and its consolidated results of operations, its consolidated changes in net debt, its consolidated remeasurement gains and losses, 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 City 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.

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 2 to the financial statements which indicates that the City has adopted certain public sector accounting standards on a prospective basis. Note 2 also explains the adjustments that were applied to restate certain current period information as a result of the prospective application of these changes in accounting policies.

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements which explains that certain comparative information presented for the year ended December 31, 2022 has been restated as a result of the modified retroactive adoption of the PS3280, Asset retirement obligations standard.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified with respect of this matter.

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended December 31, 2022.

In our opinion, such adjustments are appropriate and have been properly applied.

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 City'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 City to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City'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 City'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 City'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 City 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 City 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

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Appendix A: Other required communications

Engagement terms

A copy of the engagement letter and any subsequent amendments has been provided to the Audit Committee.

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: 2023 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2023 Annual Inspections Results

Appendix A: Management representation letter

(see attachment below)

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan, Ontario L4K 0J3
Canada

Date: ___________________________

We are writing at your request to confirm our understanding that your audits were for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of the City of Toronto ("the Entity") as at and for the periods ended December 31, 2023.

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 November 16, 2023, 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.

i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

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 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 financial statements, communicated by employees, former employees, analysts, regulators, short sellers, 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 financial statements.

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the 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.

8) The list of related parties attached to this letter as **Attachment III** accurately and completely describes the City's related parties and the relationships with such parties.

Estimates:

9) 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:

10) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

11) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

Misstatements:

12) 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.

13) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Other information:

14) We confirm that the final version of Annual Financial Report 2023 will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your audit procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

15) 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).

16) 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.

Sinking fund:

17) We have appropriately recognized and disclosed the balances related to the sinking fund as per the term sheet that provides details related to the issuance of the sinking fund. We confirm that the issuance of the sinking fund debt is in accordance with the most recent financing policy approved by the council.

Accounting policies:

18) We confirm that we have reviewed the City's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the consolidated financial statements is appropriate in the City's particular circumstances.

Adoption of new accounting standards:

19) The Entity has adopted new accounting standards that came into effect for the year beginning on January 1, 2023, and has recorded all required adjustments to recognize the impact of these new accounting standards. The presentation and disclosure in the financial statements has been updated accordingly to reflect these changes as well.

Asset Retirement Obligations:

20) All legal obligations associated with the retirement of tangible capital assets have been recognized, including those under the doctrine of promissory estoppel.

21) The obligations were recognized using management's best estimate of fair value.

Financial instruments:

1) All transactions involving derivative instruments have been identified and accurately recorded in the financial records of the Entity.

2) There are no side agreements associated with any derivative financial instrument except as disclosed to you.

3) Derivative financial instruments that are entered into for trading or speculative purposes have been accounted for in accordance with the relevant financial reporting framework.

Minutes

4) All matters requiring disclosure to or approval of the Executive Committee and the Audit Committee have been brought before them at appropriate meetings and are reflected in the minutes.

Completeness of transactions

5) All contractual arrangements entered into by the City with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. the City has complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance. There are no side agreements or other arrangements (either written or oral) undisclosed to you.

Assets and liabilities

6) We have satisfactory title or control over all assets. All liens or encumbrances on the City's assets and assets pledged as collateral, to the extent material, have been disclosed in the consolidated financial statements.

   We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the City is contingently liable in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3300, *Contingent Liabilities*, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

Litigation and claims

7) All known actual or possible litigation and claims, which existed as at December 31, 2023 or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Cash and banks

8) The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the City.

   All cash balances are under the control of the City, free from assignment or other charges, and unrestricted as to use, except as disclosed to you. The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of the City. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed. All cash and bank accounts and all other properties and assets of the City are included in the consolidated financial statements.

Restricted assets and revenues

9) All assets and revenues subject to externally imposed restrictions are disclosed in the consolidated financial statements.

   All externally restricted inflows, other than those that relate to government transfers received or trusts under administration, have been recognized as revenue in the year/period in which the resources were used for the purpose specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purpose specified.

Condensed supplementary financial information relative to internally restricted entities has been disclosed in the consolidated financial statements, by entity and as a whole.

Accounts receivable

10) All amounts receivable by the City were recorded in the books and records.

Amounts receivable are not subject to discount except for normal cash discounts which are appropriately provided for.

All receivables were free from hypothecation or assignment as security for advances to the City, except as hereunder stated.

The City has disclosed to us all transfers of receivables (including securitizations) that have occurred during the year.

Receivables, other than transfers receivable accounted for in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3410, *Government Transfers* and taxes receivable accounting for in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3510, *Tax Revenue*, recorded in the consolidated financial statements, represent bona fide claims against debtors for sales or other charges arising on or before year end and are not subject to discount except for normal cash discounts.

Loans receivable

11) We have disclosed to you all loan agreements containing forgivable conditions, significant concessionary terms and those that are to be repaid through future appropriations.

Loans receivable that are not to be repaid through future appropriations, nor contain forgivable conditions have been accounted for as financial assets, in accordance with CPA Canada Public Sector Accounting Handbook PS 3050, *Loans Receivable*. The cost of loans receivable excludes any portion of the loan that will be repaid through future appropriations and any grant portion relating to significant concessionary terms of the loan. We have reviewed loans receivable for collectability, risk of loss and expected forgiveness, and made appropriate valuation allowances or writeoffs thereon if necessary, in accordance with CPA Canada Public Sector Accounting Handbook PS 3050, *Loans Receivable*. The valuation allowance for loan losses and/or forgiveness encompasses probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as at year end.

Portfolio investments and other financial assets

12) All securities and other financial assets that were owned by the City were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial assets.

You have been informed of the acquisition of or the formation of all government units, business enterprises, partnerships, joint ventures or other participations during the year.

All transactions with subsidiaries, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to subsidiaries, business enterprises, partnerships, joint ventures or other participations are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the consolidated financial statements.

There has been no activity in any dormant or inactive subsidiaries, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

Toronto Hydro Corporation and Toronto Parking Authority meet the definition of government business enterprise (GBE) in accordance with PS 3070, *Investments in Government Enterprises.* The modified equity method has been used to account for the City's investment in the above mentioned GBEs.

Inventory

13) Provision has been made to reduce excess or obsolete inventories held for resale to their estimated net realizable value.

    There have been no events conditions or changes in circumstances that indicate inventory held for consumption will no longer be used or consumed in the City's operations.

Tangible capital assets

14) All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

    All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

    No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

    Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

    Tangible capital assets owned by the City are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

    All lease agreements covering assets leased by or from the City have been disclosed to you and classified as leased tangible capital assets or operating leases.

    Leased tangible capital assets are being amortized on a systematic basis over the period of expected use.

    There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the City's ability to provide goods and services or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the City's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150, *Tangible Capital Assets*.

Long-term debt

15) All borrowings and financial obligations of the City of which we are aware are included in the consolidated financial statements as at year end, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

    the City has not violated any covenants on its long -term debt during the year. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.

Deferred revenue and deferred contributions

16) All material amounts of deferred revenue and deferred contributions were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences and termination benefits

17) All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The details of all pension plan amendments since December 31, 2023, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dates December 31, 2023 incorporates management's best estimates, detailed as follows:

- The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other post-retirement benefits are appropriate in the circumstances; and
- The City does not plan to make frequent amendments to the pension of other post-retirement benefits.

All changes to the plan provisions and the employee group, or events that impact the plan's performance since the last actuarial valuation have been reviewed, communicated to you as well as to the actuary, and considered in determining the pension plan costs and the estimated actuarial present value of accrued pension benefits and value of pension plan asset.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2023, and where applicable, their extrapolation to December 31, 2023.

We confirm that the extrapolations are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CPA Canada Public Sector Accounting Handbook PS 3250, *Retirement Benefits* and CPA Canada Public Sector Accounting Handbook PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. In particular:

- The significant accounting policies that the City has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*, and CPA Canada Public Sector Accounting Handbook Section PS 3255, *Post-employment Benefits, Compensated* Absences *and Termination Benefits*, are accurately and completely disclosed in the notes to the consolidated financial statements.
- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate or the plan asset earnings using assumptions that are internally consistent with other actuarial assumptions used in the calculation of the accrued benefit obligation and plan assets.
- The assumptions included in the actuarial valuation are those that management instructed Mondelis and Morneau Shepell to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named consolidated financial statements, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*.

- In arriving at these assumptions, management has obtained the advice of consulting actuaries who assisted in reaching best estimates, but has retained the final responsibility for them.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

Consolidated statements of operations, changes in net debt

18) All transactions entered into by the City have been recorded in the books and records presented to you. All amounts have been appropriately classified within the statements of operations and net debt.

    The accounting principles and policies followed throughout the year were consistent with prior period practices (except as disclosed in the consolidated financial statements).

Liabilities for contaminated sites

19) Liabilities for remediation of contaminated sites were recognized and accounted for in accordance with CPA Canada Public Sector Accounting Handbook PS 3260, *Liabilities for Contaminated Sites*. We believe that such estimate is reasonable based on available information and that the liabilities have been adequately described in the City's consolidated financial statements.

Environmental matters

20) There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor.

    Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

    We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

    All commitments related to environmental matters have been measured and disclosed, as appropriate in the consolidated financial statements.

Use of a specialist

21) We assume responsibility for the findings of specialists in evaluating the employee benefits obligation, contaminated sites liability and landfill closure and post-closure liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

General

22) There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the City's operations.

    Information relative to any matters handled on behalf of the City by any legal counsel, including all correspondence and other files, has been made available to you.

Segment disclosures

23) Pursuant to CPA Canada Public Sector Accounting Handbook Section PS 2700, *Segment Disclosures*, in identifying segments, management has considered the definition of a segment and other factors, including:

- the objectives of disclosing financial information by segment;
- the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- the qualitative characteristics of financial reporting as set out in CPA Canada Public Sector Accounting Handbook Section PS 1000, *Financial Statement Concepts*;
- the homogeneous nature of the activities, service delivery, or recipients of the services;
- whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
- whether discrete financial information is reported or available; and
- the nature of the relationship between the government and its organizations (within the reporting entity).

Management has identified following operating segments: General Government, Protection, Transportation, Environmental, Health, Social and Family, Social Housing, Recreation and Cultural and Planning and Development.

The consolidated financial statements disclose all the relevant factors used to identify the City's reportable segments.

Government transfers

24) Transferring organization

- Transfers have only been recognized as an expense in the year the transfer has been authorized and all eligibility criteria have been met by the recipient.

25) Recipient organization

- We have disclosed all significant terms and agreements in respect of transfers received from governments.
- Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.
- Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.
- Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the year the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with CPA Canada Public Sector Accounting Handbook PS 3200, *Liabilities*.

26) Disclosure

- The major kinds of transfers recognized have all been disclosed in the consolidated financial statements as well as the nature and terms of liabilities arising from government transfers received.

Budgetary data

27) We have included budgetary data in our consolidated financial statements, which is relevant to the users of consolidated financial statements. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results

Yours very truly,

Mr. Stephen Conforti, Chief Financial Officer and Treasurer

Mr. Paul Johnson, City Manager

David McIsaac, Interim Controller and Executive Director, Finance Shared Services

cc: Audit Committee

Attachment I – Definitions

Materiality

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it 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.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

c) dissimilar items, transactions or other events are inappropriately aggregated;

d) similar items, transactions or other events are inappropriately disaggregated; and

e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.]

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.

Attachment II – Summary of Audit Misstatements Schedule(s)

Summary of Audit Misstatements - Corrected

Entity: City of Toronto
For Period Ended: December 31, 2023

Correcting Entry Necessary at Current Period End								Balance Sheet Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease)			Statement of Comprehensive Income - Debit (Credit)
ID	**Description of misstatement**	**Factual, judgmental or projected misstatement?**	**Misstatement in accounts or in disclosure?**	**Accounts (if applicable)**	**Debit**	**(Credit)**	**Income effect according to Rollover method**	**Accumulated Surplus**	**Financial Assets**	**Liabilities**	**Non-Financial Assets**	**Operating Activities**	**Investing Activities**	**Financing Activities**	**Annual Surplus**
1	Reclassification for MSDG amounts from AP to Deferred Revenue	Factual	Accounts	MSDG Deposits - 215601	61,742,035					61,742,035		(61,742,035)			
				Dev Charges - Residential 220398		(59,818,491)				(59,818,491)		59,818,491			
				Dev Charges - Non Residential 220399		(624,243)				(624,243)		624,243			
				Park Levy -220303		(1,299,300)				(1,299,300)		1,299,300			
							-	-	-	-	-	-	-	-	-

Summary of Audit Misstatements - Uncorrected

Entity: City of Toronto
For Period Ended: December 31, 202

Correcting Entry Necessary at Current Period End							Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease)		
ID	**Description of misstatement**	**Factual, judgmental or projected misstatement?**	**Misstatement in accounts or in disclosure?**	**Accounts (if applicable)**	**Debit**	**(Credit)**	**Income effect of correcting the balance sheet in prior period (carryforward from prior period)**	**Income effect of correcting the current period balance sheet**	**Income effect according to Rollover method**	**Accumulated Surplus**	**Financial Assets**	**Liabilities**	**Non-Financial Assets**	**Operating Activities**	**Investing Activities**	**Financing Activities**
				A		B	C=A (Only Income Statement accounts)	D=C-B	E = (B+D = C)							
1	Consolidation of City work excludes certain entities (YDS, Casaoma, Arenas, BIA's, Community centers, Heritage) that are required to be consolidated in the financial statements.	Factual	Accounts	Total Revenue		(82,148,835)		(82,148,835)	(82,148,835)	(82,148,835)				(82,148,835)		
				Total Expenses	76,247,794			76,247,794	76,247,794	76,247,794				76,247,794		
				Total Assets	15,608,420						15,608,420			15,608,420		
				Total Liabilities		(5,029,802)						(5,029,802)		(5,029,802)		
				Accumulated Surplus		(4,677,577)				(4,677,577)				(4,677,577)		
2	Based on managements correction of classification between AUC and Final Assets , KPMG is recording this uncorrected adjustment to indicate the out of period error impact related to expenses, corrected in the current year.	Factual	Accounts	Accumulated Surplus	41,265,109					41,265,109				(41,265,109)		
				Other Expenditures		(41,265,109)		(41,265,109)	(41,265,109)	(41,265,109)				41,265,109		
3	To record the opening balance impact on the transfer of assets from TWRC in prior years recorded by management in 2023.	Factual	Accounts	TCA (Opening balance)	35,748,006						35,748,006			(35,748,006)		
				Accumulated Surplus (Opening balance)		(35,748,006)				(35,748,006)				35,748,006		
4	Based on management's estimated error of classification between AUC and Final assets, KPMG is recording this uncorrected adjustment to indicate the out of period error impact related to expenses, corrected in the current year	Factual	Accounts	Accumulated Surplus	22,697,600					22,697,600				-		
				Other Expenditures		(22,697,600)		(22,697,600)	(22,697,600)	(22,697,600)				22,697,600		
							Aggregate effect of uncorrected audit misstatements:		**(69,863,749)**	**(46,326,624)**	**51,356,426**	**(5,029,802)**	**-**	**22,697,600**	**-**	**-**

Attachment III – Related Parties

Agencies and Corporations

- Board of Governors of Exhibition Place
- Board of Management of the Toronto Zoo
- Build Toronto Inc. (BTI)
- Casa Loma Corporation
- Heritage Toronto
- Lakeshore Arena Corporation
- TOLive
- Toronto Atmospheric Fund (TAF)
- Toronto Board of Health
- Toronto Community Housing Corporation (TCHC)
- Toronto Licensing Commission
- Toronto Public Library Board
- Toronto Transit Commission (TTC)
- Create TO
- Yonge-Dundas Square
- City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company (TPLC)
- Toronto Pan Am Sports Centre Inc. (TPASC)
- Toronto Waterfront Revitalization Corporation (TWRC)
- Toronto Senior Housing Corporation (TSHC)

Arenas

- Forest Hill Memorial
- Moss Park
- George Bell
- North Toronto Memorial
- Leaside Memorial Community Gardens
- McCormick Playground
- Ted Reeve
- William H. Bolton

Community Centres

- 519 Church Street
- Applegrove
- Eastview Neighbourhood
- Waterfront Neighbourhood
- Cecil Street
- Ralph Thornton
- Central Eglinton
- Scadding Court
- Community Centre 55
- Swansea Town Hall

Business Improvement Areas (BIAs)

- Albion Islington Square
- Baby Point Gates
- Bayview Leaside
- Bloor Annex
- Bloor By The Park
- Bloor West Village
- Bloor-Yorkville
- Bloorcourt Village

- Bloordale Village
- Broadview Danforth
- Cabbagetown
- Chinatown
- Church-Wellesley Village
- City Place & Fort York
- College Promenade
- College West
- Corso Italia
- Crossroads of the Danforth
- Danforth Mosaic
- Danforth Village
- Dovercourt Village
- Downtown Yonge
- DuKe Heights
- Dundas West
- Dupont by the Castle
- Eglinton Hill
- Emery Village
- Fairbank Village
- Financial District
- Forest Hill Village
- Gerrard India Bazaar
- Greektown on the Danforth
- Harbord Street
- Hillcrest Village
- Historic Queen East
- Junction Gardens
- Kennedy Road
- Kensington Market
- Korea Town
- Lakeshore Village
- Leslieville
- Liberty Village
- Little Italy
- Little Portugal on Dundas
- Long Branch
- MarkeTo District
- Midtown Yonge
- Mimico by the Lake
- Mimico Village
- Mirvish Village
- Mount Dennis
- Mount Pleasant Village
- Oakwood Village
- Ossington Avenue
- Pape Village
- Parkdale Village
- Queen Street West
- Regal Heights Village
- Riverside District
- Roncesvalles Village
- Rosedale Main Street
- Sheppard East Village
- shoptheQueensway.c om
- St. Clair Gardens

- St. Lawrence Market
- Neighbourhood
- The Beach
- The Eglinton Way
- The Kingsway
- The Waterfront
- Toronto Entertainment District
- Trinity Bellwoods
- Upper Village
- Uptown Yonge
- Village of Islington
- West Queen West
- Weston Village
- Wexford Heights
- Wilson Village
- Wychwood Heights
- Yonge and St. Clair
- Yonge Lawrence Village
- York Eglinton

Appendix B: Audit quality - How do we deliver audit quality?

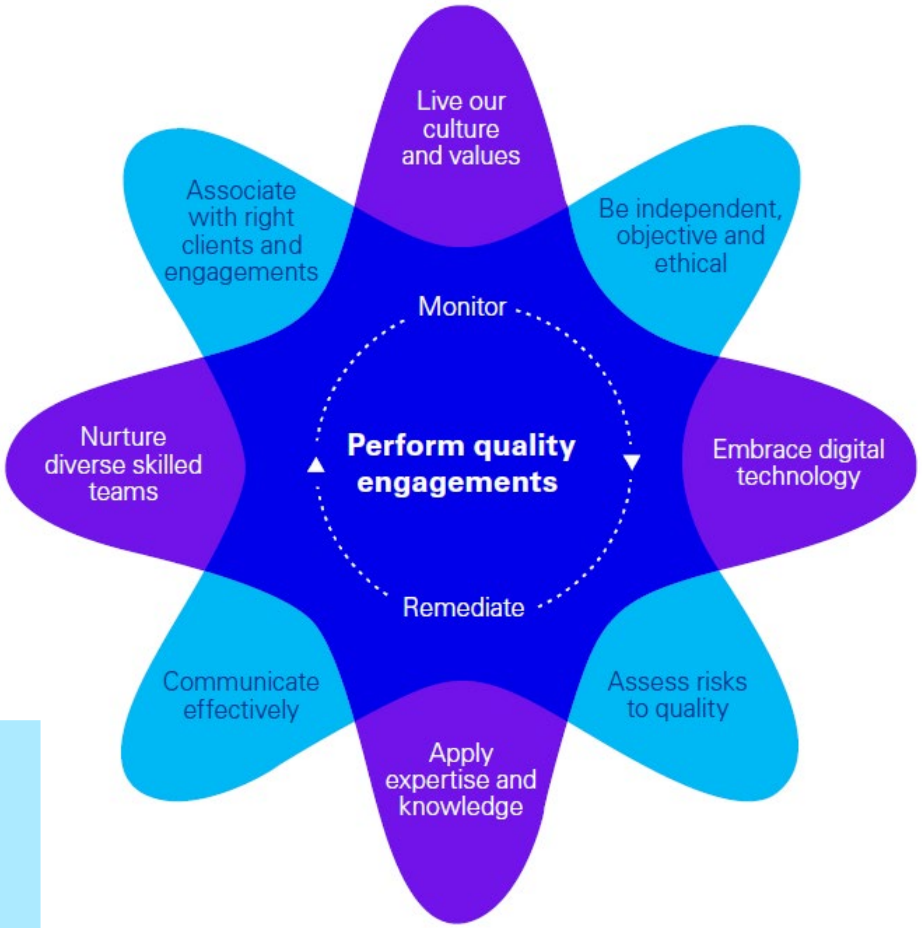
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

KPMG 2023 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 management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Appendix C: Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 Revenue is effective for fiscal years beginning on or after April 1, 2023. • 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.
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. • 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.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 Public private partnerships is effective for fiscal years beginning on or after April 1, 2023. • 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.
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.

Appendix C: Changes in accounting standards (continued)

Standard	Summary and implications

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 C: Changes in accounting standards (continued)

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 D: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards see Current Developments

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Appendix E: Audit and assurance insights

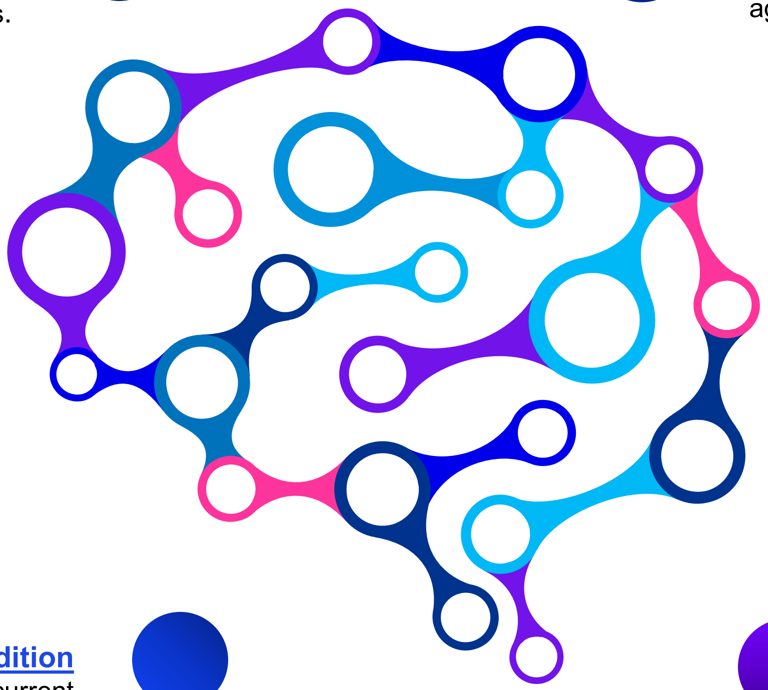
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

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 center 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: Insights - Municipalities

(see attachment below)

Insights and Resources

Public sector organizations across Canada are facing a plethora of challenges: financial uncertainty, advanced technological risk, environmental, social, and governance objectives, all which demand innovative approaches to policy, strategies, and operating models.

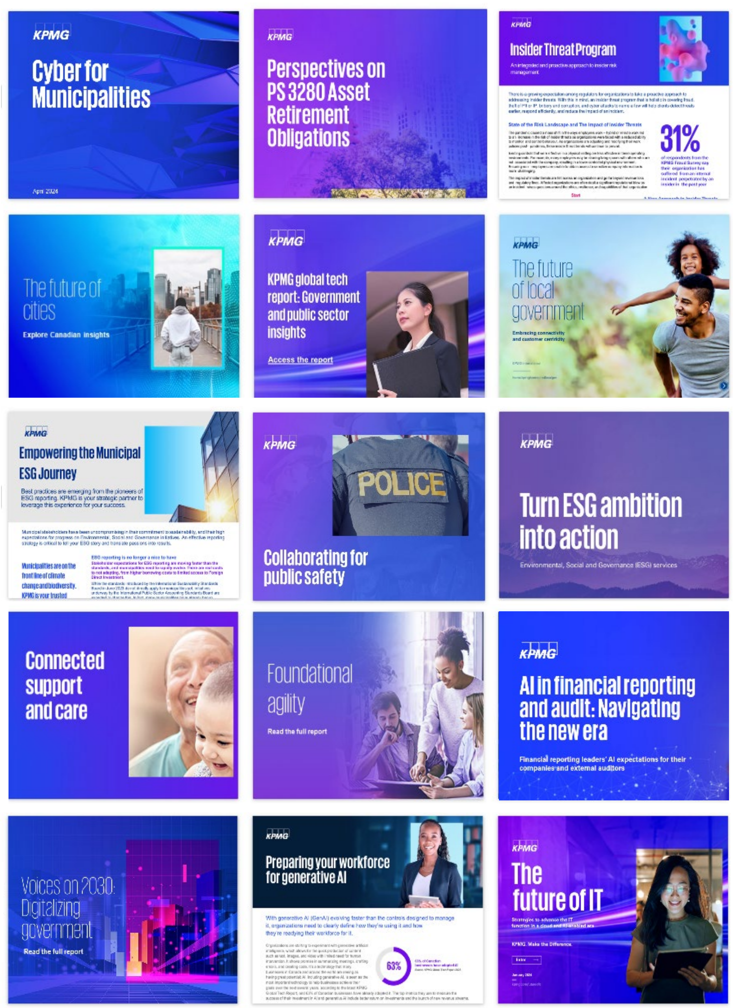
To help you understand and navigate these challenges, we have compiled insights and resources in one spot for you. This page was built for you, to ensure you have the right information in a timely way to enable your organization's success.

Insights available

This resource site has guides, reports, on-demand webinars and articles. You will find content on topics such as ESG, generative AI, the future of government, cyber, risk considerations and financial sustainability.

We encourage you to visit the site to learn more about these topics; simply **scan/click the QR code to access.**

Our local team of trusted advisors in the Eastern Region of Canada bring a creative and innovative approach to problem solving that reflects a keen understanding of the public sector. **We can help you understand relevant sector insights to help achieve sustainable results.**



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Appendix F: ESG - Global regulatory reporting standards

Recent Activity

ISSB[1] and CSSB

- On March 13, 2024 the Canadian Sustainability Standards Board (CSSB) released proposals on its first two Canadian Sustainability Disclosure Standards (CSDS): Exposure Draft CSDS 1 (proposed general requirements standard) and Exposure Draft CSDS 2 (proposed climate standard).
- The proposed standards are aligned with the global baseline disclosure standards IFRS S1 and IFRS S2 with the exception of a Canadian-specific effective date for annual reporting periods beginning on or after January 1, 2025 and incremental transition relief.
- In June 2023, the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards – IFRS S1 (general requirements standard) and IFRS S2 (climate standard).
- The ISSB standards are effective for annual periods beginning on or after January 1, 2024 – subject to local jurisdiction adoption.

Canadian regulators (CSA)

- In parallel with the CSSB's release of its proposals on March 13, 2024, the Canadian Securities Administrators (CSA) issued a statement noting that they will seek consultation on a revised climate-related disclosure rule following the finalization of CSDS 1 and 2.
- In October 2021, the CSA issued their original proposed rule, proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.
- Bill S-211, Canada's new Act on fighting against forced labor and child labour will take effect on January 1, 2024. Canadian and foreign businesses impacted by the Act will be required to file a report on their efforts to prevent and reduce the risk of forced labour and child labour in their supply chain, by May 31st of each year.

US (SEC[2,3] and California[4])

- The SEC's final climate rule was issued on March 6, 2024.
- The final rule will generally apply to all SEC registrants; *including* foreign private issuers (Form 20-F filers); *excluding* Canadian issuers reporting under the Multijurisdictional Disclosure System (Form 40-F filers) and asset-backed issuers.
- The earliest compliance date is the fiscal year beginning in Calendar year 2025 for large accelerated filers.
- The SEC also issued its final rules on cybersecurity in July 2023 and expects to release proposed disclosure rules on human capital management in spring 2024 and corporate board diversity in fall 2024.
- On October 7, 2023, the California Governor signed two climate disclosure laws that will shape climate disclosure practices beyond the state's borders. The laws will apply to US businesses (including US subsidiaries of non-US companies) that meet specified revenue thresholds and do business in California. The Governor also signed the California voluntary carbon market disclosures bill.

EU[5,6]

- The European Financial Reporting Advisory Group (EFRAG) was mandated to develop European Sustainability Reporting Standards (ESRSs) setting out the detailed disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).
- On July 31, 2023, the European Commission published the final text of its first set of twelve ESRSs as delegated acts
- The ESRSs will become effective as early as 2024 reporting periods for some companies.
- There are potentially considerable ESG reporting implications for Canadian entities – as most EU-listed companies and large subsidiaries of Canadian companies with significant operations in the EU are in scope. Non-EU parent entities with substantial activity in the EU may also be in scope, with separate standards to be developed for these entities, with an effective date of 2028 reporting periods

1. Refer to our ISSB Resource Centre for resources on implementing the IFRS Sustainability Disclosure Standards
2. Refer to our Defining Issues publication for more information on the SEC's final climate rule
3. Refer to our Defining Issues publication for more information on the SEC's cybersecurity rules
4. Refer to our publication on California's introduction of climate disclosures and assurance requirements
5. Refer to our ESRS Resource Centre for resources on implementing the ESRSs
6. Refer to our publication on the impact of EU ESG reporting on non-EU companies

Appendix F: ESG - Municipalities

(see attachment below)

KPMG

Are you on top of your municipal ESG reporting requirements?

Understand how ESG impacts municipalities, what the current requirements are, and how to communicate the value you deliver through ESG reporting.

A coordinated ESG strategy is essential for municipalities

Stakeholders are increasingly putting pressure on municipalities to deliver services in a way that manages Environmental, Social and Governance (ESG) risks and opportunities, and discloses their ESG performance in alignment with global standards. A coordinated strategy is critical to enable ESG reporting, and to enhance service delivery to respond to this pressure. This will enable better informed budgeting and reporting decisions that proactively consider and account for emerging regulatory requirements, unlocking greater value for the municipal corporate entity and for stakeholders alike. Benefits of developing and implementing and ESG strategy in coordination with program and service delivery include:

- **Decreased operational costs:** Lowered costs through sustainable suppliers and other financial arrangements
- **Increased citizen engagement:** Improved reputation and engagement from citizens on ESG priorities and how you deliver on them.
- **Enhanced ability to communicate value creation through sustainability indicators** to key stakeholders

Reporting is just one step in the ESG journey. Ultimately, it beings with Discovery, and aligning your sustainability priorities with stakeholder needs.

01 ESG Discovery | 02 ESG Strategy | 03 ESG Integration | 04 ESG Reporting

How to start: ESG Discovery sessions

OVERVIEW

- **Length:** 3 hours
- **Format:** Virtual, hybrid or in-person

WHO CAN BE INVOLVED

- Leadership & management
- C-Suite (e.g., CAO; Treasurer)
- Program and service leaders
- Capital and asset managers

DISCOVER

- Insights into market dynamics, future trends and why ESG is gaining in importance
- Industry and peer ESG performance
- How to effectively integrate ESG into your strategy and service delivery model

SESSION OUTCOMES

- An **ESG trend diagnostic** highlighting the priority policies for the municipal sector
- Your **ESG maturity** across seven dimensions
- An **ESG roadmap** of your priorities

Considerations for your leadership team

- Are you able to express the value you deliver in terms the business community your stakeholders expressed their expectations regarding ESG issues?
- What are your priority ESG issues? Which will have the most impact? In one year? In five years?
- Where do you have blind spots?
- Where can you proactively mitigate future concerns?
- Do you have a central ESG strategy and vision that connects your various initiatives?
- Are decarbonation efforts effectively tied to financial budgeting and reporting?

Contact us

Book a free exploratory call with our team to asses your next steps.

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Appendix G: Cybersecurity

(see attachment below)

Cyber for Municipalities

April 2024

Municipalities in the news

Town of Huntsville closes municipal office for 2nd day amid cybersecurity incident

Huntsville is the 2nd Ontario municipality to report hack in 3 week

Fakiha Baig · The Canadian Press · Posted: Mar 12, 2024 11:05 AM EDT

Second Ontario municipality reports cybersecurity incident within three weeks

By Fakiha Baig • The Canadian Press
Posted March 12, 2024 10:42 am · Updated March 12, 2024 11:43 am · 2 min read

Town of Greater Napanee targeted by hackers, impact as yet unknown

By Shane Gibson • Global News
Posted January 12, 2024 6:49 pm · 1 min read

Hamilton cyberattack shows municipalities need to shore up digital defences: expert

TORONTO – A recent ransomware attack that knocked out several online services in one of Ontario's largest cities has brought into sharp focus the need for municipalities to have a plan to respond to what's become an unavoidable – and increasingly sophisticated – threat, a top cybersecurity expert said.

By Paola Loriggio The Canadian Press
Monday, March 11, 2024 | 3 min to read
Article was updated Mar 11, 2024

NORTHERN ONTARIO | News

'It's really a coin flip': Experts weigh in on if Sudbury will recover $1.5M lost to fraud

Cyberattack cost local town $1.3M, including $290k in Bitcoin ransom

A cyberattack on the Town of St. Marys that encrypted municipal systems and stole sensitive data cost the local government roughly $1.3 million, including a $290,000 Bitcoin ransom payment made to the hackers, officials have revealed.

Galen Simmons • Stratford Beacon Herald
Published Apr 13, 2023 • Last updated Apr

Hamilton cybersecurity breach continues to paralyze city services

Public, councillors left in the dark as to nature of incident that has hampered communications, transit and payment processing

Email hack may have revealed personal information, B.C. city warns residents

HOWARD SOLOMON
JULY 11, 2023

Nova Scotia

Personal information 'likely stolen' in Kings County cyberattack

Councillors, staff and others impacted by July incident

Haley Ryan · CBC News · Posted: Aug 14, 2023 4:38 PM EDT | Last Updated: August 14, 2023

Canadian city says timeline for recovery from ransomware attack 'unknown'

The city of Hamilton, Canada, is still recovering from a ransomware attack that has affected nearly every facet of government functions.

How can a cyber attack impact you?

Organizational Disruption

Technology is a main enablement tool used in our cities, many core services rely on technology to deliver services.

When access to technology is disrupted it can have severe impacts to public services, emergency services, infrastructure and sensitive information.

Associated Costs

Cyber incidents have a variety of costs associated with recovery, which include:

- Ransom Payments
- System Restoration
- Security Upgrades
- Legal & Professional Services
- Follow-on Monitoring
- Loss of Revenue
- Financial Fraud/Theft

These costs start to balloon quickly and can have long lasting effects.

Reputational Damage & Residents Impact

A cyber incident can cause significant reputational damage to a city, leading to a loss of trust among residents and potential investors, which can indirectly impact the city's financial health. For residents, the breach of their personal information can lead to a loss of confidence in the city's ability to protect their data, potentially resulting in decreased use of city services that require personal information.

What is a cyber resilient organization?

Preparation

This involves understanding your organization's risk profile, identifying business critical assets, and developing a comprehensive cybersecurity strategy. It includes training employees on cybersecurity best practices and implementing robust security measures where possible.

Protection

This entails implementing measures to prevent cyber attacks. It includes maintaining up-to-date security software, regularly patching vulnerabilities, and controlling access to sensitive information. Protecting your organization requires cybersecurity to be a part of all business conversations.

Detection

This includes continuously monitoring systems and networks for signs of a cyber attack. It calls for the use of security tools, conducting regular security audits and making consistent updates to improve detection capabilities.

Response & Recovery

This consists of having a plan in place to respond to a cyber attack and recover from it. It is made up of incident respond planes, disaster recovery plans, and business continuity plans. These plans should be regularly tested and improved upon.

What is a cyber resilient municipality?

01 Risk Prioritization

To be a cyber resilient municipality, you must be able to prioritize your resources to address the risks that threaten you. To prioritize risks, you must understand all the risks currently facing your organization.

02 Implement the Basics

Implementing basic cyber security practices like training, maintaining security software, regularly patching and multifactor authentication can be cost effective ways to dramatically improve cybersecurity resilience.

03 Defence in Depth

This is a crucial strategy for municipalities as it reduces the risk of a single point of failure, enhances efficiency in threat detection and response, increase resilience to attacks, and provide protection against advanced cyber threats.

Steps to building cyber resilience

The following principles serve as the bedrock for establishing a continuous lifecycle that fosters cyber resilience. These principles provide a consistent framework of actions to progressively build and enhance cyber resilience.

1 – Understand Current State

To build a robust cyber resilience framework, it is imperative to start with a comprehensive understanding of your current cybersecurity status. This includes an evaluation of the protective measures already implemented, identification of critical assets, understanding the policies and procedures that regulate your operations, and an assessment of system vulnerabilities. By gaining these insights, you can make risk informed decisions that protect your organization and efficiently allocate the resources available.

2 – Test your Technology

Testing technology is crucial for building cyber resilience as it helps identify potential vulnerabilities and weaknesses in the system that could be exploited by cyber threats. It also allows organizations to evaluate the effectiveness of their current security measures and protocols. By testing your technology, you can deepen the understanding of risks your organization faces and perform ongoing risk management. Theses tests allow for an unbiased look at your infrastructure and contribute to a proactive prevention of unauthorized users.

3 – Validate Response

Validating response efforts is a crucial part of building cyber resilience as it ensures that the organization's incident response plan is effective and efficient. It allows for the identification of any gaps or weaknesses in the response strategy, enabling improvements to be made. Furthermore, it provides an opportunity for staff to practice and refine their skills in a controlled environment, enhancing their readiness for real cyber incidents.

4 – Increase Resilience

Increasing resilience and developing business continuity is an important part of building cyber resilience. It ensures uninterrupted business operations even in the face of cyber threats and allows organizations to quickly recover from cyber incidents, minimizing downtime and associated costs. Furthermore, a robust business continuity plan demonstrates an organization's commitment to security, which can enhance its reputation among stakeholders.

Understand Current State

What should you be doing:

Identify Critical Assets

- Understanding critical systems that help the business function
- Identify the level of protection required for each asset
- Identify system interdependencies

Understand Vulnerabilities & Gaps

- Understand gaps in people, processes and technology
- Allow for proactive measures to be taken

Manage & Prioritize Efforts

- Prioritize the key gap areas, which fall outside the acceptable risk levels
- Combine efforts to tackle problems areas rather than individual problems

Obtain holistic business view

- Comprehensive perspective of all elements that present a risk
- Understand roles and responsibilities across the business for cybersecurity

How a KPMG Cyber Maturity Diagnostic (CMD) can help:

KPMG's cyber maturity diagnostic includes a critical digital asset assessment which will identify critical digital assets of the organization, which includes systems and data repositories. Additionally it will develop a high-level threat profile that focuses on threat actors, their capability, level of interest and result to the threat profile of the organization.

The CMD will leverage the framework of your choice to assess the current state of cyber security capabilities, involving a review of existing documentation and interviews with key stakeholders to identify gaps and areas for improvement.

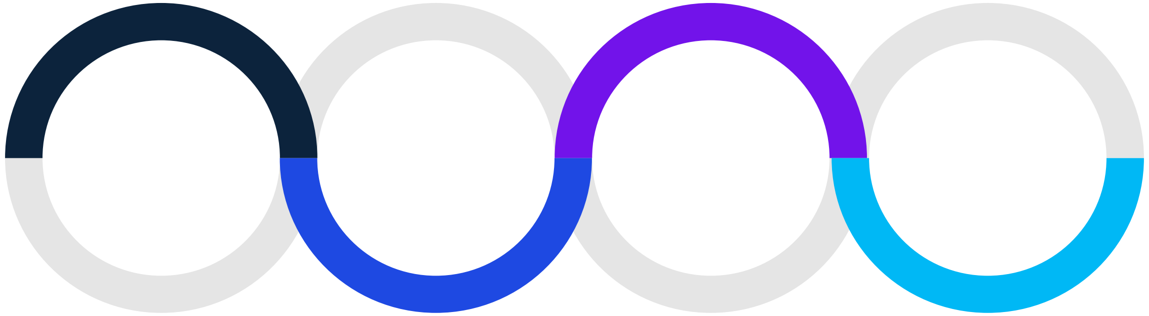
Once the assessment is complete, KPMG will produce a CMD report that includes the critical digital asset assessment and threat profile, explicit descriptions of the identified gaps and their risk level, and detailed recommendations on how to mitigate each gap. Additionally, the report will include prioritized recommendations forming a roadmap with estimated timeframes for any suggested remediation work.

Test your technology

What should you be doing:

Test your safeguards

- Test how your current technology is safeguarding your organization
- Test your monitoring and detection methods against a variety of different attack paths



Understand Vulnerabilities

- Identify weak points in your technology that could be used against you
- Use the knowledge gained to make risk informed decisions on technology

Manage & Prioritize Efforts

- Manage and prioritize efforts related to addressing critical vulnerabilities
- Allocate appropriate resources for addressing the vulnerabilities

Adjust perspective and retest

- Adjust the perspective of your testing efforts to simulate the changing threat landscape
- Retest addressed vulnerabilities to ensure that they are sufficiently mitigated

How a KPMG Penetration Testing can help:

KPMG offers a wide array of penetration testing options such as Network Penetration, Web Application, Wireless Security, Mobile Application, and Configuration Review. As organization and their technologies mature, the testing requirements tend to change and reflect the areas which require the most attention.

To build a strong foundation for understanding vulnerabilities, KPMG proposes a two phases approach to starting penetration testing which includes an external network footprint discovery exercise and a network penetration test. The network penetration test will simulated attacks both externally and internally on an organization’s network infrastructure to identify vulnerabilities, assess security controls and provide recommendations for strengthen network defences.

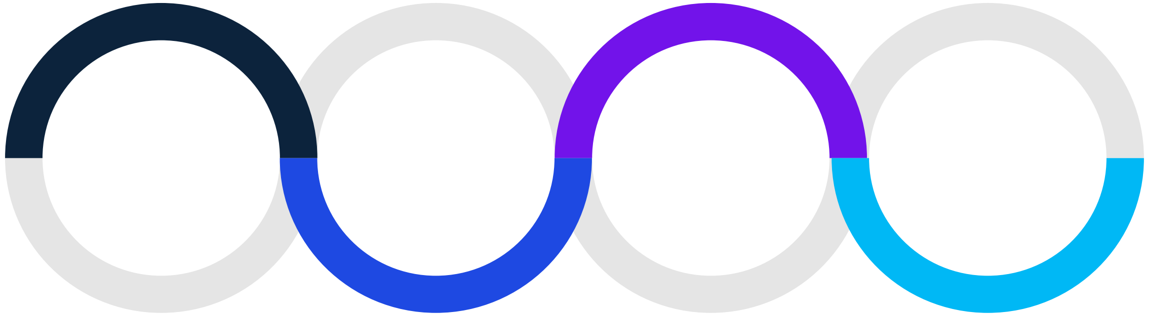
KPMG’s penetration testing goes beyond traditional reporting by providing a detailed analysis of each identified vulnerability, providing the necessary evidence and proof of the vulnerability and explaining recommendations in a business context to ensure that both technical and managerial audience can understand the impact and required remediation efforts.

Validate Response

What should you be doing:

Establish Response Plan

- Establish a series of response plans that will aid the organization in responding to a variety of different threats
- Train your people on how to operate the plans and what their responsibilities are



Test & Validate Response

- Test and validate that the plan works as intended and information is accurate
- Identify gaps within your plans

Make Improvements

- Make the necessary improvements to your plan, strengthening their effectiveness
- Adapt the plans to any major changes

Adjust scenarios & retest

- Test your plans against the possible scenarios your organization may face
- Identify areas where your plans may not be able to support your team
- Test your plans again to further develop and tailor them to your organization

How a KPMG Tabletop Exercise (TTX) can help:

KPMG's tabletop exercise services take a collaborative approach to incident response testing and improvement. We will work with you to understand the specific areas your organization is looking to test and tailor an exercise to match those needs. This scenario will combine the expert knowledge of KPMG and the business expertise from your organization to create a realistic scenario.

KPMG will facilitate the exercise and gather information on how your organization responds to the cyber incident beyond just the technical aspects. KPMG will also use the exercise as an opportunity to train and educate staff on incident response processes and procedures.

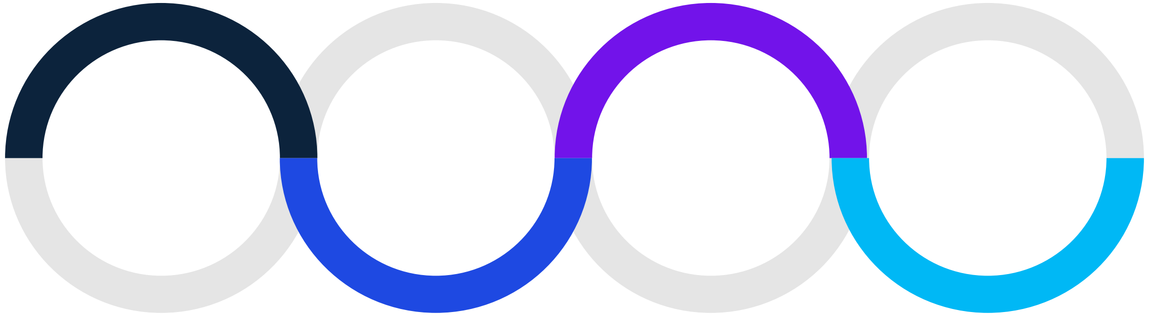
KPMG will deliver a detailed after-action report containing a summary of all findings and key recommendations, organizational strengths identified, detailed findings/gaps noted in the organizations incident response approach, detailed recommendations to address the findings/gaps, and a future tabletop exercise planning guide based on KPMG's observations to help the organization strengthen priority areas.

Increase Resilience

What should you be doing:

Business requirements and inventory

- Understand business recovery targets, resource requirements and dependencies across the organization
- Conduct business impact analysis against your critical systems



Risk assessment & remediation strategy

- Assess business continuity process risks
- Determine gaps in strategies

Plan Development

- Develop the necessary plans for the organization to operate in disruption
- Develop the necessary plans for the organization to recover from disruption

Exercising & maintaining

- Perform exercises that allow you to test the effectiveness and validity of plans
- Maintain and improve plans to mature with the growing and changing business
- Apply improvements from testing

How a KPMG Resilience Assessment can help:

KPMG's resilience assessment helps to determine what measures are currently in place at the organization and how effective they are. It will provide you with a detailed understanding of your current capabilities and what potential gaps in business information exist.

Additionally, the resilience assessment will provide the organization with a dashboard displaying the readiness of each department and how prepared they are to respond to a variety of different disruptions. The helps illustrate the types of events that departments are capable of withstand and which type of events require additional attention to achieve an acceptable level of disruption.

KPMG's resilience assessment will also produce a detailed understand and recommendations on what the businesses identified gaps are and how to remediate or mitigate them.

Pricing Options

Our goal in pricing is to provide you with the greatest possible value-for-fees. The fees below are ballpark fees and subject to change depending on scoping requires. We believe our fees are a realistic reflection of the work required, are based on the information currently available to us, and are consistent with those applied to clients of a similar size in the industry.

	Work Stream Deliverables	Total
Cyber Maturity Diagnostic	• Critical digital asset assessment and corresponding threat profile • High level cyber maturity diagnostic, containing findings, recommendations and roadmap	**$35,000**
Penetration Testing	• Detailed report with identified vulnerabilities and corresponding recommendations from the internal and external penetration tests • External attack surface discovery information	**$30,000**
Tabletop Exercise	• 3hr cyber tabletop exercise and after-action report with lessons learned, recommendations and exercise planning guide. • Value-Add session of your choice	**$30,000**
Business Resilience Assessment	• Current state assessment and department readiness dashboards • Identified gaps and recommendations report	**$25,000**
Cyber Resilience Partner Bundle ($20,000 Discount)	• Cyber maturity diagnostic, penetration test, tabletop exercise, business resilience assessment • 2 Value add sessions of your choice • Ongoing support and check-in conversations to answer any questions	**$100,000**

An experienced advisor to municipalities

KPMG in Canada and all around the world is a privileged advisor to municipal governments across our Audit, Tax and Advisory practices. We take great pride in serving the municipal sector and have highlighted here some major and relevant engagements performed for local and global Cities by our KPMG teams.

- City of Abbotsford
- City of Belleville
- City of Calgary
- City of Edmonton
- Halifax Regional Municipality
- City of Kingston
- Town of Markham
- City of Mississauga
- Regional Municipality of Peel
- City of Regina
- City of St. Albert
- City of Vaughan
- Sturgeon County

- Town of Stony Plain
- City of Brampton
- Region of York
- City of Winnipeg
- City of Hamilton
- City of Kitchener
- Ville de Montreal
- Town of Oakville
- City of Peterborough
- City of Richmond
- City of Saskatoon
- City of Toronto
- City of Spruce Grove

- Town of Banff
- Count of Wellington
- City of Lethbridge
- City of Greater Sudbury
- City of Kamloops
- Parkland County
- Town of Milton
- City of Ottawa
- City of Prince George
- City of Saint John
- City of Stratford
- Regional Municipality of Waterloo

We feel that the combination of local knowledge, our national insights on municipalities and our expert cyber knowledge make us an ideal partner for developing cyber resilience.

About KPMG cybersecurity services

Industry Leadership

“KPMG is recognized as a worldwide leader in Cybersecurity Consulting Services in the *IDC MarketScape: Worldwide Systems Integrators/Consultancies for Cybersecurity Consulting Services 2024 Vendor Assessment*.”

Source: "IDC MarketScape: Worldwide Systems Integrators/Consultancies for Cybersecurity Consulting Services 2024 Vendor Assessment", January 2024, IDC #US50463423

Creating a trusted digital world together

“The breadth of offerings and deep alliance relationships, along with skilled resources and knowledge across multiple cybersecurity domains, are highly appraised by KPMG clients."

Source: "IDC MarketScape: Worldwide Systems Integrators/Consultancies for Cybersecurity Consulting Services 2024 Vendor Assessment", January 2024, IDC #US50463423

Vision for the future

“KPMG has a strong belief that AI will transform the way the firm delivers services to clients as well as build new products/services that is reflected in its AI innovation and investment.”

Source: "IDC MarketScape: Worldwide Systems Integrators/Consultancies for Cybersecurity Consulting Services 2024 Vendor Assessment", January 2024, IDC #US50463423

Proven Expertise

6000+ Global Clients

9,300+ Cyber Professionals

30+ Industry Leading Alliances

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