



City of Toronto

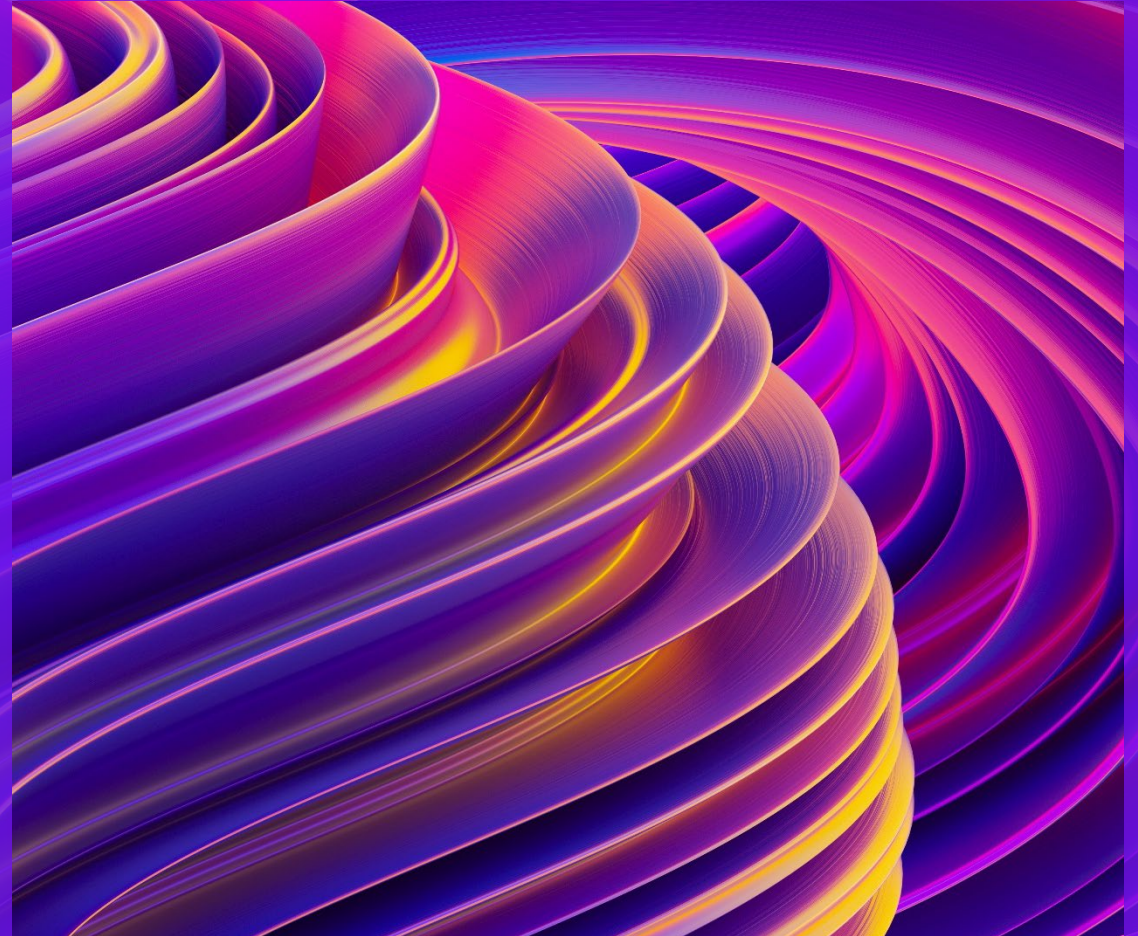
**Audit Findings Report
for the year ended
December 31, 2024**

KPMG LLP

Licensed Public Accountants

Prepared June 26, 2025 for presentation to the Audit Committee on
July 11, 2025.

kpmg.ca/audit



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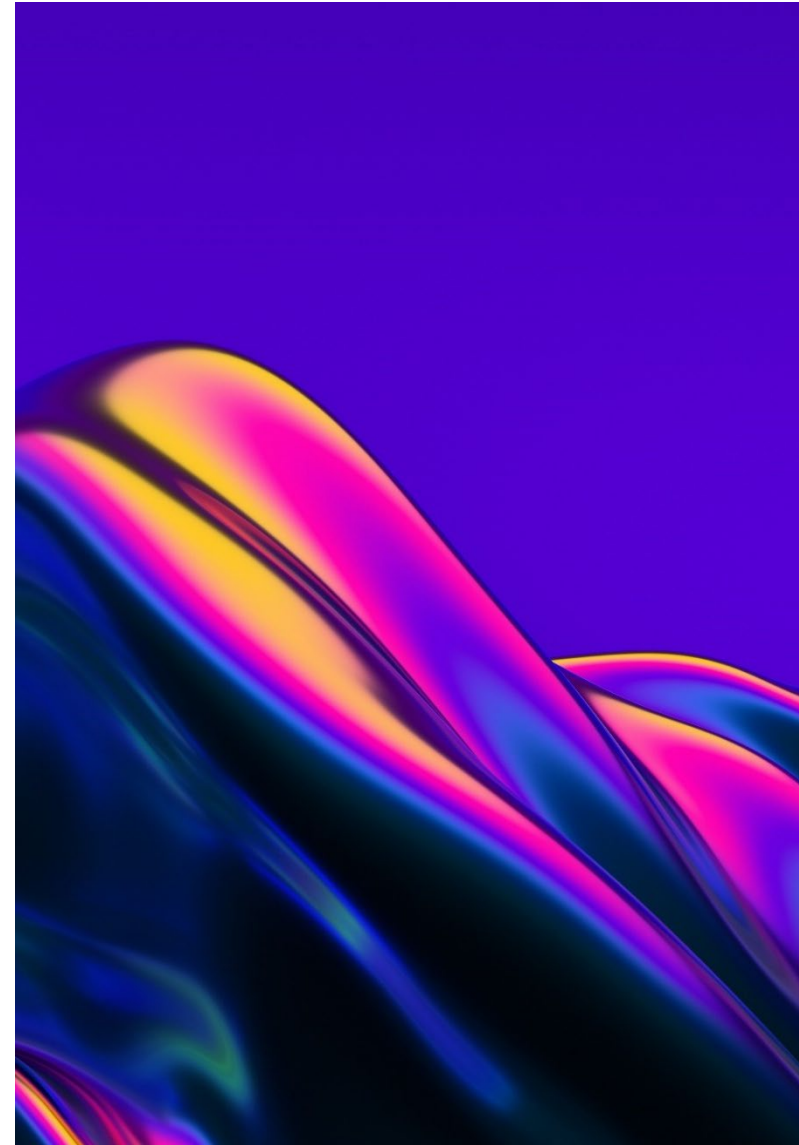


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Digital use information

This Audit Findings Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this slide.



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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)
- Presumption of the risk of fraud involving improper revenue recognition



Other risks of material misstatement



- Cash and Investments
- Taxes receivable and Taxation Revenue
- Tangible Capital Assets
- User Charges and other revenue sources
- Employee benefit liabilities
- Expenses – salaries and benefits
- Accounts payable, accrued liabilities and expenses
- Commitments and Contingencies
- Investment in Government Business Enterprises
- Environmental and contaminated sites
- Reserves and reserve funds (accumulated surplus)
- Long-term debt

Policies and practices & Specific topics



Accounting policies and practices



Other financial reporting matters



Specific topics



Misstatements uncorrected



Uncorrected misstatements



Misstatements Corrected



Corrected misstatements



- See management representation letter for details

Control deficiencies



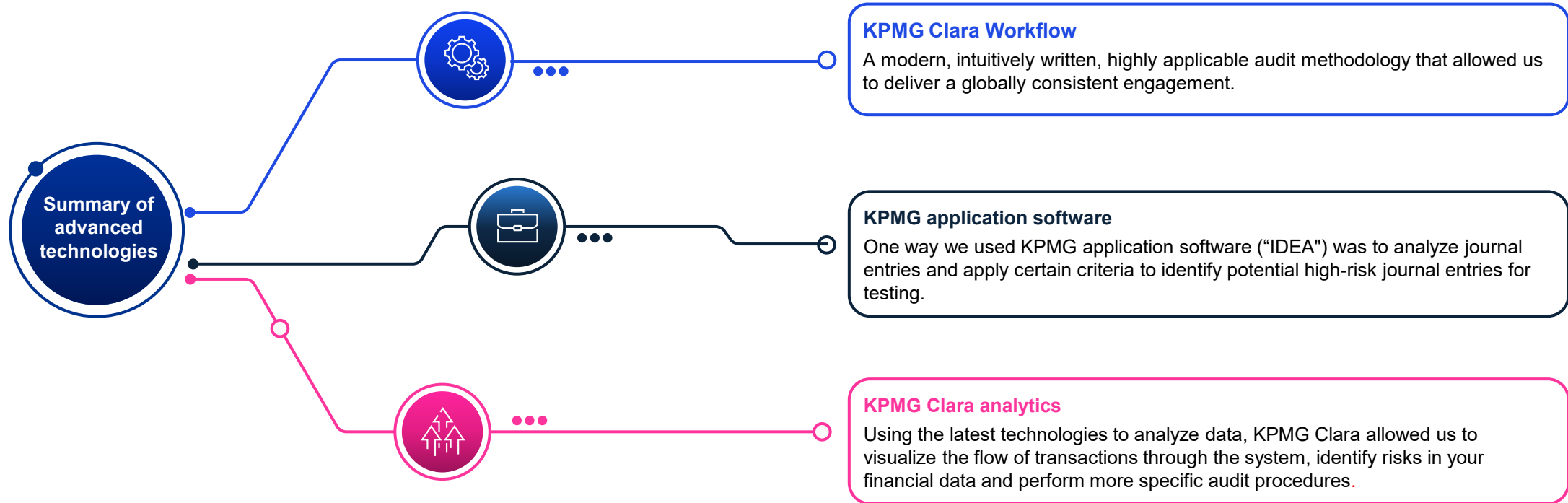
Significant deficiencies





Technology highlights

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



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

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.

KPMG Clara for Clients (KCc)



Real time collaboration and transparency

We leveraged **KCc** to facilitate real time collaboration with management and provide visual insights into the status of the audit!

On our audit we used KCc to coordinate requests with management.





Significant risks and results

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



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.

No

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).

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 focused 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. Other procedures performed related to obligatory reserve funds resulted in an uncorrected misstatement, the details of which are provided on page 18.



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 and Toronto Pan Am Sports Centre).
- 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 the control of the City are not consolidated into the City's financial statements. Management has historically excluded these entities from consolidation due to the immaterial nature of their individual financial balances. This approach was first adopted in 2022 to support the efficiency and timeliness of the consolidated financial reporting process. During the current year, management performed an updated analysis of the financial impact and the effort required to consolidate these entities. Management concluded that the benefits of excluding these entities, given the limited financial impact and the significant effort required, continue to outweigh the benefits of full consolidation. While the balances, when aggregated, exceed our audit misstatement posting threshold, we agree with management's assessment that their exclusion does not result in a significant impact to the consolidated financial statements or our audit opinion. In accordance with auditing standards, the aggregated uncorrected misstatements are reported as unadjusted audit differences.

Other risks of material misstatement and results

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



Cash and Investments

Our Response

As previously communicated in our audit plan, we:

- 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.
- 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.
- Performed substantive test of details over the reported fair value of investments.
- Reviewed financial statement note disclosure to ensure it is in line with the Public Sector Accounting Standards (PSAS).

Estimate?

Yes

Significant Findings

During our review of third-party investment confirmations, we identified financial instruments held by the City as at December 31, 2024, with a maturity date less than 3 months from the date of purchase incorrectly classified by management as investments. Based on further investigation by management \$340 million worth of cash and cash equivalents were incorrectly classified as investments. A reclassifying entry was proposed and corrected in the current year, decreasing investments by \$340 million and increasing cash by the same amount.



Tax receivable and Taxation revenue

Our Response

As previously communicated in our audit plan, we:

- Performed 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.

Estimate?

No

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, verified the mathematical accuracy of amortization and assessed 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 their own verification 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 \$33 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, 2024.

See slide 21 for details of related audit misstatement.

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 performed test of details using a combination of substantive analytical and representative sampling approaches.

In addition, the new standard PS 3400 Revenue came into effect for fiscal year ended December 31, 2024. The new standard requires the public sector entity to recognize all revenue transactions, except for contributions that are voluntary and non-reciprocal in nature and other revenue transactions governed by another PSAB standard, based on specific criteria. The City is now required to identify performance obligations for all exchange type revenue transactions and only recognize revenue when these performance obligations are satisfied. For non-exchange type revenue transactions, the City does not have any performance obligation and therefore revenue should only be recognized when the City has the authority to claim the revenue and when there is a past transaction or event that gives rise to the asset.

We have obtained the management's risk assessment on the City's current accounting treatment of revenue transactions governed by PS 3400, and noted that management concluded that there was no significant impact on their financial statements upon adoption of the new standard.

No

Significant Findings

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

Other risks of material misstatement and results



Employee future benefits ("EFB")

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, 2024.
- 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.

Yes

Significant Findings

The valuation report provided by the City's third party actuaries included significant changes to the EFB, resulting in the third party actuaries proposing adjustments to the opening balance in the amount of \$50.8 million, primarily relating to sick leave benefits and continuation of benefits. As the amount was not material to the financial statements taken as a whole, management has recorded this adjustment within the 2024 results.

The audit team has performed testing over the data used in the assessment and did not note any issues. KPMG's actuary team evaluated the method, assumptions and reviewed the final report and concluded in line with management's third party actuaries.

See slide 21 for details of related audit misstatement.

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



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

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



Other risks of material misstatement and results



Commitments and Contingencies

Our Response

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.

Estimate?

No

Significant Findings

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



Investment in Government Business Enterprises (GBEs)

Our Response

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.

Estimate?

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 and asset retirement obligation (“ARO”)

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.
- Evaluated management’s updated assessment of ARO, including support for the calculation of the recorded liability related to future costs associated with legal obligations that will be incurred upon retirement of a controlled tangible asset.
- Assessed the presentation of ARO in the financial statements and ensure that the financial statements include appropriate note disclosure.

Yes

Significant Findings

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



Other risks of material misstatement and results



Reserves and reserve funds (accumulated surplus)

Our Response

Estimate?

As previously communicated in our audit plan, we:

No

- 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.
- We evaluated the design and implementation of selected relevant controls for obligatory reserve funds.
- We obtained the detailed continuity for obligatory reserve and 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.

Significant Findings

During our testing of revenue recognition from obligatory reserves, we noted that management performed an exercise which involved determination of the total amount funded for all capital projects dating back several years, in comparison to the expenses incurred and budgeted funding for each project per council approval. This exercise resulted in recognition of revenue from the reserves and reserve funds for the capital projects for which the related deferred revenues had not been appropriately recognized in the correct period. We obtained the detail of the adjustment recorded in the current year and performed substantive testing over the existence, completeness and accuracy, and noted no issues.

As this results in recognition of out of period revenue of \$227 million, an uncorrected adjustment has been reported for the impact on prior periods. We note the ending accumulated surplus balances reported are correct.



Other risks of material misstatement and results



Long-term debt

Our Response

Estimate?

We performed the following:

Yes

- We obtained agreements for debentures issued by the City and related supporting documentation.
- For publicly issued debt, we gained comfort over the valuation of the fair value by using the actively traded data information from the issuer's website.
- In fiscal 2023, the City adopted the financial instruments standard and elected to carry certain instruments including long term debt at its fair market value. For privately issued debt, KPMG valuation specialists evaluated the reasonability of the methods and assumptions used by management in deriving the fair value of the private debt, and assessed the mathematical accuracy of the model used.

Significant Findings

- We identified a difference in the amount receivable from sinking funds, which offsets long-term debt, and income recorded in the sinking funds when reconciling the account balances. Based on management's investigation, a total overstatement of the long-term debt balance of \$98 million was identified. An adjustment was proposed and corrected in the current year, decreasing long-term debt by \$98 million and increasing accumulated surplus by the same amount.
- We identified an error in our assessment of the credit assumption used by management to derive its estimate for the fair value of privately issued debt. Management used its former AA credit rating versus the new AA+ rating in the valuation model, which resulted in an overstatement of debt by \$31 million. KPMG proposed an uncorrected adjustment to reduce the value of long term debt by \$31 million and increase the unrealized gain on debt designated to fair value by \$31 million.

See slide 21 and 22 for details of related audit misstatements.

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



Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions. As required by professional standards, we request these misstatements be corrected.



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
- 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.
- Discussion about the uncorrected misstatements or matters underlying the uncorrected misstatements (e.g. control deficiencies) could potentially cause future-period financial statements to be materially misstated.



Uncorrected audit misstatements

Presented in millions	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	Accumulated remeasurement gains
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.	\$7	\$20	\$8	-	\$12	-
To record adjustment to fair value of long-term debt	-	-	(\$31)	-	-	\$31
<u>Out of period adjustments relating to prior periods that were corrected through the current year:</u>						
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	\$33	-	-	(\$33)	-	-
To record out-of-period adjustments for revenue recognized from obligatory reserve funds and deferred revenue in the current fiscal year which relate to the prior year capital projects.	(\$227)	-	-	\$227	-	-
To record prior period impact relating to understatement of benefits expense as a result of employee future benefits liability valuation	(\$51)	-	-	\$51	-	-
Total uncorrected misstatements (see Appendix: Management Representation Letter)	(\$238)	\$20	(\$23)	\$245	\$12	\$31



Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.



Impact of corrected misstatements

- Discuss the effect on the financial reporting process
 - Discussion about the cause of the corrected misstatements (e.g. control deficiencies)
 - Discussion about that the matters underlying the corrected misstatements (e.g. control deficiencies) could potentially cause future-period financial statements to be materially misstated.

As at and for the year ended December 31, 2024:

Presented in millions	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	Accumulated remeasurement gains
To record receivable from sinking fund based on income earned.						
Long-term debt	-	-	(\$98)	-	-	-
Investment income	\$98	-	-	-	\$98	-
To reclassify money market instruments to cash equivalents.						
Cash and cash equivalents	-	\$340	-	-	-	-
Investments	-	(\$340)	-	-	-	-



Control deficiencies

No significant deficiencies in internal control were noted during the audit. Observations and opportunities for process and reporting improvements will be shared with management and brought to a future audit committee meeting once management has had an opportunity to develop an action plan to address the observations.

Present below are details regarding key concepts of controls.

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.





Accounting policies and practices



Initial selection of significant accounting policies and practices

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

- PS 3400 *Revenue*
- PS 3160 *Public private partnerships*
- PSG 8 *Purchased intangibles*



Description of new or revised significant accounting policies and practices

No changes in 2024.



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:

Topic title	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. This is consistent with management's consolidated financial reporting process from the previous year.
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



How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority.

We have strengthened the consistency and robustness of our system of quality management to meet the requirements of ISQM 1 (CSQM 1), issued by the International Audit and Assurance Standards Board. Foundational for quality management, KPMG's globally consistent approach to ISQM 1 drives compliance with the standard and our efforts to strengthen trust and transparency with clients, the capital markets and the public we serve.

Aligned with ISQM 1 (CSQM 1), our SoQM meets 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 **Global Quality Framework** outlines how we deliver quality and how every KPMG professional contributes to its delivery.



'**Perform quality engagements**' sits at the core, along with our commitment to continually monitor and remediate to fulfil our quality drivers.



Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.



Doing the right thing. Always.



Appendices

A

Required
communications

B

New auditing
standards

C

New accounting
standards

D

Insights

E

Environmental, social
and governance (ESG)

F

Technology



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, 2024
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- the consolidated statement of change in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2024, and its consolidated results of operations, its consolidated remeasurement gains and losses, its consolidated change in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's report.

We are independent of the 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.

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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada



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 Regulatory Oversight Report: 2023 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2024 Interim Inspections Results](#)
- [CPAB Regulatory Oversight Report: 2024 Annual Inspections Results](#)



Appendix A: Management representation letter

(see attachment below)

KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Canada

We are writing at your request to confirm our understanding that your audit was 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 period ended December 31, 2024.

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:

- We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 16, 2023, including for:
- 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.
- 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.
- providing you with unrestricted access to such relevant information.
- providing you with complete responses to all enquiries made by you during the engagement.
- providing you with additional information that you may request from us for the purpose of the engagement whether from group or component management.

- providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- 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.
- ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- 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:

- 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:

- We have disclosed to you:
 - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - 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.
 - 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.
 - 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.
 - all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Subsequent events:

- 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:

- We have disclosed to you the identity of the Entity's related parties.
- We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- All related party relationships and transactions/balances have been appropriately accounted for, and disclosed, in accordance with the relevant financial reporting framework.
- 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:

- 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:

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

- 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.
- We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).

Other information:

- We confirm that the final version of Annual Financial Report 2024 will be provided to you when available, and prior to issuance by the Entity, to enable you to complete your required procedures in accordance with professional standards.

Non-SEC registrants or non-reporting issuers:

- 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).
- 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.

Other:

- We confirm that we have provided you with a complete list of service organizations (SO) and sub-service organizations (SSO) and that the relevant complementary user entity controls (CUECs) related to each SO/SSO have been designed and implemented. For the purpose of this representation, a service organization is one as defined in CAS 402.

Adoption of new accounting standards:

- The Entity has adopted new accounting standards that came into effect for the year beginning on January 1, 2024, 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:

- All legal obligations associated with the retirement of tangible capital assets have been recognized, including those under the doctrine of promissory estoppel.
- The obligations were recognized using management's best estimate of fair value.

Financial instruments:

- All transactions involving derivative instruments have been identified and accurately recorded in the financial records of the Entity.
- There are no side agreements associated with any derivative financial instrument except as disclosed to you.
- 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

- 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

- 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

- 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

- All known actual or possible litigation and claims, which existed as at December 31, 2024 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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, 2024, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dates December 31, 2024 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, 2024, and where applicable, their extrapolation to December 31, 2024.
- 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 People Corporation and Mercer 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

- 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

- 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

- 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

- 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

- 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

- 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

- 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.
- 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.

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

- 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 & Treasurer

Mr. Paul Johnson, City Manager

Mr. Jason Li, Controller and Chief Accountant

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 Ending December 31, 2024

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	To record receivable from sinking fund based on income earned.	Factual	Accounts	Long-term debt Investment Income	98,114,964	(98,114,964)	(98,114,964)	(98,114,964)				98,114,964			(98,114,964)
2	To reclass money market instruments to cash equivalents.	Factual	Accounts	Cash and cash equivalents Investments	340,308,688	(340,308,688)			340,308,688 (340,308,688)					340,308,688	
							(98,114,964)	(98,114,964)	-	98,114,964	-	98,114,964	340,308,688	(98,114,964)	-

Summary of Audit Misstatements - Uncorrected

Entity: City of Toronto
For Period: December 31, 2024

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	Accumulated Remeasurement Gains and Losses	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	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.	Factual	Accounts	Accumulated Surplus	33,468,479					33,468,479					(33,468,479)			
				Other expenditures		(33,468,479)		(33,468,479)	(33,468,479)	(33,468,479)						33,468,479		
2	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.	Factual	Accounts	Total Revenue		(90,890,650)		(90,890,650)	(90,890,650)	(90,890,650)					90,890,650			
				Total Expenses	83,547,257			83,547,257	83,547,257	83,547,257					(83,547,257)			
				Total Assets	20,246,659							20,246,659				(20,246,659)		
				Total Liabilities		(7,580,471)								(7,580,471)		7,580,471		
				Accumulated Surplus		(5,322,795)				(5,322,795)					5,322,795			
3	To record out-of-period adjustments for revenue recognized from obligatory reserve funds and deferred revenue in the current fiscal year which relate to the prior year capital projects.	Factual	Accounts	Revenue	227,079,482			227,079,482	227,079,482	227,079,482					(227,079,482)			
				Accumulated Surplus		(227,079,482)				(227,079,482)					227,079,482			
4	To record prior period impact relating to understatement of benefits expense as a result of employee future benefits liability valuation.	Factual	Accounts	Salaries, wages and benefits expenditures	50,842,587			50,842,587	50,842,587	50,842,587					(50,842,587)			
				Accumulated Surplus		(50,842,587)				(50,842,587)					50,842,587			
5	To record adjustment to fair value of long-term debt.	Judgemental	Accounts	Long-term debt	30,893,155								30,893,155					
				Unrealized gain/loss attributable to debt designated to fair value		(30,893,155)					(30,893,155)							
Aggregate effect of uncorrected audit misstatements:									237,110,196	(12,666,188)	(30,893,155)	20,246,659	23,312,684	-	-	-	-	

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.com

- 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 A: Required inquiries of the Council



Inquiries regarding risk assessment, including fraud risks

- What are the Council's views about fraud risks, including management override of controls, in the City? And have you taken any actions to respond to any identified fraud risks?
- Is the Council aware of, or has the Council identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
 - If so, have the instances been appropriately addressed and how have they been addressed?
- How does the Council exercise oversight of the City's fraud risks and the establishment of controls to address fraud risks?



Inquiries regarding company processes

- Is the Council aware of tips or complaints regarding the City's financial reporting (including those received through the Council's internal whistleblower program, if such programs exist)? If so, the Council responses to such tips and complaints?



Inquires regarding related parties and significant unusual transactions

- Is the Council aware of any instances where the City entered into any significant unusual transactions?
- What is the Council's understanding of the City's relationships and transactions with related parties that are significant to the City?
- Is the Council concerned about those relationships or transactions with related parties? If so, the substance of those concerns?



Appendix B: Newly effective and upcoming changes to auditing standards

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

.....

Revised special considerations – Audits of group financial statements

Effective for periods beginning on or after December 15, 2024

ISA 260/CAS 260

.....

Communications with those charged with governance

ISA 700/CAS 700

.....

Forming an opinion and reporting on the financial statements



Appendix C: New accounting standards (current)



Revenue

Summary and implications

- The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. (*The City's December 31, 2024 year-end*).
- The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement.
- The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
- Management has indicated that the adoption of this standard did not have a significant impact on their financial statements.



Purchased Intangibles

Summary and implications

- 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 City's December 31, 2024 year-end*).
- The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles.
- Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized.
- The guideline can be applied retroactively or prospectively.
- Management has indicated that the adoption of this standard did not have a significant impact on their financial statements.



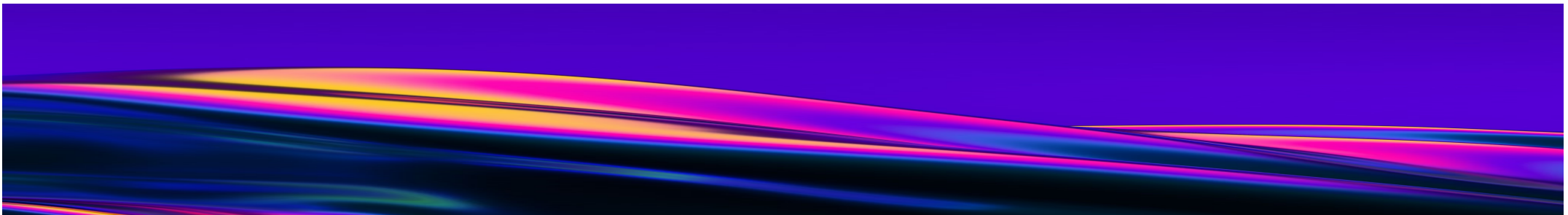
Appendix C: New accounting standards (current continued)



Public Private Partnerships

Summary and implications

- The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. (*The City's December 31, 2024 year-end*).
- The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership.
- The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends.
- The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.
- The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
- The standard can be applied retroactively or prospectively.
- Management has indicated that the adoption of this standard did not have a significant impact on their financial statements.





Appendix C: Changes in accounting standards - Future



Employee benefits

Summary and implications

- PS3251, Employee Benefits, will replace the current section PS 3250 and PS 3255. The proposed section is currently undergoing discussions where further changes are expected as a result of the re-exposure comments. Effective date is currently not determined.



Concepts Underlying Financial Performance

Summary and implications

- 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.
- This accounting standard will be applicable to the City as from the year ended December 31, 2027.

Appendix C: Changes in accounting standards – Future (continued)



Financial Statement Presentation

Summary and implications

- 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.
- This accounting standard will be applicable to the City as from the year ended December 31, 2027



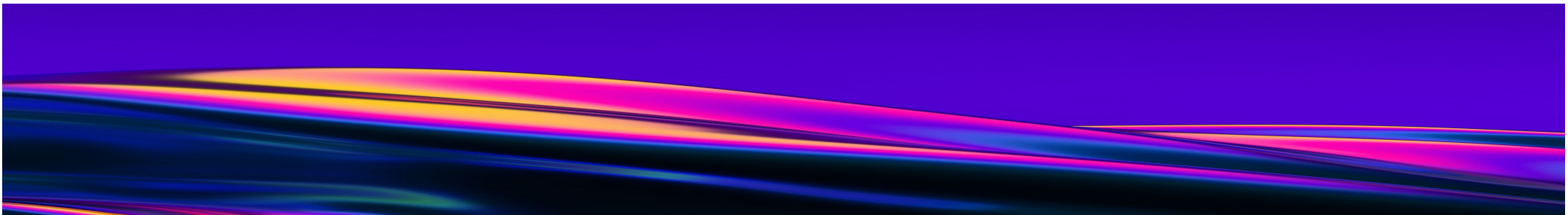
Appendix C: Changes in accounting standards – Future (continued)



Government non-for-profit strategy

Summary and implications

- The Public Sector Accounting Board has approved its government not-for-profit (“GNFP”) strategy implementation plan. All proposed changes to the PS 4200 series, PSAS, and potential customizations will be subject to due process before PSAB finalizes any changes to the PS Handbook. There is no tentative date for the change.
- The approved strategy option is to incorporate the PS 4200 series of standards with potential customizations into public sector accounting standards. This means reviewing the existing PS 4200 series of standards to determine if they should be retained and added to public sector accounting standards. Incorporating the updated or amended PS 4200 series standards in public sector accounting standards would make the guidance available to any public sector entity. Accounting and/or reporting customizations may be permitted if there are substantive and distinct accountabilities that warrant modification from public sector accounting standards.





Appendix D: Audit and assurance insights

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

KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Assurance & Related Services, Canadian Securities Matters, and US Outlook reports.

Accelerate - The key issues driving the audit committee agenda

Discover the most pressing risks and opportunities that face audit committees, boards and management teams.

Sustainability Reporting

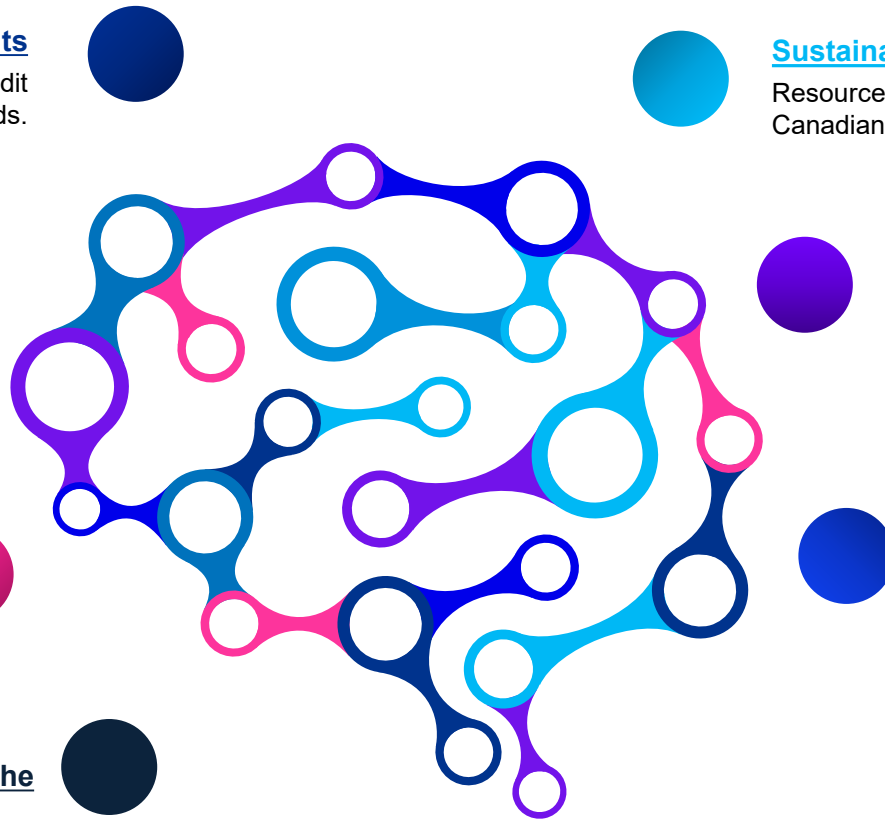
Resource centre on implementing the new Canadian reporting standards

IFRS Breaking News

A monthly Canadian newsletter that provides the latest insights on accounting, financial reporting and sustainability reporting.

Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.





Appendix E: Canadian ESG reporting activities

What's here and what's coming?

There continues to be activity in the Canadian ESG reporting space along with regulations introduced in other jurisdictions that may impact Canadian companies, such as the Corporate Sustainability Reporting Directive (CSRD) and California Climate Laws.

UPDATE THIS QUARTER: CSSB released its first two final Canadian Sustainability Disclosure Standards

► Voluntary standards rollout

- In December 2024, the Canadian Sustainability Standards Board (CSSB) released its first two Canadian Sustainability Disclosure Standards (CSDS).
- The standards are aligned with the IFRS Sustainability Disclosure Standards, with the exception of a Canadian-specific effective date and incremental transition reliefs.
- The standards are effective, on a *voluntary basis* only, for annual reporting periods beginning on or after January 1, 2025.

► Road to mandatory application?

- Canada's regulators and legislators will determine if and when application of the standards should be mandated.
- The Canadian Securities Administrators (CSA) issued a statement that it is working towards a revised climate-related disclosure rule that will consider the Canadian Sustainability Disclosure Standards.

► Why should you prepare?

Momentum toward standardized, transparent and comparable sustainability reporting continues.

- Federally regulated financial institutions are already required to comply with OSFI B-15 which is broadly based on the ISSB standards.
- Despite the CSSB standards being voluntary, legislation and rules continue to evolve in other jurisdictions such as the CSRD and California Climate Laws.
- Canadian government anti-greenwashing regulations introduced (Bill C-59).

► What could you be doing now?

1 (Re) Establish reporting strategy

- Undertake a regulatory impact assessment to determine the sustainability reporting requirements that apply to your organization.
- Document your reporting strategy, including any planned voluntary reporting and assurance.
- Conduct a materiality assessment considering the frameworks you plan to comply with.

2 Assess current state

- Identify the differences between applicable regulations and/or standards and current reporting.
- Conduct a current state maturity analysis of processes, controls, people, technology and governance structures.
- Complete data gap assessment and develop plan to close gaps.

3 Design reporting policies & target operating model (TOM)

- Develop and/or adapt policies, regarding identified material risks and opportunities.
- Develop standard Key Performance Indicator (KPI) definitions and calculation methodologies.
- Determine TOM and solutions to support sustainability reporting and assurance.

4 Implement sustainability reporting roadmap

- Develop roadmap for delivery, identify milestones, interim and final targets.
- Design future reports.
- Rollout of TOM, including implementation and training required.

Appendix F: Continuous evolution

Our investment:

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

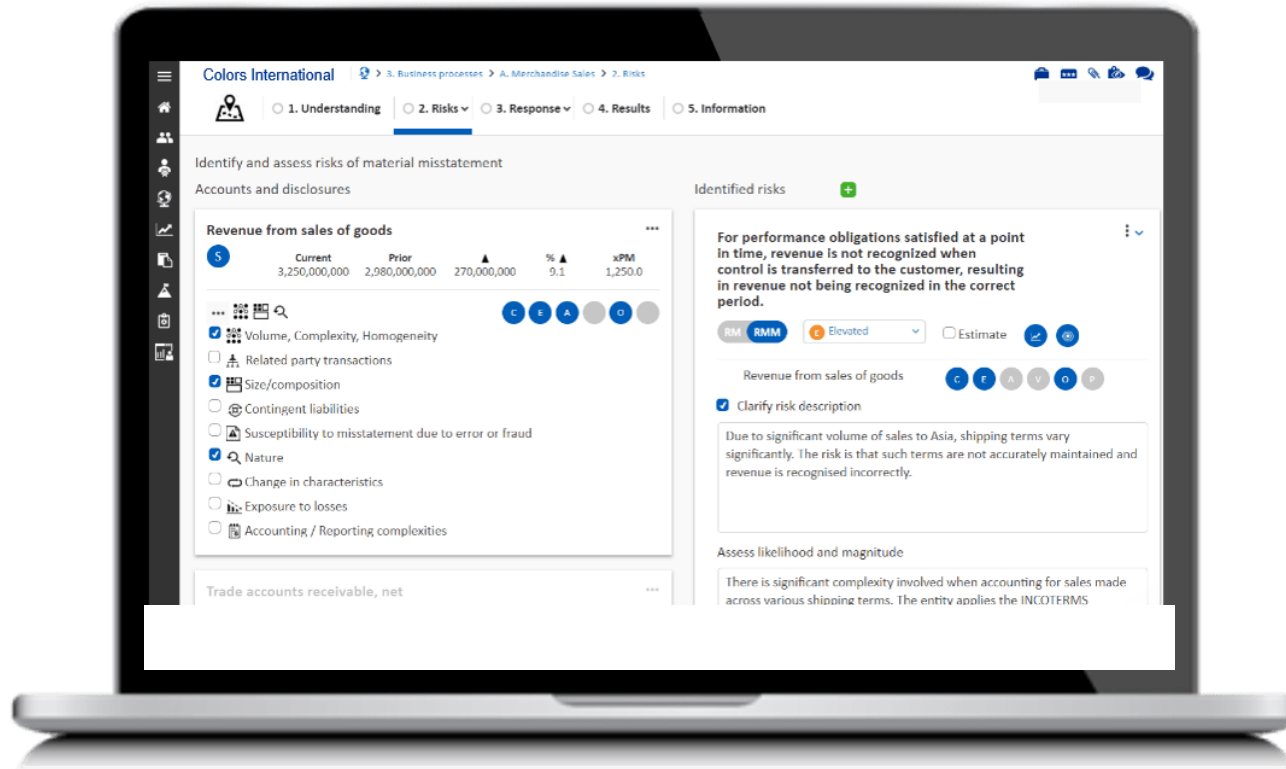
Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.



Appendix F: KPMG Clara Generative AI

With our global alliance partner Microsoft, we have embarked on a journey to embed Generative AI into our smart audit platform—KPMG Clara. This will make our auditors more productive and give them the tools to provide quicker feedback, make more insightful connections, and deliver a better audit experience.



AI done right

Although early adoption is key, we are focused on avoiding reliance on a 'black box' so we're building 'explainability' and 'traceability' at the core.



Bolstered productivity

Focused on removing time consuming low value tasks, we'll apply our skills in other, more judgmental areas or in order to give insights to you.



Quality at our fingertips

We are teaching our model with our knowledge databases to capture our vast experience. This means quality information accessible in seconds.



Secure integration

KPMG Clara has been built on a solid and secure Azure Cloud backbone, allowing us to easily integrate Generative AI in partnership with Microsoft.



<https://kpmg.com/ca/en/home.html>

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