For Action

KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2024

Date: June 9, 2025
To: TTC Audit and Risk Management Committee
From: Deputy Chief Executive Officer

Summary

This report appends the Audit Findings Report from KPMG LLP's (KMPG) audit of the TTC's consolidated financial statements for the year ended December 31, 2024. The KPMG Audit Findings Report, in addition to providing an overview of the audit results, specifically details any key audit risks identified, testing procedures performed to address them, and resulting conclusions. KPMG proposes to issue an unqualified Independent Auditor's Report on the TTC's consolidated financial statements for the year ended December 31, 2024.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

1. Receive the KPMG LLP Audit Findings Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2024, in Attachment 1; and

2. Forward a copy of this report to the TTC Board for its meeting on June 23, 2025, and subsequently to the City Clerk for appropriate handling to the next City Audit Committee meeting.

Implementation Points

The appended 2024 audit findings report for the year ended December 31, 2024 from KPMG requires review at the June 9, 2025 TTC Audit and Risk Management Committee meeting to ensure timely submission to the June 23, 2025 TTC Board meeting for its approval, and then the Board's submission to the City of Toronto's Audit Committee meeting scheduled for July 11, 2025.

Financial Summary

There are no financial implications resulting from the adoption of this report. The attachment summarizes KPMG's findings from the audit of the TTC's 2024 consolidated financial statements.

Equity/Accessibility Matters

This report has no accessibility or equity issues or impacts.

Decision History

The City of Toronto Act requires the city auditor (KPMG) to audit the accounts and transactions of the City and its local boards, and to express an opinion on their financial statements on an annual basis.

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

TTC Audit and Risk Management Committee Terms of Reference

Issue Background

This report presents the financial audit results of the consolidated financial statements of the TTC for the fiscal year ended December 31, 2024.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2024 were prepared by Management. They were audited by KPMG in accordance with the audit plan approved by the Audit and Risk Management Committee at its November 21, 2024 meeting.

KPMG LLP's Audit Plan for Year Ended December 31, 2024

The attached report was prepared by KPMG and it presents its findings of the audit, including any comments regarding significant accounting, auditing, and reporting matters.

KPMG proposes to issue an unqualified Independent Auditor's Report on the 2024 consolidated financial statements (see Appendix B within Attachment 1) once the outstanding items noted on page six within Attachment 1 have been completed.

Kevin Travers, the Audit Partner from KPMG, will be in attendance at the Audit and Risk Management Committee meeting to present this report and address any specific areas related to the 2024 audit findings report for the year ended December 31, 2024.

Contact

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Signature

Bruce Macgregor
Deputy Chief Executive Officer

Attachments

Attachment 1 – Toronto Transit Commission Audit Findings Report for the year ended December 31, 2024

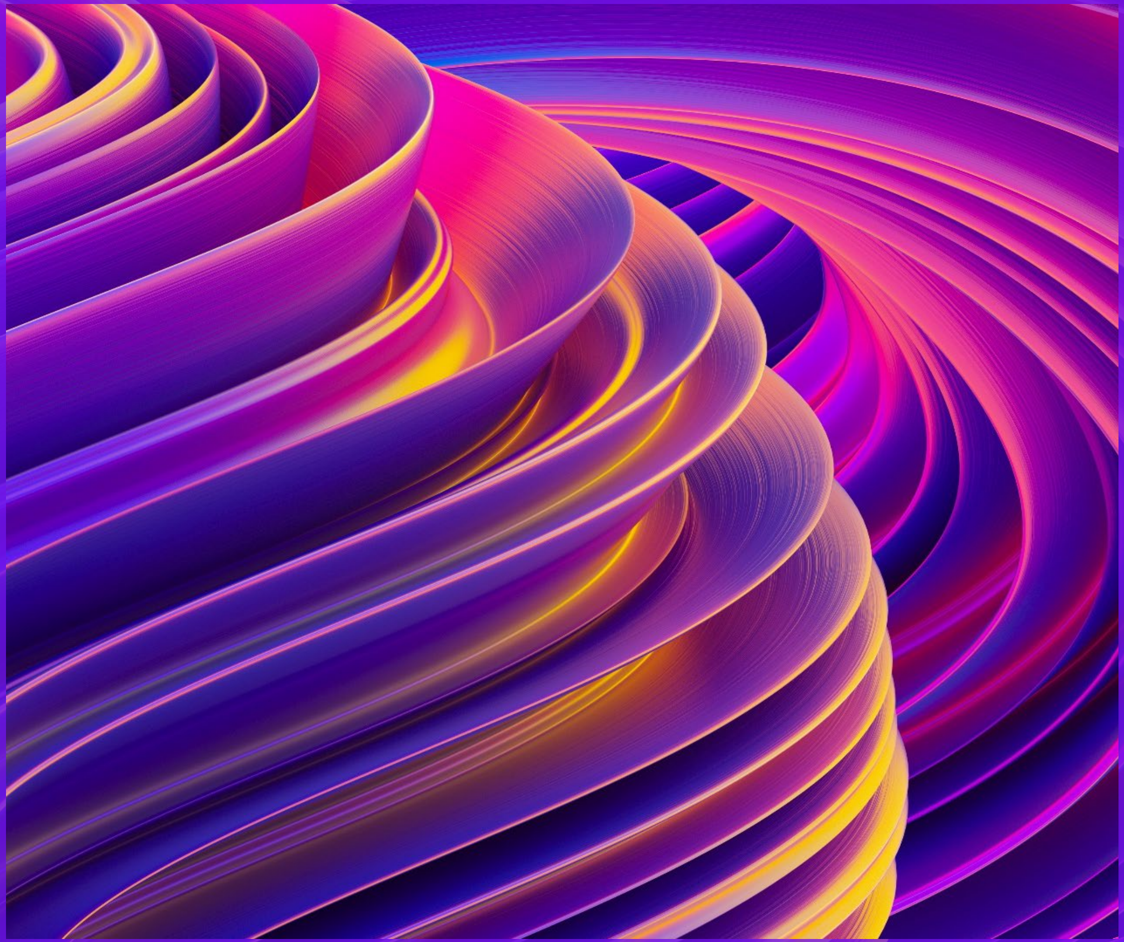
Toronto Transit Commission

Audit Findings Report for the year ended December 31, 2024

KPMG LLP

Licensed Public Accountants

Prepared as of May 27, 2025 for presentation to the Audit and Risk Management Committee on June 9, 2025



kpmg.ca/audit

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Table of contents

Digital use information

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

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

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the consolidated financial statements ("financial statements") of Toronto Transit Commission ("TTC"), 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 to our audit plan which was originally communicated in the audit planning report.

Risks and results

Presumption of the risk of fraud involving improper revenue recognition

Management override of controls

Other significant findings and results

- Passenger services revenues
- Unsettled accident claims
- Employee future benefits liabilities
- Tangible capital assets
- Related party transactions and balances

Policies and practices

Accounting policies and practices

Misstatements - uncorrected

Uncorrected misstatements

Surplus for the year	(in $'000s)
As currently presented	$503,176
Uncorrected misstatements	($3,245)
As a % of the balance	-0.6%

Total assets	(in $'000s)
As currently presented	$15,644,340
Uncorrected misstatements	-
As a % of the balance	-

Control deficiencies

Significant deficiencies

- We did not identify any significant control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. See slide 17 for certain required communications regarding control deficiencies.

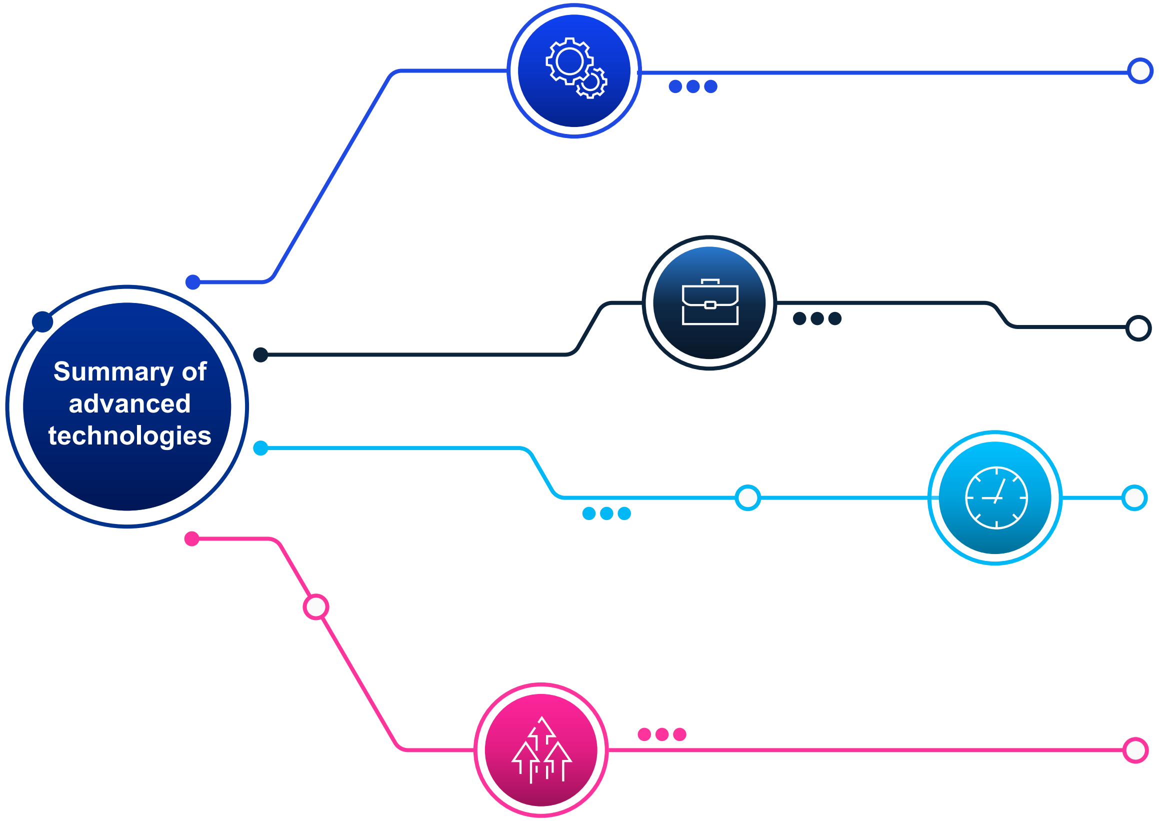
Audit Quality

Learn more about how we deliver audit quality.

The purpose of this report is to assist you, as a member of the Audit and Risk Management Committee, in your review of the results of our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit and Risk Management Committee, City of Toronto Audit Committee and the TTC Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Technology highlights

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



KPMG Clara for Clients

Secure cloud based audit platform we use to plan, execute and manage the audit while providing management with access at every step.

KPMG Clara Workflow

KPMG workflow tool that drives execution of the audit by enabling easy access to relevant audit guidance, templates, and integrated engagement management.

Caseware International (IDEA)

One way we use application software ("IDEA") is to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for testing. As well to import, prep, explore and visualize large data sets.

DataSnipper

DataSnipper uses optical character recognition and robotic process automation to automate vouching procedures.

We imported your documents into the tool, which automatically matched specified excel data to the corresponding documents, leaving an audit trail behind for review by our audit team members.

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

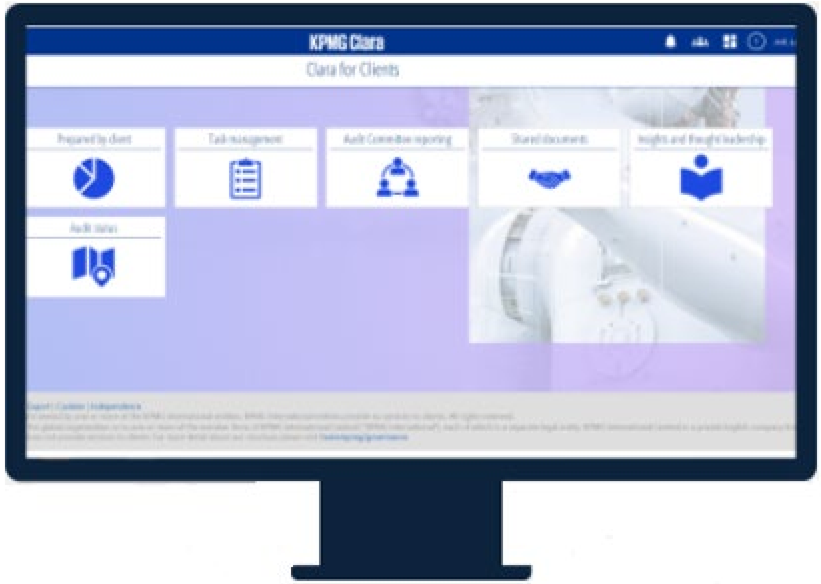
As of the date of preparation of this Audit Findings Report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completion of legal inquiries follow up procedures
- Receipt of signed Canada Community-Building Fund Agreement
- Completing our discussions with the Audit and Risk Management Committee
- Obtaining evidence of the Board of Director's approval of the financial statements
- Subsequent event procedures up to the financial statement approval date
- Receipt of the signed management representation letter (to be signed upon the approval of the financial statements)

We will update the Audit and Risk Management 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.

A draft of our auditor's report is provided in **Appendix B: Draft 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.

Learn more

Significant risks and results

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

Presumption of the risk of fraud involving improper revenue recognition

RISK OF
ERROR **FRAUD**

Significant risk	Estimate?
This is a presumed risk of material misstatement due to fraud. This risk has not been rebutted. Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition.	No

Our response

- Our audit approach consisted of evaluating the design and implementation of selected relevant controls. We tested journal entries that meet specific criteria. This criteria was designed during the planning phase of the audit and is based on areas and accounts that are susceptible to manipulation through management override. We also designed search filters that allowed us to identify any unusual journal entries
- As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively tested revenues (both recognized and amounts held as deferred at year end). We also incorporated an element of unpredictability into the journal entries and revenue testing.
- We reviewed controls implemented pertaining to revenue recognition and performed walkthroughs of key controls surrounding the revenue process.

Conclusion

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

Significant risks and results

Management override of controls

RISK OF **FRAUD**

Significant risk	Estimate?
Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities	No

Our response

- As this risk is presumed risk and is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- We performed procedures consistent with professional standards to address this risk. These procedures include the following:
  - Testing of journal entries and other adjustments;
  - Performing retrospective review of estimates;
  - Evaluating the business rationale of significant unusual transactions.

Conclusion

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

Other significant findings and results

We highlight **other significant findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:

Passenger services revenues

Area of focus	Estimate?
Total passenger services revenue for the year was $1,028M (2023 - $943M). Of this amount, passenger services revenue earned related to PRESTO was $970M (2023 - $874M). Additionally, there was unearned revenue from PRESTO of $15M (2023 - $13M), which is recorded as deferred revenue as at December 31, 2024, and will be recognized as revenue in fiscal 2025.	No

Our response

- As passenger services revenue is significant, in our testing, we took a combined approach to test the operating effectiveness of controls, and substantively test the account balance.
- We obtained an understanding of management's processes surrounding passenger services revenue, including PRESTO revenue, and analyzed the revenue recognition policy in the context of the Public Sector Accounting Standards ("PSAS") on revenue recognition.
- We obtained a direct third-party confirmation of passenger revenue from Metrolinx and reconciled the amounts from the confirmation to the total revenue amounts reflected in the TTC financial reporting records, as well as deferred revenue amounts. Additionally, we reviewed the relevant service agreements between Metrolinx and the Toronto Transit Commission.
- We obtained management's assessment of the impact of the newly effective PS 3400, *Revenue* accounting standard and reviewed it against the PSAS criteria and our general understanding of the TTC's operations. Management's assessment indicated that there is no significant impact on the revenue recognition process of passenger services revenues as a result of this adoption. We reviewed management assessment and noted no issues.
- We reviewed a sample of monthly reconciliations performed by management, which reconciles TTC records to Metrolinx data to bank payment.
- We performed control testing over the cash and ticket collection process.
- We vouched cash deposits to supporting documentation and reconciled bank deposits to the general ledger.
- We obtained and reviewed the service auditor's report for the operating effectiveness of controls in place at PRESTO (CSAE 3416).

Conclusion

- No exceptions were noted during testing.

Other significant findings and results

Unsettled accident claims

Area of focus	Estimate?
TTC unsettled accident claims is a significant and complex estimate representing a liability computed by management's actuarial expert, based on an actuarial assessment of the claims liability on the basis mandated by the Financial Services Regulatory Authority of Ontario.	Yes – Unsettled accident claims is a calculation as determined by actuarial experts. This calculation involves numerous inputs and assumptions.

Our response

- We reviewed the actuarial report prepared by management's actuarial expert for determining unsettled accident claims.
- We obtained assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the unsettled accident claim liability.
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We reviewed the methodology and underlying assumptions used to formulate management's estimate.
- We performed testing of underlying data contained in valuation to source data.
- We performed testing over claims reserve set-up process and claim payment process.

Conclusion

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

Other significant findings and results

Employee future benefits liabilities

Area of focus	Estimate?
The TTC's employee benefit liabilities are significant and complex estimates and represents a liability computed by management's actuarial experts. These employee benefit plans encompass post-employment plans, post-retirement plans, and pension plans. In 2024, the TTC performed a triennial valuation of its post-retirement benefits. As at December 31, 2024, the liability amount was $980M (2023 - $946M).	Yes – Employee future benefits is a calculation as determined by actuarial experts. This involves numerous inputs and assumptions.

Our response

- We reviewed the actuarial report prepared by management’s actuarial expert for determining employee future benefits liabilities.
- We obtained assistance from KPMG actuarial specialists to review the methodology and assumptions used by management experts for the determination of the employee future benefit liabilities
- We assessed the qualifications, competence and objectivity of the actuary as required by the Canadian auditing standards.
- We reviewed the methodology and underlying assumptions used to formulate management’s estimate.
- We assessed the participant data supplied by management to the Actuary for completeness and accuracy including the data provided for the triennial valuation.
- We assessed the disclosures in the financial statements against the requirements of the PSAS.

Conclusion

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

Other significant findings and results

Tangible capital assets

Area of focus	Estimate?
The net book value of tangible capital assets ("TCA") as at December 31, 2024 was $13.6B (2023 – $13.1B). During the year, the TTC recognized $1,266M (2023 - $1,265M) in net additions to TCA. During the year, TTC incurred an amortization expense of $777M (2023 -$769M).	Yes – Estimate is involved in determining useful lives of assets. Useful lives of assets are determined based on asset categories and are consistent year over year.

Our response and findings

- We obtained an understanding of management's processes for accounting for tangible capital assets.
- We reviewed on a sample basis, the additions to tangible capital assets and noted that management has appropriately capitalized the additions from construction in progress to capital assets. We vouched a sample of capital additions to supporting documentation which included non-labour, labour, and overhead costs.
    - For non-labour costs capitalized as TCA, KPMG obtained invoices and Certificates of Progress to verify accuracy and existence of these costs.
    - For labour costs capitalized as TCA, KPMG obtained and vouched a sample of labour costs to approved timesheets to verify accuracy and existence of these costs. KPMG also evaluated the nature of work performed per timesheets to determine if these costs meet the capitalization criteria as per the requirements in the financial reporting framework.
    - For overhead allocation, KPMG obtained an understanding of and reviewed management's allocation process.
- We reviewed that amortization expense is consistent with the TTC significant accounting policies, and recalculated amortization during the year based on the useful lives.
- We obtained management's assessment of the impact of the newly effective PS 3160, *Public Private Partnerships* (P3) and PSG-8*, Purchased Intangibles* accounting standard and reviewed it against the PSAS criteria, along with our general understanding of the TTC's operations. Management's assessment indicated that there are no current transactions that would meet the P3 or/and PSG-8 criteria, and we did not identify any issues with this assessment or the overall adoption process.
- We reviewed financial statement note disclosure in line with the PSAS.

Conclusion

- There were no significant findings as a result of our audit procedures for tangible capital assets. The amounts reported for tangible capital assets are reasonable and disclosures in the financial statements are in accordance with the PSAS.

Other significant findings and results

Related party transactions and balances

Area of focus	Estimate?
The TTC enters into various transactions with its related parties, including the City of Toronto and City of Toronto affiliated entities.	No

Our response

- We obtained an understanding of management's processes for tracking related parties and related party transactions.
- We reviewed organizational charts to determine whether management's analysis of related parties remains appropriate.
- We obtained confirmations from related parties with whom the TTC had significant transactions with and balances at year-end:
  - We confirmed subsidy funding (both operating and capital) as well as subsidy receivables with the City of Toronto and reconciled to TTC records.
  - We obtained confirmation from the City of Toronto for the indemnified receivable balance outstanding as at year-end relating to unsettled accident claims.
  - We confirmed revenues collected on behalf of the TTC and expenses incurred by the TTC for the Toronto Parking Authority as well as year end receivables and payables and reconciled to TTC records.
- We reviewed financial statement note disclosure in line with PSAS.

Conclusion

- There were no other significant findings as a result of our audit procedures for related parties. The amounts reported are reasonable and disclosures in the financial statements are in accordance with the PSAS.

Accounting policies and practices

Initial selection

The following new accounting standards came into effect for the year ended December 31, 2024 and were implemented by TTC:

- PS 3400 *Revenues*
- PS 3160 *Public Private Partnerships*
- PSG-8 *Purchased Intangibles*

There has been no significant impact on adoption of the new accounting policies. New accounting policies are disclosed in Note 2(p) to the financial statements.

Revised

None in 2024.

Significant qualitative aspects

Significant accounting policies are disclosed in Note 2 to the financial statements.

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions.

Impact of uncorrected misstatements – Not material to the financial statements

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

Below is a summary of the impact of the uncorrected misstatement:

Surplus for the year	(in $'000s)
As currently presented	$503,176
Uncorrected misstatements	($3,245)
As a % of the balance	-0.6%

Total assets	(in $'000s)
As currently presented	$15,644,340
Uncorrected misstatements	-
As a % of the balance	-

Uncorrected misstatements

Uncorrected misstatements include financial presentation and disclosure omissions:

As at and year ended December 31, 2024 (in thousands)	Surplus effect	Financial position		
Description of misstatements greater than $3,250	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated surplus (Decrease) Increase**
To adjust for depreciation expense related to 2023 that was recorded in 2024	3,482			(3,482)
Roll-over impact: To record the roll-over impact for 2023 uncorrected adjustment pertaining to accruals posted twice	5,633			(5,633)
Roll-over impact: To record the roll-over impact for 2023 uncorrected entry pertaining to legal accrual for expected payout	(12,360)			12,360
Total misstatements **(see Management Representation Letter)**	**(3,245)**			**3,245**

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting

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

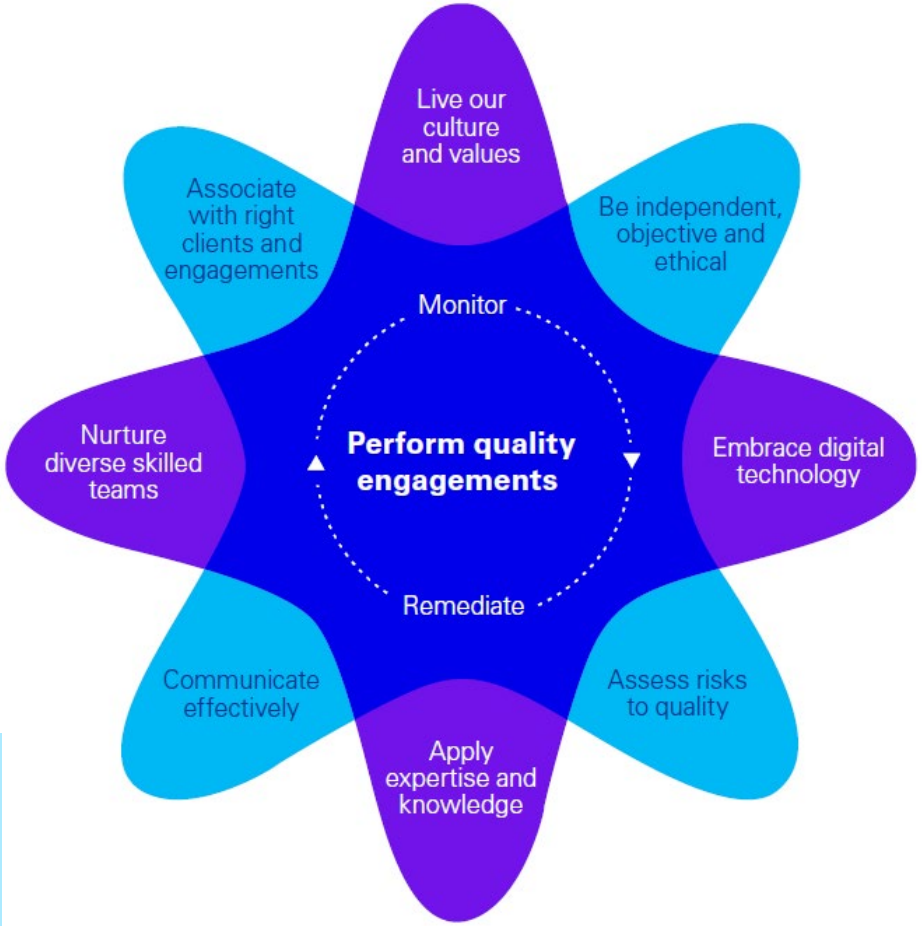
No significant deficiencies in internal controls were identified during the audit

Audit quality - How do we deliver audit quality?

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

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

KPMG Canada Transparency Report



Doing the right thing. Always.

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**

Appendices

A Required communications

B Draft auditor's report

C Management representation letter

D New auditing standards

E Future changes in accounting standards

F Independence matters

G Insights

H Environmental, social and governance (ESG)

I Technology

Appendix A: Other required communications

Engagement terms

Audit Findings Report – This document.

Engagement Terms - A copy of the engagement letter and any subsequent amendments has been provided to the Audit and Risk Management Committee.

Audit Planning Report – We have provided our audit planning report to the Board and Audit and Risk Management Committee.

Representations of Management – A copy of the management representation letter is attached.

Management Letter – From time to time, we may identify improvement observations as we conduct our audit procedures. These recommendations will be communicated through a management letter.

Independence – All matters related to independence are dealt with directly by the group audit team. We confirm that we are independent of the Entity in accordance with the requirements under the external auditing standards. A copy of our independence letter is attached.

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results
- 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 B: Draft auditor's report

(see attachment below)

DRAFT #1
May 2, 2025

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Toronto Transit Commission

Opinion

We have audited the consolidated financial statements of Toronto Transit Commission (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 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 changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

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

Basis for Opinion

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in the annual report as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- 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 C: Management representation letter

(see attachment below)

Client letterhead

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

_________________ *(date of board approval)*

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of Toronto Transit Commission (“the Entity”) or (“TTC”) as at and for the period ended December 31, 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:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 16, 2023, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.

c) providing you with unrestricted access to such relevant information.

d) providing you with complete responses to all enquiries made by you during the engagement.

e) providing you with additional information that you may request from us for the purpose of the engagement.

f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

b) all information in relation to fraud or suspected fraud that we are aware of, affecting the TTC that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the TTC's financial statements, communicated by employees, former employees, analysts, regulators, or others.

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements or illegal acts, whose effects should be considered when preparing the TTC's financial statements.

e) all known actual or possible litigation and claims whose effects should be considered when preparing the TTC's financial statements.

Subsequent events:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Going concern:

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

10) 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:

11) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Non-SEC registrants or non-reporting issuers:

12) 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).

13) 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:

14) 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.

Yours very truly,

Toronto Transit Commission

Greg Percy, Chief Executive Officer (Interim)

Bruce Macgregor, Deputy Chief Executive Officer

John Montagnese, Executive Director – Finance

cc: Audit and Risk Management Committee

Attachment I – Definitions

Materiality

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

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

For Period Ended: 31-Dec-24
Amounts in: CAD
Final Materiality: $ 65,000,000.00

Attachment II - Uncorrected Misstatements

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 and/or in disclosure?	Disclosure (if applicable)	Accounts (if applicable)	Debit	Credit	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect according to Rollover method	Equity	Financial Assets	Non Financial Assets	Liabilities	Operating Activities	Capital Activities	Financing Activities
1	**Prior Period misstatement**: To adjust for depreciation related to 2023 recorded in 2024	**Factual**	**Accounts**	**N/A**	Accumulated Operating Surplus	3,482,477				3,482,477				(3,482,477)		
					Amortization expense		3,482,477		(3,482,477)	(3,482,477)				3,482,477		
2	**Roll-over impact**: To record the roll-over impact for 2023 uncorrected adjustment pertaining to accruals posted twice	**Factual**	**Accounts**	**N/A**	Accumulated Operating Surplus	5,632,753				5,632,753				(5,632,753)		
					Capital Subsidy revenue		5,632,753	(5,632,753)	(5,632,753)	(5,632,753)				5,632,753		
3	**Roll-over impact**: To record the roll-over impact for 2023 uncorrected entry pertaining to legal accrual for expected payout	**Judgmental**	**Accounts**	**N/A**	Capital Subsidy revenue	12,360,326		12,360,326	12,360,326	12,360,326				(12,360,326)		
					Accumulated Operating Surplus		12,360,326			(12,360,326)				12,360,326		

Aggregate effect of uncorrected audit misstatements:	3,245,096	0	0	0	0	0	0	0
Financial statement amounts (per final financial statements):	(503,176,000)	(13,462,401,000)	1,787,385,000	13,856,955,000	(2,181,046,000)	(66,597,000)	(1,237,536,000)	1,262,340,000
Uncorrected audit misstatements as a percentage of financial statement amounts:	-1%	0%	0%	0%	0%	0%	0%	0%

Attachment II: List of related parties and relationships

The TTC is on the of agencies, boards and commissions of the City of Toronto (the "City"). The TTC also operates Wheel-Trans, a paratransit service for people with disabilities (which is also subsidized by the City) and owns the Toronto Coach Terminal Inc. and its subsidiary, the TTC Insurance Company Limited. The TTC controls the TTC Sick Benefit Association which was incorporated to adjudicate benefit claims to eligible Members of Association unable to work due to illness or disability.

The following lists all related parties that had transactions and/or relationships with TTC for fiscal period 2024:

- City of Toronto (including its Agencies and Corporations as attached in Attachment below)
- TTC Insurance Company Limited
- Toronto Coach Terminal Inc.
- TTC Sick Benefit Association
- The TTC Pension Fund Society (also referred to as the TTC Pension Plan)

Board Members 2024*:

- Jamaal Myers – Chair (Jan - Dec 2024)
- Joanne De Laurentiis – Vice Chair (Jan - Dec 2024)
- Fenton Jagdeo – Commissioner (Jan - Dec 2024)
- Josh Matlow – Commissioner (Jan - Dec 2024)
- Dianne Saxe – Commissioner (Jan - Dec 2024)
- Julie Osborne – Commissioner (Jan - Dec 2024)
- Paul Ainslie – Commissioner (Jan - Dec 2024)
- Stephen Holyday – Commissioner (Jan - Dec 2024)
- Chris Moise – Commissioner (Jan - Dec 2024)
- Liane Kim – Commissioner (April - Dec 2024)

Senior Management as at December 2024*:

- Greg Percy – Chief Executive Officer (interim)
- Bruce Macgregor – Deputy Chief Executive Officer
- Michael Atlas – General Counsel
- Shakira Naraine – Chief People & Culture Officer
- Josh Colle – Chief Strategy & Customer Officer
- Stephanie Davies – Chief Capital Officer
- Betty Hasserjian – Chief Safety Officer

- Josie La Vita – Chief Financial Officer
- Fortunato Monaco – Chief Operations and Infrastructure Officer
- Natalie Poole-Moffatt – Chief Corporate Affairs Officer
- Rich Wong – Chief Transportation and Vehicles Officer

*Although not explicitly listed, immediate family members are considered included as related parties by this reference.

Attachment III: City of Toronto List of Agencies and Corporations

Agencies

Service Agencies

- City of Toronto Long-Term Care Committee of Management
- CreateTO
- Exhibition Place Board of Governors
- Heritage Toronto
- TO Live
- Toronto Atmospheric Fund
- Toronto Board of Health and Toronto Public Health
- Toronto Investment Board
- Toronto Police Services Board and Toronto Police Service
- Toronto Public Library Board
- Toronto Transit Commission
- Toronto Zoo Board of Management
- Sankofa Square Board of Management

Community-Based Boards:

- **Arena Boards of Management (8):**
  - George Bell Arena
  - Larry Grossman Forest Hill Memorial Arena
  - Leaside Memorial Community Gardens Arena
  - McCormick Playground Arena
  - Moss Park Arena
  - North Toronto Memorial Arena
  - Ted Reeve Community Arena
  - William H. Bolton Arena
- **Community Centre Boards of Management** (AOCCs) **(10):**
  - 519 Church Street Community Centre
  - Applegrove Community Complex
  - Cecil Community Centre
  - Central Eglinton Community Centre
  - Community Centre 55
  - Eastview Neighbourhood Community Centre
  - Ralph Thornton Community Centre
  - Scadding Court Community Centre
  - Swansea Town Hall Community Centre
  - Waterfront Neighbourhood Centre
- **85 Business Improvement Area (BIA) Boards of Management**

Partnered Agency

- Toronto and Region Conservation Authority

Corporations

City Corporations (7)

- Build Toronto Inc.
- Casa Loma Corporation
- Lakeshore Arena Corporation
- Toronto Community Housing Corporation
- Toronto Hydro Corporation
- Toronto Port Lands Company (Toronto Economic Development Corporation)
- Toronto Seniors Housing Corporation

Partnered Corporations (2)

- Toronto Pan Am Sports Centre Inc.
- Waterfront Toronto (Toronto Waterfront Revitalization Corporation)

Adjudicative Bodies

Quasi-Judicial & Adjudicative Boards (10)

- Administrative Penalty Tribunal
- Committee of Adjustment
- Committee of Revision
- Compliance Audit Committee
- Dangerous Dog Review Tribunal
- Property Standards Committee
- Multi-Tenant House Licensing Tribunal
- Sign Variance Committee
- Toronto Local Appeal Body
- Toronto Licensing Tribunal

Notes: Updated: March 2025

Source: [Microsoft PowerPoint - City of Toronto Agencies and Corporations Chart_March 2025.pptx - Read-Only]

Appendix D: Newly effective and upcoming changes to auditing standards

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

Effective for periods beginning on or after December 15, 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 E: Future changes in accounting standards

Standard	Summary and implications

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 *(the TTC's December 31, 2027 year-end)* to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The 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.

Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 (*the TTC's December 31, 2027 year-end*) with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix E: Future changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 Employee benefits as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • 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.

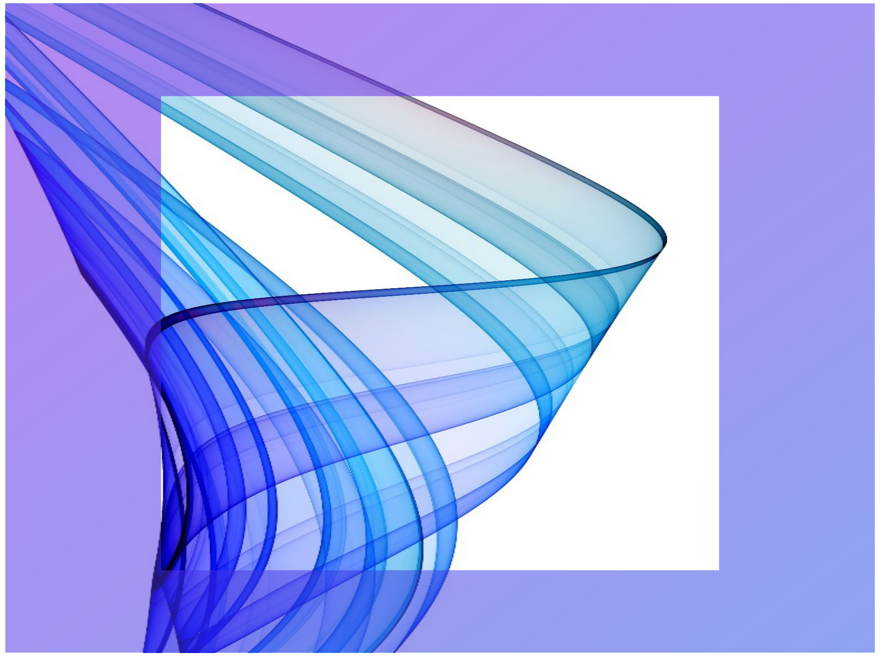
Appendix F: Independence matters

As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet or exceed those of the IESBA Code[1] and CPA Code. The following are the actions or safeguards applied to reduce or eliminate threats to an acceptable level:

- Dedicated ethics & independence partners
- Process for reporting breaches of professional standards and policy, and documented disciplinary policy
- Ethics, independence and integrity training for all staff
- International proprietary system used to evaluate and document threats to independence and those arising from conflicts of interest
- Operating polices, procedures and guidance contained in our quality & risk management manual
- Mandated procedures for evaluating independence of prospective audit clients
- Restricted investments and relationships
- Annual ethics and independence confirmation for staff

Statement of compliance

We confirm that, as of the date of this communication, **we are independent** of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.



1 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

Audit and Risk Management Committee
Toronto Transit Commission
1900 Yonge Street
Toronto, ON M4S 1Z2

May 1, 2025

Management has requested that we communicate to you in writing all relationships between the Entity and our firm, that, in our professional judgment, may reasonably thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  economic dependence on a client

Provision of Services

We have not provided any prohibited services. However, professional standards require that we communicate actions that have been taken to address identified threats. This includes the actions taken to eliminate the circumstances that created such threats or applying safeguards to reduce such threats to an acceptable level. We have taken the following actions to eliminate threats, or applied the following safeguards to reduce threats, created by the services listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related

to the services.

- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity that, in our professional judgement, may reasonably be thought to bear on our independence.

CONFIRMATION OF INDEPENDENCE

We confirm that, as of the date of this letter, we are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

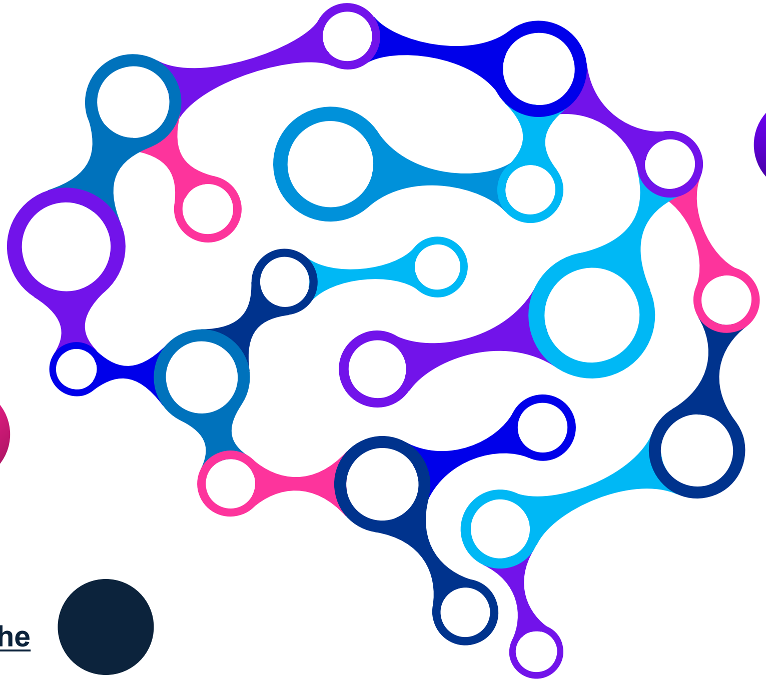
KPMG LLP

Kevin Travers

Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, were required, has the appropriate authority from a professional, legal or regulatory body.

Appendix G: 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 H: 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.

KPMG

Appendix H: Climate-related risks

Annual report

Stakeholders increasingly expect to see climate-related disclosures in the front part of the annual report and in the financial statements. Management assesses climate-related reporting risk in the context of business risk.

Climate-related risk

Physical risk

- The exposure of the business to the possible physical effects of climate change.

Transition risk

- The exposure of the business to policy and legal, market, technology and other changes in response to climate-related risk.

Business risk

Risks and opportunities to the business, for example resulting in the following.

- Stranded assets.
- Changes to the viability of certain business activities.
- Changes to market demand.
- Changes to supply chain continuity.

Businesses with a modest carbon footprint may still be exposed to climate-related risks.

Reporting risk

MD&A

- Climate-related risks and opportunities described?
- Local regulatory disclosure requirements met?

Financial statement impacts

- Provisions?
- Asset impairment/measurement?

Financial statement disclosures

- Financial instrument risk?
- Key accounting judgments?

Current-period financial impact is only one potential indicator that information is material.

Appendix H: Climate-related risks

Financial statements

Investors need information about how climate-related risks and opportunities impact an entity when such information could affect their assessments of the entity's prospects.

Information gap

- Certain stakeholders have expressed concerns about a perceived 'information gap' in how climate-related risks are reflected in the financial statements.
- They want to understand how climate-related risks and opportunities may affect an entity, and to understand the entity's objectives and strategies on climate-related matters.

Some stakeholders have concerns about the following

- An apparent lack of evidence that material climate-related risks are reflected in the financial statements.
- A deemed lack of transparency regarding climate-related assumptions and judgments made in preparing the financial statements.
- Perceived inconsistency in the narrative on climate-related matters in the front part of the annual report compared with the narrative in the financial statements.
- Certain market data used preparing the financial statements that does not appear to be aligned with the regulatory changes and other actions required to achieve the commitments embedded in the Paris Agreement[1].

1. The Paris Agreement is a legally binding international treaty on climate change signed in April 2016. Signatories have committed to limiting global warming to well below 2°C, and preferably to 1.5°C, compared with pre-industrial levels.

Appendix H: Climate-related risks

What can be done to close the 'information gap'?

Our view

Improving connectivity between the financial statements and the front part of the annual report is key.

The financial statements can be a useful source of information about the effects that climate-related risks and opportunities may have on an entity, and preparers, audit committees and auditors each have a role to play.

Although the nature of the information in the front part of the annual report and the financial statements may differ, it needs to be consistent when appropriate.

Standard setters

- The International Accounting Standards Board (IASB) has established a maintenance project to consider stakeholder concerns about the inconsistent application of IFRS Accounting Standards in relation to climate-related risks, including whether the IASB's actions (e.g. standard setting or developing illustrative examples and/or educational material) address those concerns.
- The project will consider what, if any, amendments to existing IFRS Accounting Standards may be needed. The IASB has emphasized that it does not expect to develop specific requirements for the treatment of climate-related risks in the financial statements.

Preparers

- Disclose how material climate-related risks are reflected in the financial statements.
- Remember to consider materiality from a quantitative and qualitative perspective for disclosures relating to climate-related risks.
- Provide clear and robust disclosures, ensuring climate-related assumptions and estimates in the financial statements are visible.
- When significant assumptions and judgments made in the financial statements are inconsistent with information related to climate-related risks elsewhere in the annual report, consider providing additional explanation in the annual report as to why, including possibly providing sensitivity analyses.

Audit committees

- Read, understand and challenge management's climate-related risk assessment and strategy, and where necessary, encourage this to be improved or progressed.
- Consider whether the information provided to the auditors provides a clear response by the business to climate-related matters.
- What else should audit committees consider?
  - Understand investor expectations on the level of climate-related disclosure and what information could be material to your stakeholders.
  - Provide meaningful and consistent narrative and financial reporting that allows stakeholders to make decisions.
  - Be aware of existing and upcoming climate regulations.

Auditors

- We apply professional scepticism when making inquiries of management and TCWG regarding the potential implications of climate-related matters for the financial statements.
- When climate-related matters have a significant impact on the assessed risks of material misstatement, we consider whether these matters affecting the risks are adequately disclosed in the financial statements.
- We may encourage management and TCWG to consider additional disclosures beyond the minimum required by laws, regulations and standards.

Appendix I: 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.

Standardization
+
Automation
+
Centralization

>

Methodology and Approach

Data and tech enablement
+
Center for Audit Solutions
+
Next-gen auditor

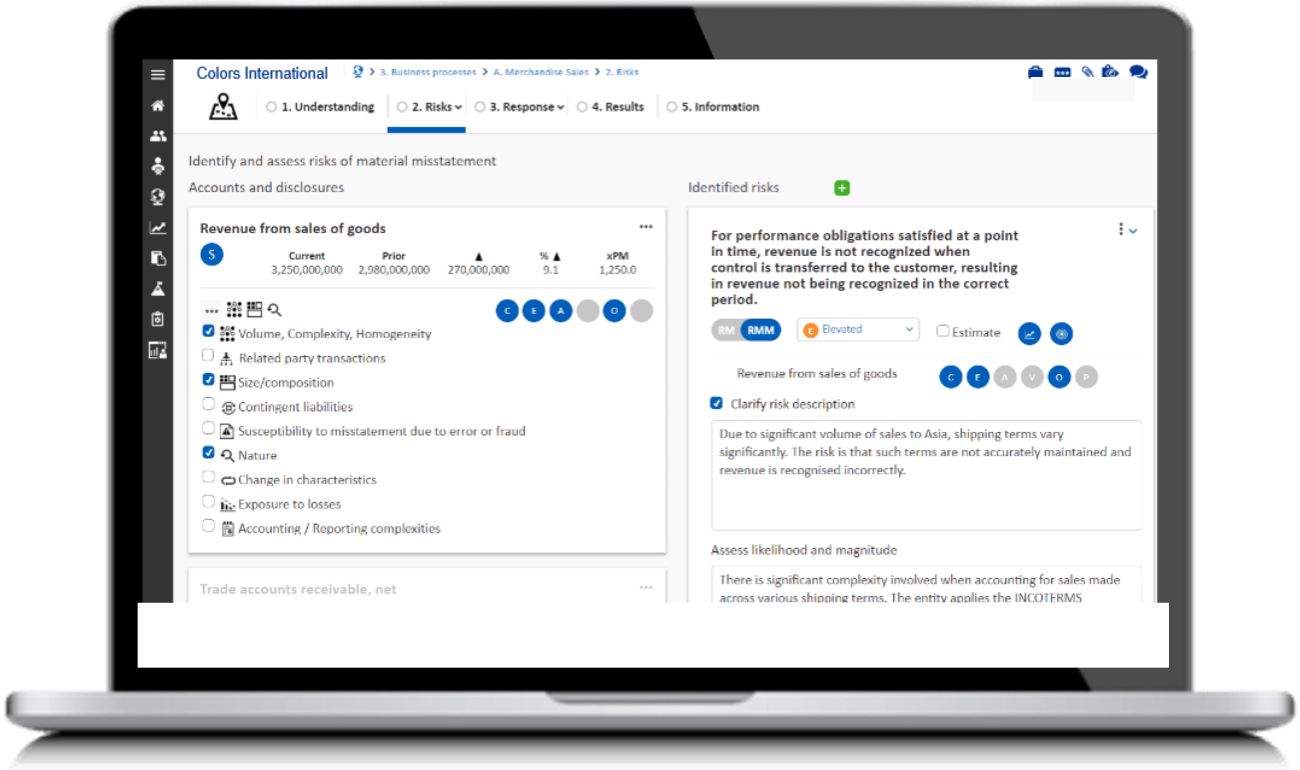
Quality Management System

>

Enhanced audit quality
+
Increased efficiency
+
Exceptional experiences

Appendix I: 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.

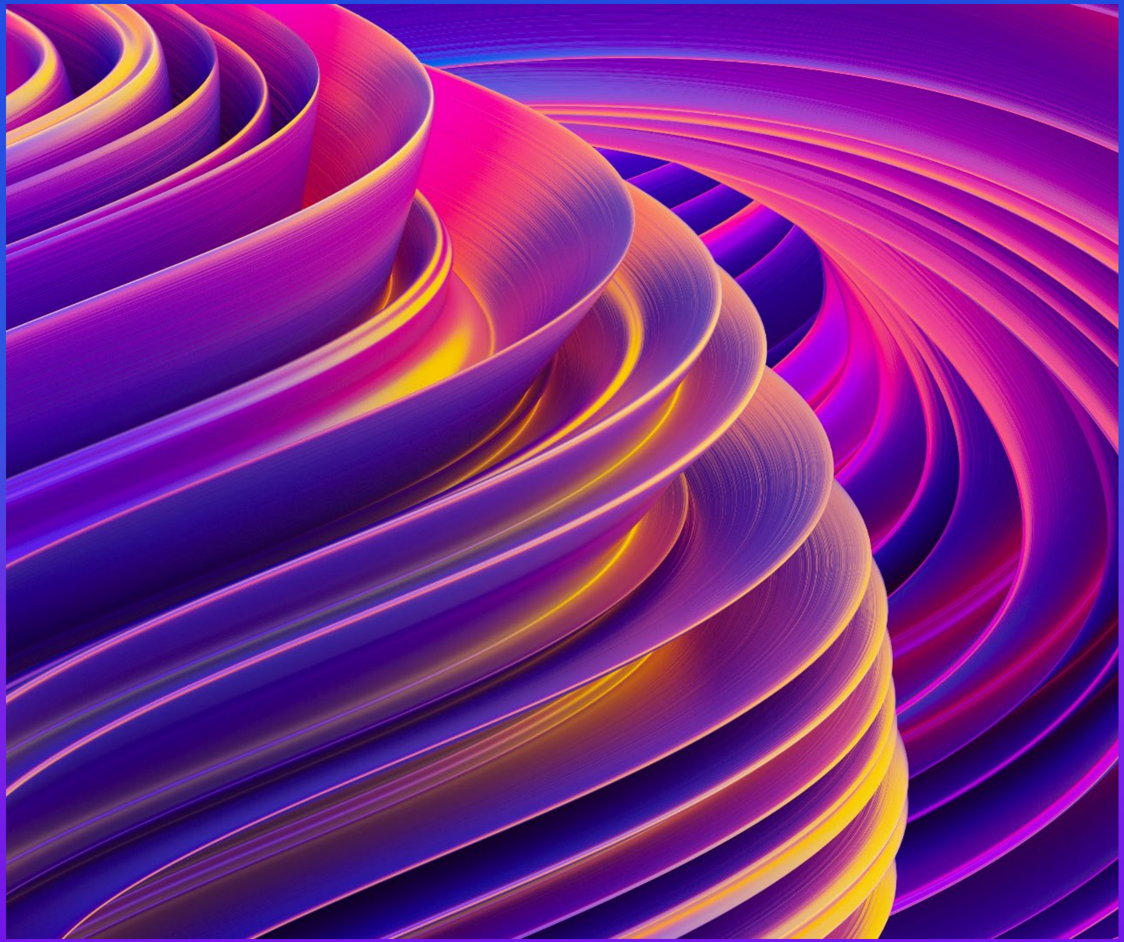
Quality at our fingertips

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.

KPMG



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