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Mr. Stephen Conforti
Chief Financial Officer and Treasurer
City of Toronto
100 Queen St W,
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October 22, 2025

Dear Mr. Conforti,

In planning and performing our audit of the consolidated financial statements of The City of Toronto ("the Entity") for the period ended December 31, 2024, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation of the financial statements. This understanding was obtained 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. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR. We reported the results of our audit of the consolidated financial statements of the Entity to the Audit Committee on July 11, 2025.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies or other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit. 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.

Refer to the Appendix for the description of various control deficiencies.

Significant Deficiencies

As reported in our Audit Findings Report presented to the Audit Committee on July 11, 2025, we did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Other control deficiencies

As we performed our audit, we identified control deficiencies that we determined to be other control deficiencies in ICFR that, in our professional judgment, are of sufficient importance to merit management's attention. See the Appendix for a listing of our audit observations relating to the control deficiencies that were identified from the audit of fiscal year ended December 31, 2024.

Management's responses

Management's responses have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

Use of letter

This letter is issued annually (as applicable) for use by management in carrying out and discharging their responsibilities. This letter should not be used for any other purpose or by anyone other than management, auditor general and audit committee.

KPMG shall have no responsibility or liability 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,

Licensed Public Accountants
cc: Auditor General

Appendix – Control Deficiencies from the audit of fiscal year ended December 31, 2024

The following control deficiencies are newly identified deficiencies by KPMG during the audit of fiscal year ended December 31, 2024 and were shared and discussed with management, during and subsequent to the 2024 audit.

1. Employee Future Benefits – Supervision of Specialist

Observation:

During the audit, KPMG actuarial specialists identified a significant gain recognized by management's actuarial specialist primarily relating to sick leave benefits and continuation of benefits, attributable to prior years. KPMG specialists discussed this change with management's current and predecessor actuarial specialist, who concluded the gain was not appropriate based on the terms of the plan and the current actuary issued a revised report. KPMG noted that prior to this, there had been limited communication between the predecessor and current actuary regarding this difference.

Impact:

Lack of communication between predecessor and current specialists could result in errors in the reports being provided by the specialist and the figures in the financial statements they impact.

Recommendation:

It is recommended that upon receiving reports from management specialists, management performs a more robust review of the report provided. This should include analyzing the report for any unusual or unexpected adjustments and, where identified, requesting further information from the external specialist on the sufficiency of work performed in forming its conclusions.

Managements response:

Management routinely conducts thorough reviews and seeks clarification when needed. The issue stemmed from the transition to a new actuarial firm and the transfer of prior assumptions. Going forward, procurement contracts will require the outgoing firm to share all actuarial assumptions with the new provider.

2. Long-term Debt Valuation

Observation:

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. To value debt in the prior year, management engaged a third-party specialist to develop a model and form assumptions. In the current year, management did not engage a third-party specialist, but rather used the same model and assessed the assumptions as unchanged. The KPMG valuation specialist performed a review of the estimate as of year-end, and noted some assumptions used were out of date and should have been updated for the current year.

Impact:

Using assumptions that are not applicable in preparing the debt fair value estimate may result in an understatement or overstatement of the balance as of year-end.

Recommendation:

KPMG recommends that management engage a third-party specialist annually to re-assess the assumptions being used to prepare their estimate or at a minimum, carefully consider the assumptions on an annual basis. This will ensure the estimate has a higher level of accuracy and reduce the time needed to audit the estimate. Additionally, a policy related to the frequency of an internal refresh of the model in it's entirely and related frequency should be developed.

Managements response:

Management acknowledges the observation and appreciates KPMG's recommendation. In fiscal 2024, the City leveraged the valuation model developed by a third-party specialist in the prior year and assessed that the core methodology remained appropriate. However, we recognize that certain assumptions used in the model could have been updated to reflect current market conditions.

Starting in the 2025 fiscal year, ASD will implement a more robust annual review process for the valuation of privately issued debt. This will include:

- Annual reassessment of key assumptions used in the valuation model to ensure they reflect current market data and conditions.
- Engaging a third-party valuation specialist periodically (e.g., every 2–3 years or as market conditions materially change) to validate the model and assumptions, with internal reviews conducted in interim years.
- Developing a formal policy outlining the frequency and scope of model refreshes, including documentation standards and approval protocols.

These steps will enhance the accuracy of the fair value estimate and support a more efficient audit process.

While management is taking steps to mitigate the re-occurrence of similar errors, the City may consider changes to its accounting policy regarding the use of fair value in future years, based on evolving needs and best practices.

3. Accrual Aging

Observation:

During the audit, identified through testing the accrued liabilities, KPMG noted an accrual sample with aging over several years without invoice support from one of the automated accrued liabilities accounts. Although the Accounting Services Division coordinates with other divisions and leads reviews of some of the manual accrual accounts, the Divisions are ultimately responsible for the completeness and accuracy of their accruals. The Accounting Service Division subsequently reviewed the aging of all accruals in this account and noted that the total amount of accruals over 2 years old is insignificant.

Impact:

Unsupported old-aging accrued liabilities with old aging overstate the City's overall liabilities.

Recommendation:

We recommend that the City impress upon the Divisions the importance of performing regular detailed reviews of their historical transactions in the accrued liabilities accounts to identify any unsupported and old aging accruals, and where necessary, make adjustments for these historical transactions.

Managements response:

As part of the City's ongoing work on the Financial Systems Transformation Program, the management will further review its historical transactions in the accrued liabilities accounts in support of the system implementation activities. It is anticipated that some of the historical balances may be adjusted as a result of these reviews.

4. Capital Project Financing Review

Observation:

During the audit, identified through testing of revenue recognized from reserves and reserve funds, KPMG 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 for each project per council approval. This exercise is known as capital clean-up internally. 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. It is noted that many of the allocations for the approved budget is driven by council resolutions / directions as management required authority for allocations to different projects, which are often held after the year end date.

Impact:

As management recognized revenue from reserves and reserve funds for under-funded capital projects in the prior years, the revenue is overstated in the 2024 year. This overstatement was reflected in an uncorrected audit difference presented in our audit findings report for the 2024 audit of the consolidated financial statements of the City of Toronto.

Recommendation:

We recommend that the management perform a more robust review of the financing sources for capital projects on a timely basis to ensure all related revenue is appropriately recognized. We noted that this is an organization-level initiative and requires the coordination of various Divisions and recommend that the Divisions review the financing sources of their capital projects on a regular basis to support the appropriate accounting.

Managements response:

The remaining capital clean-up exercise will be done in the next fiscal year, targeting to complete in fiscal 2025 but the timing is subject to the complexity of funding required, availability of staff to coordinate and the timing of approval reports presented to the Council.

5. Building Permit and Planning Application Revenue

Observation:

As part of the 2024 audit, KPMG carried out audit procedures to ensure that the City adopted and implemented the accounting requirements from a new Public Sector Accounting Standard, PS 3400 Revenue. While carrying-out these procedures, the following observation was noted:

- The City had difficulty providing, and in some cases were unable to generate, complete listings of building permit revenue, by permit type, that was recognized in the current fiscal year, and also had difficulty providing permit specific data to support the status of performance milestones. This information is necessary to ensure appropriate revenue recognition under the new accounting standard.

- For Part 3 building permits that had a value that was less than $50,000, and for certain other non-Part 3 building permits, the City was recognizing the related revenue in the period that payment was received, which does not align with the requirements of the new accounting standard.

- For planning applications that had a value that was less than $300,000, the City was recognizing the related revenue in the period that the payment is received, which does not align with the requirements of the new accounting standard.

Impact:

The lack of appropriate system functionality and capability to provide timely, accurate, and complete building permit related reports and data to support the associated revenue transactions increases the risk of incomplete and inaccurate revenue recognition. In addition, for both building permit and planning application revenue recognition, the City is required to recognize such revenues in accordance with PSAS. However, as itemized in the observation section above, the City's current practices do not align with the accounting requirements of PS3400. Although the current differences that were noted did not result in a material misstatement to the City's financial results, there is risk that these differences could become more significant in the future.

Recommendation:

We recommend that the City take the necessary steps to improve the building permit related tracking and data that is available through their operating system to ensure timely and accurate reporting of associated revenues. We also recommend that the City reconcile the balance of permit related deferred revenue and revenue on a timely basis to detect potential misstatements. In addition, the City should take the necessary steps to ensure that their revenue recognition practices align with PSAS, including leveraging the City's Accounting Services Division to review and provide existing building permit and planning application revenue recognition processes.

Managements response:

City Staff are currently investigating a resolution for this management recommendation.

6. IT Security – Access Deprovisioning

Observation:

During the testing performed on general IT controls, it was noted that for many of the selected cases, access revocation tickets were not created by the terminated employee's manager from respective divisions. As a result, IT was not notified in a timely manner of revocations through the standard access revocation process. Consequently, user access to systems was not consistently revoked promptly and, in some instances, users logged into systems after their termination date.

Impact:

Users may retain access beyond what is necessary for their roles and responsibilities. Failure to remove access promptly may result in unauthorized access to the City of Toronto's systems and sensitive financial information.

Recommendation:

Management should consider the following actions:

- Communicate formal access revocation timelines to all employees and managers across all divisions at City of Toronto.
- Mandate ticket creation in the IT service management tool (ServiceNow) by the terminated employee's or contractor's manager, enabling the Technology Services team to revoke access from the Active Directory in a timely manner.
- Implement monitoring over their automated workflow to revoke SAP ECC access once termination is recorded in SAP SuccessFactors. This will enable timely deprovisioning through system integration.

Management's response:

Management acknowledges and agrees with this recommendation and the City of Toronto will address the requirement for access deprovisioning through the following steps:

- Understanding and analyzing the root cause by discussing with relevant teams and optimizing the process by updating the access deprovisioning process.

- Access deprovisioning process will be formalized and socialized with the respective team managers at City of Toronto.
- There will be ongoing monitoring for compliance of the updated access deprovisioning process

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7. IT Security – User Access

Observation:

A complete user access review was not conducted for the SAP ECC application and access roles were not consistently revoked based on the instructions of the designated reviewers or managers.

Impact:

Users may retain access beyond what it is necessary to fulfill their job responsibilities. This may lead to excessive access, increasing the risk of unauthorized actions or data exposure within the SAP ECC Application.

Recommendation:

Management should consider implementing the following actions:

- The control performer should confirm that all user access instances are shared with the appropriate role owners and managers for review. This ensures that access rights are properly evaluated and authorized.

- After responses are received from the role owners and managers, the control performer should verify that recommended revocations are actioned and completed. This will enhance the effectiveness of the user access control process and ensure that access is revoked in line with managerial decisions.

Management's response:

Management acknowledges and agrees with this recommendation and the City will address the requirement for periodic user re-certification of the SAP ECC application through the following steps:

- There is a process of tracing the user access roles from the raw user list to the user access roles sent for review, further remediated the deficiency by converting the account which was not part of the user access review to non-interactive account.
- Modified process to flag user access roles advised for access revocations and share the data with respective reviewers/ managers confirming access revocations.

8. IT Security - Segregation of duties in change management

Observation:

There are conflicts in the current design for segregation of duties between developers and deployers and does not fully incorporate a formal monitoring process over segregation of duties conflicts. During the review, KPMG noted that in January 2024, one (1) change recorded in the SAP ECC transport log was developed and deployed by an employee who had access to both a generic account and their own individual user account.

Impact:

The lack of monitoring in the segregation of duties between development and deployment roles increase the risk that developers could bypass the formal change management process. This could lead to unauthorized or unapproved changes to systems or applications, potentially affecting their reliability and functionality.

Recommendation:

Management should design and implement appropriate segregation of duties between change development and deployment functions within the SAP ECC environment.

Specifically:

- If strict segregation is not feasible, management should enhance monitoring controls. This includes assigning a reviewer to verify that all productions changes are authorized and compliant with the change management process.

- Alternatively, management may assign an observer at the time of deployment to monitor the deployment activity, confirm that it aligns with the approves changes and document or sign off the deployment (including date and time) within the respective change ticket.

Management's response:

Management acknowledges and agrees with this recommendation and the City will address the requirement for segregation of duties in change management in the SAP ECC application through the following steps:

- Updated the process to review the activity log for some of the accounts which require development and deployment access to ensure activities performed by users were authorized.
- Update as a process to ensure developers did not deploy their own changes.

9. IT Security – Super User Access

Observation:

Multiple accounts were noted to have inappropriate access to sensitive transaction codes withing the SAP ECC application. These transaction codes are classified as privileged access and typically reserved for super users.

Impact:

Granting access to sensitive transaction codes may lead to excessive privileges for users, increasing the risk of segregation of duties conflicts. This may allow users to perform activities outside the scope of their job responsibilities, which can compromise internal controls and elevate the risk of unauthorized activities.

Recommendation:

Management should implement periodic reviews, ideally on a quarterly basis, of users access to sensitive transaction codes within the SAP ECC application. These reviews should aim to identify and address inappropriate access, ensuring that privileged align with user's roles and responsibilities and document all changes made to user access, maintaining audit trails for accountability.

Management's response:

Management acknowledges and agrees with this recommendation and will address the requirement for sensitive access on SAP ECC application through the following steps:

- Modified the process by providing role owners the mapping of sensitive roles and details of the relevant transaction codes.
- Integrating review of sensitive access to periodic user access reviews where role managers/ reviewers will be required to specify the period for which sensitive access is required.

10. IT Support – Incident Resolution

Observation:

Management had not established a formal policy for incident management, not had it designed Service Level Agreements (SLAs) for incident resolution. As a result, some in-scope systems lacked defined SLAs and there was no consistent monitoring of open incidents on a periodic basis. Additionally, management was unable to provide evidence of incident tickets for one in-scope tool.

Impact:

Failure to resolve or monitor incidents in a timely manner may lead to incomplete or inaccurate processing of data, which could adversely impact the reliability and performance of production systems.

Recommendation:

Management should consider implementing a formal incident management policy at an organizational level and a monitoring process for open or long outstanding incidents on a periodic basis. These will support proactive management of incidents, enable SLA breach resolution and promote root cause analysis to prevent recurring issues.

Management's response:

Management acknowledges and agrees with this recommendation and the City will address the requirement for incident resolution process in the ServiceNow tool through the following steps:

- Service Level Agreements (SLAs) will be designed for assignment groups by respective team managers.
- Management has introduced an incident management dashboard that enable teams to track and monitor open incidents assigned to their respective assignment groups, which will provide visibility to manage and resolve their incidents within appropriate time frames.