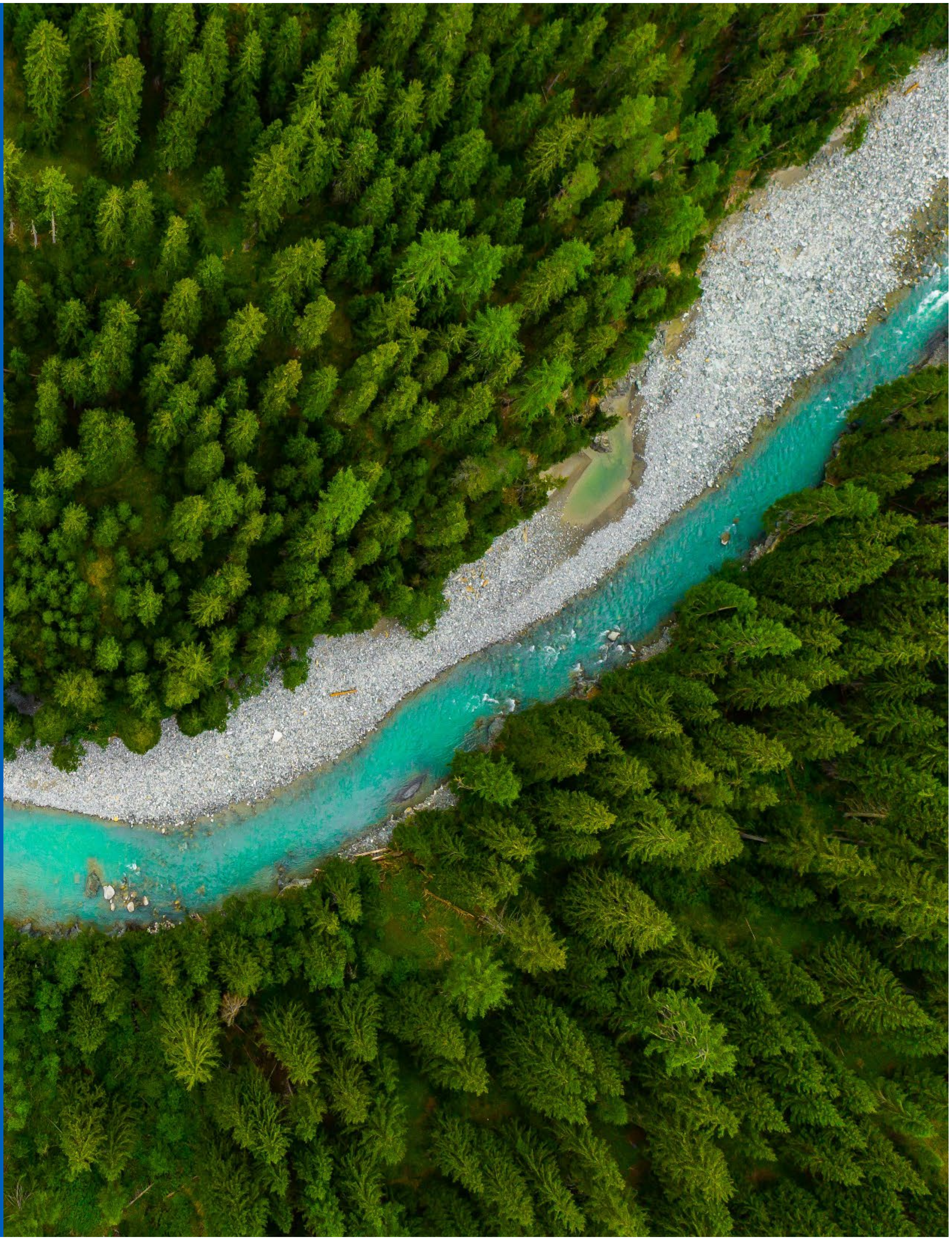
Toronto and Region Conservation Authority

Audit Findings Report
for the year ended December 31, 2021

Report prepared on June 6, 2022

kpmg.ca/audit



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KPMG contacts

The contacts at KPMG in connection with this report are:

Kevin Travers

Audit Engagement Partner

Tel: 416 228 7004
ktravers@kpmg.ca

Vladimir Servan

Audit Senior Manager

Tel: 416 549 7909
vservan@kpmg.ca

Our refreshed Values

What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

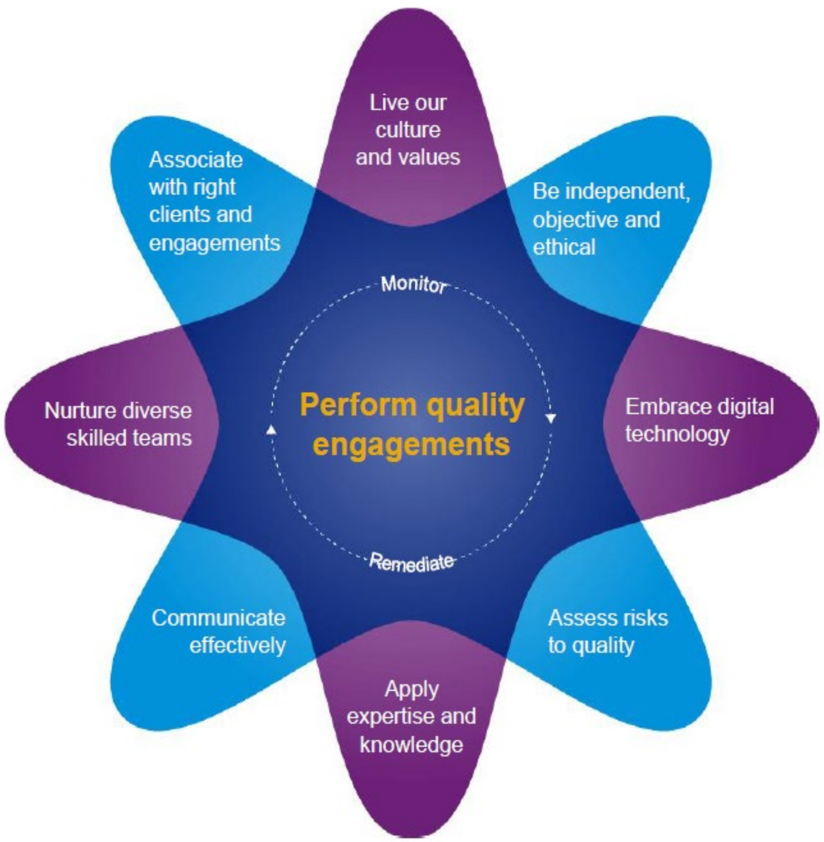
Audit Quality: How do we deliver audit quality?

Transparency report

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

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

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



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

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

Visit our **Resources** page for more information.

Doing the right thing. Always.

Audit highlights

Purpose of this report[1]

The purpose of this report is to assist you, as a member of the Executive Committee (the "Committee"), in your review of the results of our audit of the financial statements of Toronto and Region Conservation Authority (the "Authority") as at and for the period ended December 31, 2021.

Status of the audit

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

- Completing our discussions with the Committee
- Completing our subsequent event review procedures
- Receipt of signed management representation letter (dated upon board approval)
- Obtaining evidence of the Board's approval of the financial statements.

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

Our auditors' report, will be dated upon the completion of all remaining procedures.

Uncorrected audit misstatements

We identified three differences that remain uncorrected.

Refer to page 12 for further details.

Audit materiality

Materiality has been determined based on total expenses. We have reviewed the scope of work across segments and activities across the Authority. We have determined materiality to be \$3.6M (2020 - \$3.5M) for the year ended December 31, 2021. See page 5

Independence

We are independent with respect to the Authority within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Performance improvement observations

We did not identify any control deficiencies that we determined to be significant deficiencies. See page 13 for further details of performance improvement observations and management's response.

[1] This report to the Committee is intended solely for the information and use of Management and the Committee 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.

Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	Determined to perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $3.5M	$3.6M
Benchmark **(the metric that is *most* relevant to the users)**	Based on total expenses for the year. This benchmark is consistent with the prior year.	$137.9M
% of Benchmark	The corresponding percentage for the prior year's audit was 2.5%	2.7%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $173K.	$181K

Audit risks and results

Significant risk	New or changed?	Estimate?
Fraud risk from management override of controls	No	No

Our response

Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.

– Using our Data & Analytics software, we tested manual and automated journal entries by extracting all journal entries recorded in the general ledger system and other adjustments. Using these extractions, we selected a sample of journal entries and verified if they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.
– We evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is considered adequate.
– We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.

Significant findings

– No issues were noted.

Significant qualitative aspects of the Authority's accounting practices

– No issues were noted.

Audit risks and results

Other area of focus	New or changed?	Estimate?
Cash and Investments	No	No

Our response

- We confirmed cash balances at year end with the bank.
- We reviewed the year end bank reconciliations for all accounts, vouching significant items to supporting documentation.
- We confirmed the investment balances at year end with the banks.
- We performed substantive analytical procedures on investment income and gains/losses on investments.
- We reviewed the carrying value of investments in comparison with their fair value to assess if an impairment charge is required.
- We reviewed the Authority's compliance with the Investment policy. As at December 31, 2021, the Authority was in compliance with all policies.

Significant findings

- No exceptions noted.

Significant qualitative aspects of the Authority's accounting practices

- We reviewed management's presentation of cash and investments in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate

Audit risks and results

Other area of focus	New or changed?	Estimate?
Revenue, Deferred Revenue, and Accounts Receivable	No	No

Our response

- We tested each revenue stream by vouching revenue items to source documentation on a sample basis:
  - We tested a sample of deferred revenue receipt and release transactions and agreed to supporting documentation.
  - We tested a sample of government funding and authority generated revenue by agreeing to supporting documentation.
  - We agreed municipal levies revenues to approved budgeted amounts and to payment receipts.
- We performed testing over the completeness of revenue by reviewing a sample of transactions at the end of 2021 and the beginning of 2022 to assess whether they were recorded in the correct period.
- For all revenue sources, we reviewed the Authority's revenue recognition policy in accordance with appropriate PSAB standards.
- We reviewed accounts receivable sub-ledgers for credit balances, unusual amounts, and aged balances, and we vouched a sample of balances to supporting
- documentation including payment receipt.
- We obtained a confirmation from the Toronto and Region Conservation Foundation with respect to amounts owing to the Authority.

Significant findings

- No exceptions noted.

Significant qualitative aspects of the Authority's accounting practices

- We reviewed management's presentation of revenue sources in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

Audit risks and results

Other area of focus	New or changed?	Estimate?
Compensation expense and vacation pay entitlements	No	No significant estimates noted

Our response

- We obtained an understanding of the processes surrounding payroll.
- We performed substantive analytical procedures over compensation expenses and substantively tested employee headcount for existence and completeness.
- We tested significant payroll accruals as at year-end by agreeing to payroll registers and payment subsequent to year-end.
- We reviewed the listing of employee vacation accruals and tested on a sample basis by agreeing to employee files and reviewing the maximum allowable carry-forward amounts in accordance with the Authority's policies.

Significant findings

- Refer to summary of adjusting entries for proposed corrected and uncorrected adjusting entries.

Significant qualitative aspects of the Authority's accounting practices

- We reviewed management's presentation of compensation on expenses in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

Audit risks and results

Other area of focus	New or changed?	Estimate?
Tangible capital assets	No	No significant estimates noted

Our response

- We tested a sample of additions to tangible capital assets and work-in-progress and agreed each sample to supporting documentation.
- We tested a sample of transfer of tangible capital assets out of the work in progress account and agreed to sufficient appropriate evidence that the asset was completed and put into use.
- We performed substantive analytical procedures over amortization of tangible capital assets.
- We tested a sample of disposals and agreed to board minutes authorizing significant dispositions.

Significant findings

- No exceptions noted.

Significant qualitative aspects of the Authority's accounting practices

- We reviewed management's presentation of tangible capital assets in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate.

Audit risks and results

Other area of focus	New or changed?	Estimate?
Expenses, payables and accrued liabilities	No	No significant estimates noted

Our response

- We selected a sample of expense transactions and agreed to supporting invoices to assess accuracy of amounts recorded and their classification.
- We reviewed supporting documentation for significant accruals.
- We performed a trend analysis and actual version budget of expenses and reviewed significant variances with management
- We performed a search for unrecorded liabilities to assess the completeness of liabilities.
- We held inquiries with management, reviewed Board minutes, and reviewed all legal correspondence during the fiscal year to evaluate potential legal liabilities and contingencies. To assess the existence and completeness of liabilities, we obtained a legal confirmation letter from the Authority's legal counsel.

Significant findings

- No exceptions noted.

Significant qualitative aspects of the Authority's accounting practices

- We reviewed management's presentation of expenses and liabilities in the financial statements and the disclosures in the notes to the financial statements and find them to be appropriate with the reporting framework.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial. The adjusting entries are as follows:

- $214K increase in payable and accrued liabilities with a corresponding increase to compensation expense, to account for former employees' salary continuance payments owing as at December 31, 2021,
- $368K decrease in government funding revenue with a corresponding increase to deferred revenue, to correct for over-recognition of capital levy revenues.
- $709K decrease in government funding revenue with a corresponding decrease to accounts receivable, to account for unreconciled difference.

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 auditors' report.

Corrected audit misstatements

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

Performance improvement observations

Item	Observation
Salary continuance	During the audit we noted that the Authority entered into salary continuance termination agreements with former employees whose liability for payments after December 31, 2021 was not reflected in the financial statements. The contractual arrangements with these individuals resulted in an obligation for the Authority which extended beyond the end of the fiscal year and would have been more appropriately included in accrued liabilities at the end of the year. – We recommend that accruals for future payments are established on the date the agreement is entered into with the former employee and that the accrual balance is drawn down as continuance payments are made. This will ensure that the accrued liability balance as at each reporting period agrees with the remaining required future payments. Management response: – This observation has been noted by management and will be included as part of TRCA's year-end financial procedures going forward.
Capital levy revenues	During the audit we noted that certain capital projects revenues recognized in the year exceed the expenditures incurred. This resulted in an overstatement of capital levy revenue, an overstatement in accounts receivable and an understatement in deferred revenue. – We recommend that management perform subsequent final review project-by-project review comparing expenditures incurred against revenue recognized to ensure that capital related levies are recorded in the appropriate period. Management response: – TRCA completes a robust project-by-project review of each of its projects on a quarterly basis. Upon the completion of the year-end reconciliation process, a staff member accidentally booked incorrect entries intended to ensure that a proper amount of revenues were recognized, which resulted in the issues noted by the auditor. In order to mitigate the risk of this issue recurring in the future, a subsequent final review of the deferred revenue balances will be completed after the adjusting entries are booked, to confirm that the year-end project balances are correct.

Appendices

Content

Appendix: Other required communications

Audit Quality in Canada	Engagement terms
The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year: • CPAB Audit Quality Insights Report: 2021 Interim Inspections Results • CPAB Audit Quality Insights Report: 2020 Annual Inspections Results	A copy of the engagement letter and any subsequent amendments has been provided to the Committee.

Appendix: Upcoming changes to auditing standards

The following changes to auditing standards applicable to our 2022 audit are listed below.

Standard	Key observations
Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement*	Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement* has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021. The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include: – Enhanced requirements relating to exercising professional skepticism – Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls – Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls – Introduction of scalability – Incorporation of considerations for using automated tools and techniques – New and revised concepts and definitions related to identification and assessment of risk – Strengthened documentation requirements CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.

Appendix: Audit and assurance insights

Featured insight	Summary	Reference
Accelerate 2022	The key issues driving the audit committee agenda in 2022	Learn more
Audit Committee Guide – Canadian Edition	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada	Learn more
Unleashing the positive in net zero	Real solutions for a sustainable and responsible future	Learn more
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards.	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more
KPMG Climate Change Financial Reporting Resource Centre	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	Learn more
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	Learn more
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	Learn more
IFRS Breaking News	A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.	Learn more
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	Sign-up now
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.	Learn more
KPMG Learning Academy	Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.	Learn more

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Why Audit Committees should know about Asset Retirement Obligations

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Municipalities have evolved significantly over the last two decades and this evolution has escalated over the last two years due to the huge push towards digital transformation. Municipalities have come to a refreshed realization about the dynamic change it needs from their citizens resulting in a push towards a citizen-centric approach to defining their goals and objectives.

With all this change, the citizens are looking for new and improved ways to obtain information from the municipalities and public sector entities generally. They are looking for information that is timely, accurate and accessible. For instance, more and more municipalities are moving towards quarterly financial reporting to provide more timely information to stakeholders.

The finance function within municipalities tend to focus a large portion of their resources on their budget-setting process each year, relative to financial reporting. This budget sets out the municipality's operating and capital spending plan for the next year, leading to the determination of the necessary tax levy to support the planned spend. It is necessarily a cash-based document, which leads to difficulty in comparing it to a municipality's financial results, which are prepared on a basis prescribed by the Chartered Professional Accountants Canada. The annual financial statements are presented on an accrual basis in accordance with Public Sector Accounting Standards (PSAS). This disconnect between the cash basis and accrual basis often makes it difficult for 'Those Charged With Governance' (TCWG) to fully understand the actual financial results since relatively more resources are deployed towards the creation of the budget than the presentation of the financial results. While there are quite a few intersections between the budget-based reporting and PSAS reporting, there are many differences that can come in the way of effective municipal financial management and oversight.

Please note that the discussion in this paper is relevant for all public sector entities that report their financial results in accordance with PSAS. While the specific examples in this paper focus on municipalities, the same implications can be applied to other entities with slight modification to incorporate the differences in operations in the various types of public sector entities.

With that in mind, let's talk about a new reporting standard which is required to be implemented by public sector entities for years ending on or after April 1, 2022 and why it is important for TCWG to understand the implications of this new standard. This standard pertains to Asset Retirement Obligations (ARO) and requires public sector entities to set up a liability related to the legal obligation for retiring a tangible capital asset. The assets that fall into this standard are the ones that are controlled by the public sector entity and includes leased assets. This standard has far-reaching impacts for municipalities and requires proper attention from TCWG, in order to exercise appropriate oversight over the financial reporting process. We have highlighted some key items here:

(a) Completeness of liabilities

(b) Legal obligations

(c) Completeness of assets

(d) Technical expertise

(e) Financing repercussions

(f) Environmental Social Governance (ESG) implications

Let's talk about these one by one!

a. Completeness of liabilities

In many cases, the liability associated with AROs has not been recorded within the financial records of the public sector entities which means that these entities are underreporting their obligations. It is possible that certain public sector entities might have some of these obligations included within their legal obligations however it is unclear how these are being tracked and whether the process used to determine the magnitude of these legal obligations is accurate.

Not only is it important to have accurate and complete information for the measurement and recognition of these liabilities for financial reporting purposes, but the same information is also equally important for financial planning and for effective financial management of the municipalities.

One of the tools used by municipalities in order to perform long term financial planning is through reserves and reserve funds to ensure they have sufficient funds set aside for future needs. If a municipality does not have a clear understanding of their ARO liability, it would hinder their ability to assess the adequacy of their reserve funds. Cash flow management would also be impacted due to the potential unplanned outflow in any given year.

b. Legal obligations

Next, let's talk about legal obligations. It is important to understand that the obligation related to the ARO is a legal obligation. However, unlike some of the traditional legal obligations, where there might be uncertainty around the outcome of the legal item, there is no uncertainty related to the existence of the future obligation related to an ARO. This means that the future settlement is guaranteed for an ARO and the uncertainty in this situation is limited to the quantification or the amount of the future settlement.

Not getting a good handle on the ARO liability also increases the risk of negative legal implications for the municipality in the future. As an example, if there is a contaminated site that requires a municipality to perform clean up to ensure the safety of the residents, but this contamination is not rectified in a timely and reasonable manner as required by environmental regulations. This could result in severe legal implications for the municipality due to the hazardous nature of these materials and potential negative health impact on the residents.

The new ARO reporting standard also includes the concept of promissory estoppel as part of the legal liability assessment. For your convenience, we have included the definition of promissory estoppel in the glossary at the end of this document.

The key point that is important to emphasize is that it would be important to engage a legal expert as part of the ARO implementation team as this assessment might be outside the expertise of the core finance team members.

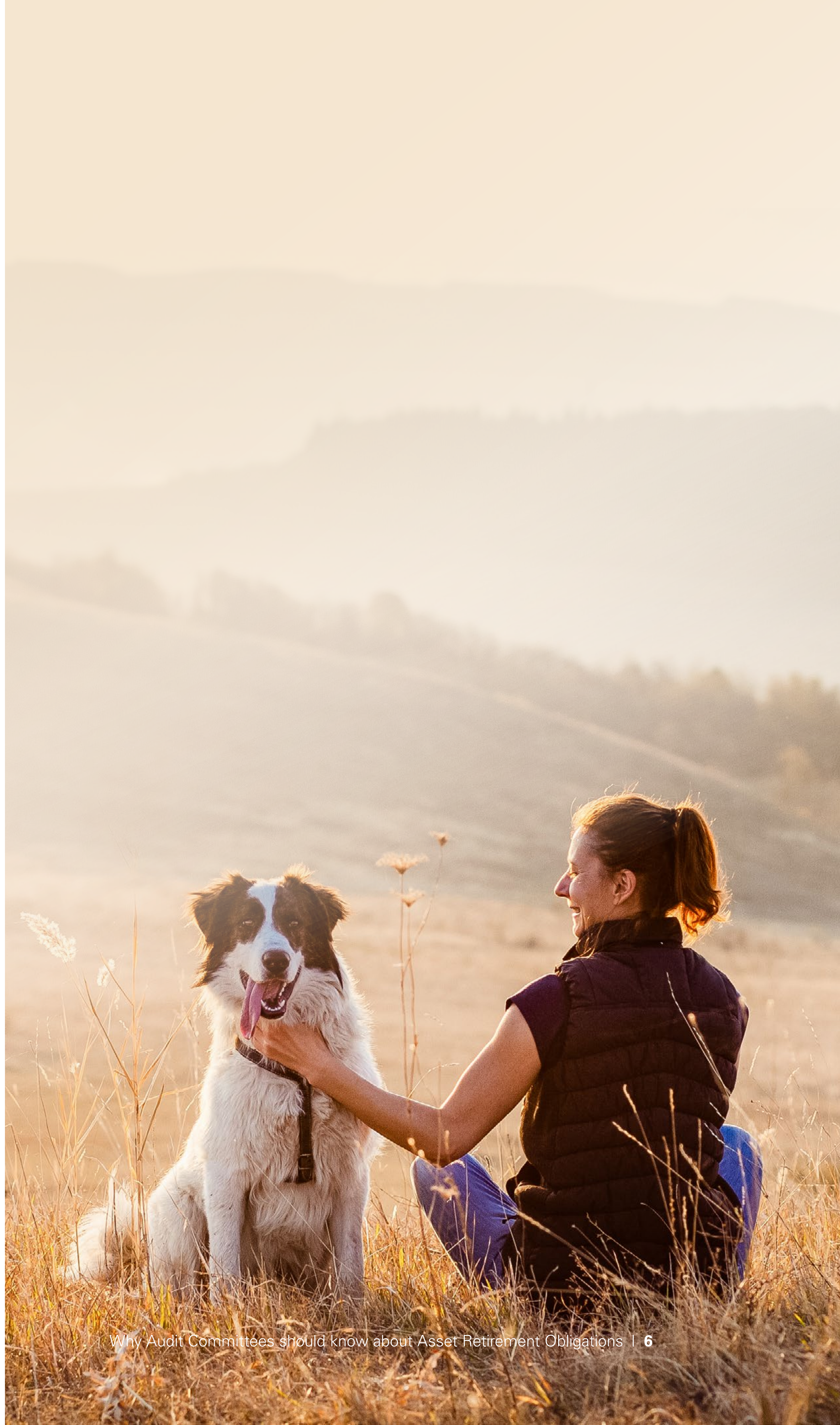
c. Completeness of assets

When Canadian municipalities first began reporting their tangible capital assets as a component of their balance sheets back in 1999, it was apparent that many municipalities did not have good historical data on the assets that they owned at that time and consequently many still do not have a complete listing of owned assets. A comprehensive approach to asset management brings numerous benefits to local and regional governments and assists them in being able to demonstrate that taxpayers get good value from each capital asset they fund, in part or in whole.

This is a contributing factor as to why there are regulatory requirements for good asset management practices. For example, the Federal Gas Tax Agreement requires municipalities to demonstrate a strong asset management system. In absence of a well-thought-out asset management plan, local municipalities could put at risk the operational effectiveness of their assets, public health and safety and overall public confidence in the local government. A solid asset management approach helps to ensure reliability of the services offered by a local government and thus instill more confidence from the public.

Asset management itself is quite a broad topic of discussion for municipalities, perhaps the above description provides an understanding of why there is so much emphasis placed on good asset management. As important as it already was to have a complete listing of tangible capital assets in order to develop a reasonable asset management plan, it has become even more so with the implementation of financial reporting standards for AROs. This due to the fact that AROs are based on identifiable tangible capital assets controlled by the Entity. If the asset listing is not complete or not up to date, any obligations relating to assets not being reported would also not be captured. If items are missed in the scoping and measurement of AROs, this results in a significant risk for the municipalities where the corresponding liabilities will be incomplete. There might be other consequences of missing these liabilities for municipalities depending on the nature and extent of error such as cash-flow management, environmental and social implications.

The ARO standard does not require entities to assess their overall asset management approach for reasonableness. The ARO standard also does not require entities to undertake an asset management exercise to make sure they have a complete inventory of all of their assets. However, it is quite clear that the entities who have an accurate and complete listing of their assets through a well-thought-out asset management plan are the ones who will be in the best position to ensure completeness of their AROs.



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d. Technical expertise

Another matter to consider and assess is the quality of the information that the entity has regarding their assets. How well does the entity understand its assets including the nature and components of its assets? For the finance team to scope and measure the ARO associated with different assets, they would need clear guidance from subject matter experts that understand the technical aspect of this determination.

Finance teams would likely have the requisite expertise relating to the cost and fair value of these assets but may not be as aware of the legal, environmental, and / or other obligations attached to these assets. The knowledge of subject matter experts will be to assist the finance team in this area.

In addition to legal experts, other experts on which the exercise may depend upon include individuals from the operations team, mechanical and engineering teams, etc.

It would be important to have a discussion with the finance team to identify which subject matter experts are considered necessary based on their initial assessment in order to make optimal resource allocations. It would also be important to note that these needs could change as the implementation project matures.

e. Financing repercussions

Even though not directly related to ARO, financing repercussions should also be front of mind with overall asset management, particularly when planning for asset replacement / remediation / maintenance. In different provinces in Canada, there are restrictions on the amount of borrowing for local municipalities. In Ontario, for instance, long-term borrowing is restricted to capital investments and is also subject to a prescribed maximum level based on a preset formula.

Local municipalities use debt to help finance large capital projects. Local municipalities conduct long-term financial planning through the adoption of a multi-year capital plan and a long-term fiscal plan that would typically consider the amount and timing of debt necessary to support the planned expenditures over the term of Council. It also becomes important to understand the useful life of the asset in order to match the cost to the period over which the benefits are received. This provides more affordable financing by matching the repayment term to the economic useful life of the project, instead of funding the entire cost from current revenues.

In recent years, we have noted the trend of the issuance of green bonds, with the province of Ontario reaching a whopping $10.75 billion in green bonds in 2021. Other local municipalities are following suit and this move is expected to continue. It would be important to have a good grasp on the asset management plans before these green bonds are attached to environmentally friendly infrastructure capital projects. Talking about green bonds, let's move into other ESG considerations.

f. ESG Implications

It is quite interesting that the concept of ARO touches all three aspects of the ESG spectrum i.e., environmental, social and governance. Physical contamination caused by hazardous materials such as asbestos or the toxins and leachate from landfills are all contributors towards damaging the environment.

Inappropriate or sub-optimal treatment of these hazardous materials can have significant health detriments which becomes a social responsibility issue whereby the expectation is that public sector entities, especially municipalities would ensure appropriate level of remediation for these hazardous items. The heightened fiduciary responsibility in the public sector environment especially with the elected officials with the municipalities creates a huge need for an appropriate level of governance in place.

The ESG implications for ARO have gained a lot of traction in recent years. These discussions have become more important now as public sector entities work towards the implementation of this new standard. While it is important to embrace ESG into our strategic planning, it will be critical to ensure that this planning is comprehensive and well thought out. As daunting as this task can seem, the key is to have a structured approach to map out what is relevant for the organization and to design a plan to tackle these implications.

In conclusion, while the ARO standard implementation may seem like any other accounting standard implementation, it has far reaching implications from a municipal operational and governance perspective requiring consideration and input from the organization as a whole, not just its finance team. It is therefore critical to take the time to understand these implications and design a plan to address them in a meaningful manner.

We would be more than happy to continue this discussion with you. We are currently running customized sessions for different entities to help them understand these various implications of AROs and how to best address them.

Special thanks to Kevin Travers, Partner KPMG Enterprise and Bailey Church, Partner Accounting Advisory Services for their contributions to this publication.

Contact us

Maria Khoushnood
Partner, KPMG Enterprise
KPMG in Canada
416-228-7082
mkhoushnood@kpmg.ca

Kevin Travers
Partner, KPMG Enterprise
KPMG in Canada
416-228-7004
ktravers@kpmg.ca

home.kpmg/ca

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(Letterhead of Client)

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

Date

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 and Region Conservation Authority (“the Entity”) as at and for the period ended December 31, 2021.

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 January 19, 2021, including for:

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

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

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

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

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

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

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

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

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

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

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

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

3) We have disclosed to you:

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

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

— management;

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

— others

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

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

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

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

Subsequent events:

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

Related parties:

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

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

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

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.

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

Non-SEC registrants or non-reporting issuers:

13) 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).

14) 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.

Approval of financial statements:

15) John MacKenzie has the recognized authority to take, and has taken, responsibility for the financial statements.

Yours very truly,

____
Mr. John MacKenzie, Chief Executive Officer

____
Mr. Michael Tolensky, Chief Financial and Operating Officer

Attachment I – Definitions

Materiality

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

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

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

a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
c) dissimilar items, transactions or other events are inappropriately aggregated;
d) similar items, transactions or other events are inappropriately disaggregated; and
e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Fraud & error

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

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

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

Attachment II

Summary of uncorrected misstatements

Method used to evaluate misstatements: Income statement (Roll over)

						Impact on financial statement captions - DR(CR)											
#	Account #	Account Name	Description/ Identified During	Error Type	Amount	Income Statement DR (CR)			Balance Sheet Effect					Cash Flow Effect			Statement of Comprehensive Income - Debit (Credit)
					DR (CR) $	Income effect of correcting the balance sheet in prior period $	Income effect of current period balance sheet $	Income effect (Rollover method) $	Equity at period end $	Current Assets $	Non-Current Assets $	Current Liabilities $	Non-Current Liabilities $	Operating Activities $	Investing Activities $	Financing Activities $	
1	11087	Salaries - Vacation Accrual	To accrue for salary continuance payments	Factual	214,937	-	214,937	214,937	214,937					214,937	-	-	-
	70123	Vacation Payable			(214,937)				-	-	-	(214,937)	-	(214,937)	-	-	-
2	2200	Deferred Revenue	To correct for over-statement of capital levy revenue	Factual	(368,859)				-	-	-	(368,859)	-	(368,859)	-	-	-
	4000	Government Funding			368,859	-	368,859	368,859	368,859					368,859	-	-	-
3	4000	Government Funding	To account for unreconciled difference in capital revy revenue	Factual	709,101	-	709,101	709,101	709,101					709,101	-	-	-
	1200	Receivables			(709,101)				-	(709,101)	-	-	-	(709,101)	-	-	-
Total uncorrected misstatements (before tax)						-	1,292,897	1,292,897	1,292,897	(709,101)	-	(583,796)	-	-	-	-	-
Final financial statement amounts							-	28,568,000	485,123,000	116,225,000	-	94,447,000	-	-	-	-	-
Percentage of uncorrected misstatements after tax financial statement amounts.								4.53%	0.27%	0.61%	0.00%	0.62%	0.00%	0.00%	0.00%	0.00%	0.00%

Attachment II

Summary of corrected misstatements

#	Account #	Account Name	Description/ Identified During	Error Type	Amount	Income Effect DR (CR)	Balance Sheet Effect					Cash Flow Effect			Statement of Comprehensive Income - Debit (Credit)
					DR (CR) $	Income effect $	Equity at period end $	Current Assets $	Non-Current Assets $	Current Liabilities $	Non-Current Liabilities $	Operating Activities $	Investing Activities $	Financing Activities $	
1	4005	Authority Generated	To adjust for proceeds on sale not attributable to TRCA	N/A	5,142,599	5,142,599	5,142,599					5,142,599	-	-	-
	5300	Greenspace Securement and Management			(5,142,599)	(5,142,599)	(5,142,599)					(5,142,599)	-	-	-
2	4000	Government Funding	to correct for over-statement of capital levy revenue	N/A	1,290,281	1,290,281	1,290,281					1,290,281	-	-	-
	2200	Deferred Revenue			(683,277)		-	-	-	(683,277)	-	(683,277)	-	-	-
	1200	Receivables			(607,004)		-	(607,004)	-	-	-	(607,004)	-	-	-
Total effect of corrected misstatements						1,290,281	1,290,281	(607,004)	-	(683,277)	-	-	-	-	-