Toronto and Region Conservation Authority

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

May 30, 2019

kpmg.ca/audit

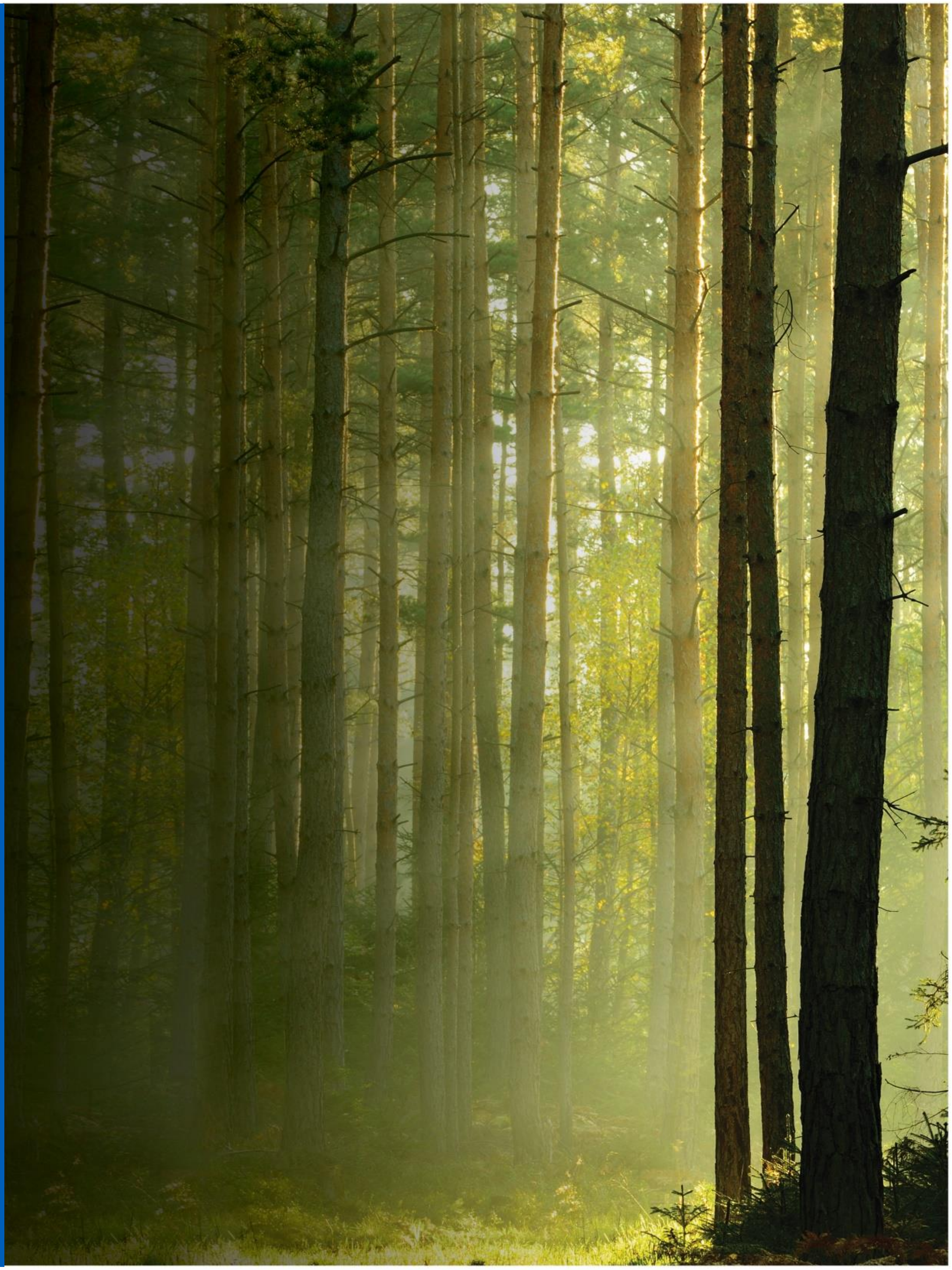


Table of contents

The contacts at KPMG in connection with this report are:

Kevin Travers, CPA, CA

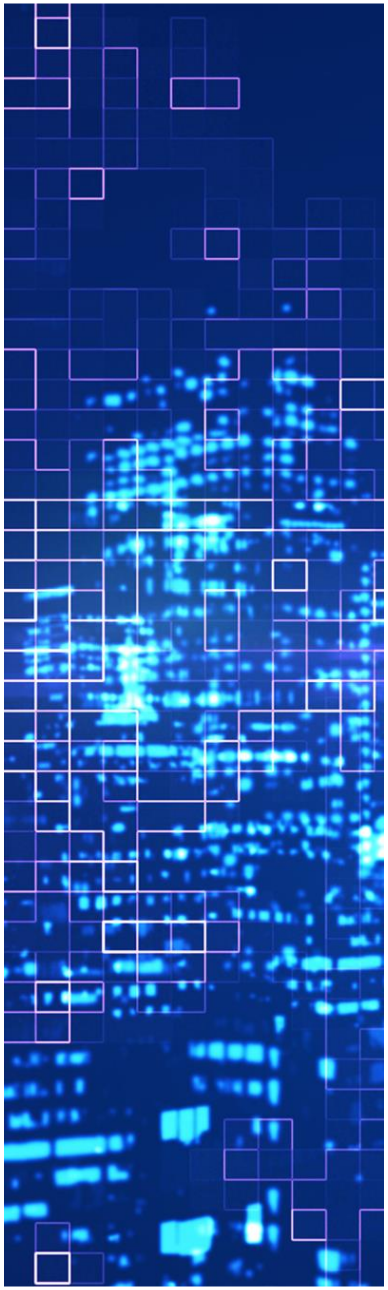
Lead Audit Engagement Partner

Tel: 416-228-7994
ktravers@kpmg.ca

Vladimir Servan

Audit Engagement Manager

Tel: 416-549-7909
vservan@kpmg.ca



Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Executive 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 year ended December 31, 2018.

Audit risks and results

Our audit is risk-focused. In planning our audit, we have taken into account key areas of focus for financial reporting.

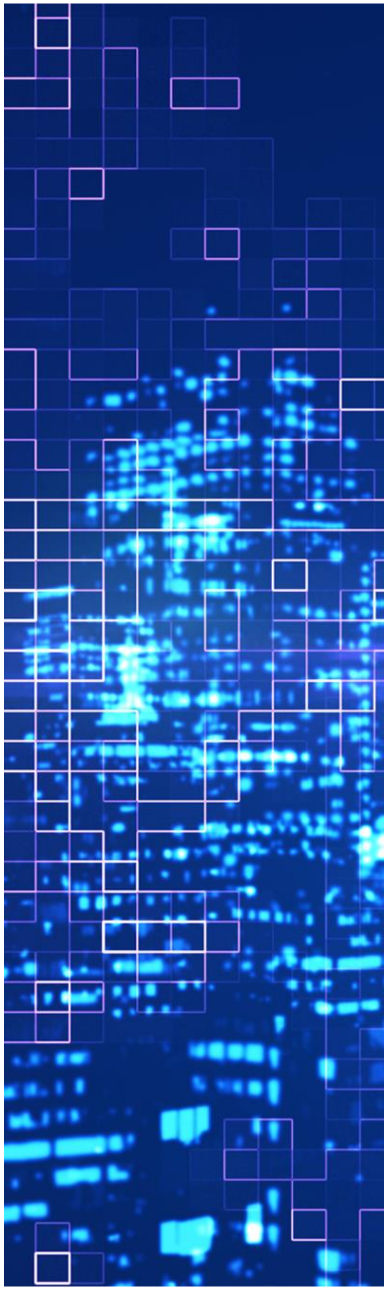
Finalizing the Audit

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:

- Receipt of legal confirmation
- Completing our discussions with the Executive 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 Executive Committee, and not solely the Chair (as required by professional standards), 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 any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the 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 Audit Findings 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.



Executive summary

Materiality

Materiality has been determined based on total expenses. We have reviewed the scope of work across segments and businesses across the entity. We have determined materiality to be $2,184,750 (2017- $2,717,000) for the year ended December 31, 2018.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: amortization of capital assets and contingent liabilities.

See pages 10 and 11

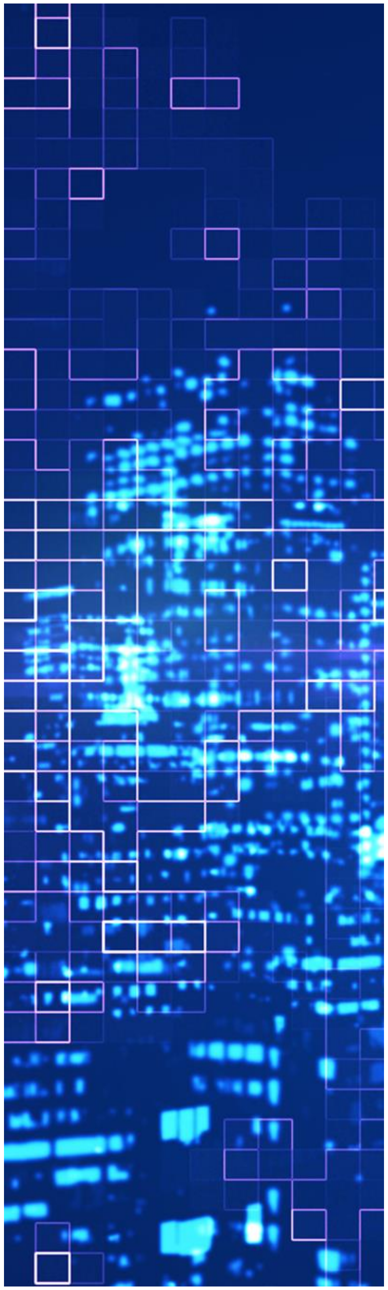
Significant accounting policies and practices

The Toronto and Region Conservation Authority adopted five new public sector accounting standards in the current year: See pages 12 and 13 for considerations regarding the implementation of the new standards in the current year financial statements

Control and performance improvement observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

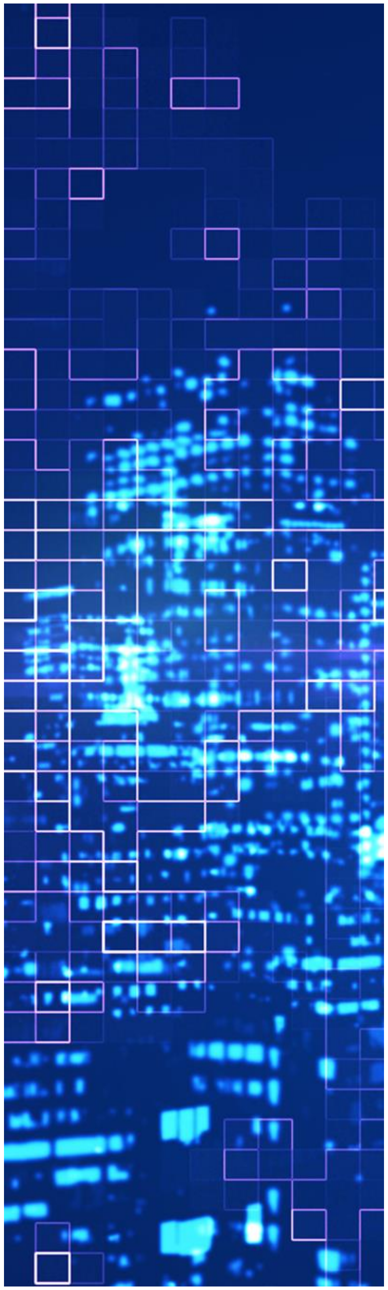
See page 15 and 16 for further details of performance improvement observations and management’s response.



Executive summary

Independence

We are independent with respect to the Toronto and Region Conservation 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.



Audit risks and results

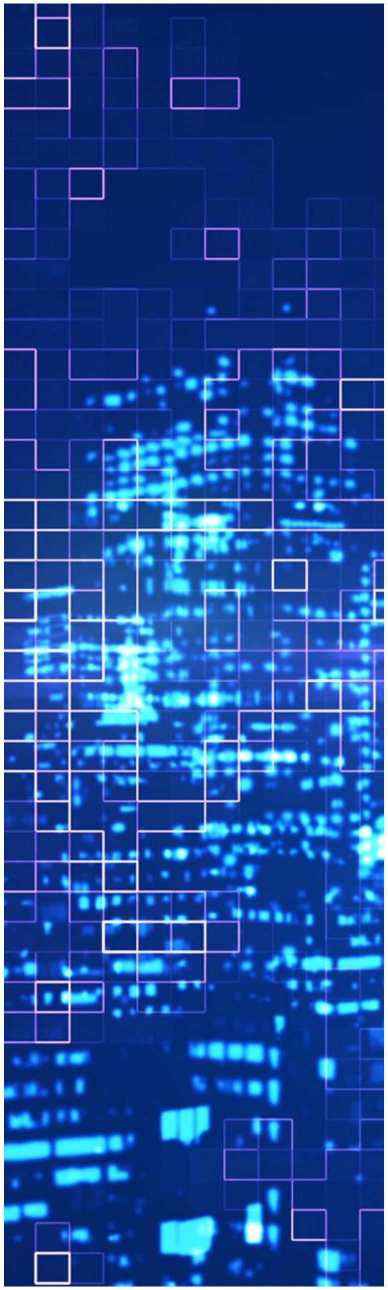
We highlight our significant findings in respect of significant financial reporting risks.

Significant financial reporting risks	Why is it significant?
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

No issues noted.

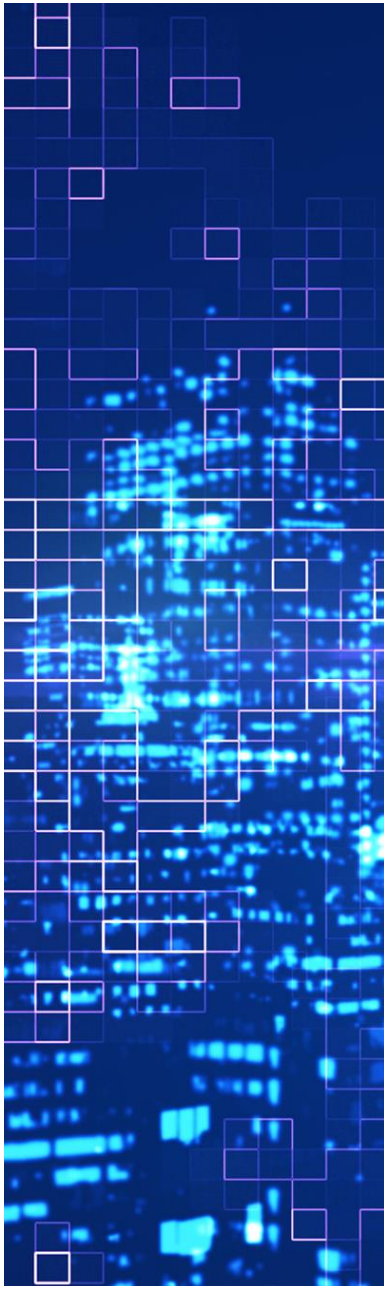


Audit risks and results

Significant financial reporting risks	Why is it significant?
Cash and Investments	This is a significant account balance

Our response and significant findings

- Obtain confirmations of cash and investment year-end balances from third parties
- Review bank reconciliations and vouch significant reconciling items to source documents
- Review of investment earnings
- Perform cut-off testing
- Review of financial statement presentation and disclosure
- No issues noted

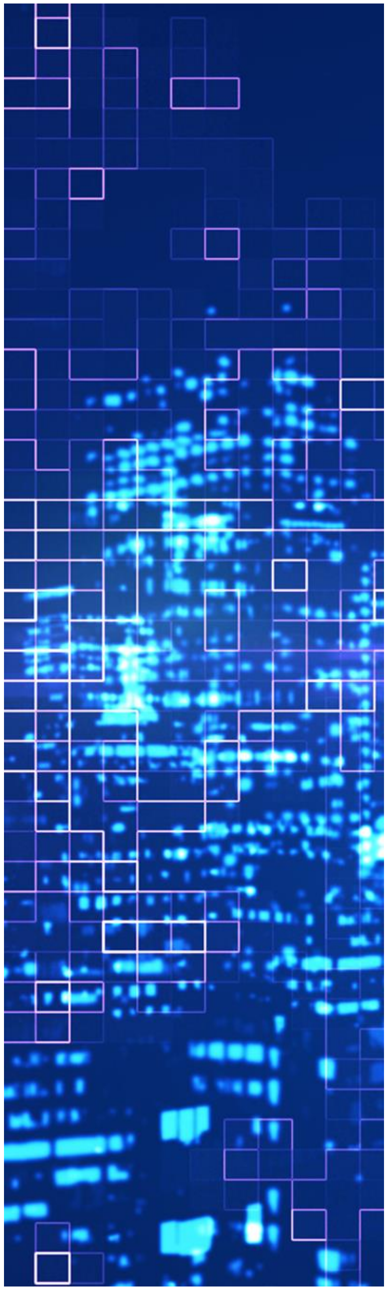


Audit risks and results

Significant financial reporting risks	Why is it significant?
Revenue, Deferred revenue and Accounts receivable	This is a significant account balance

Our response and significant findings

- Revenue recognition consideration (recognized versus deferred)
- Select a sample of deferred revenue and vouch to supporting documentation
- Select a sample of revenue and vouch to supporting documentation
- Vouch operating and capital levy revenue to supporting documentation
- Subsequent receipts of a sample of amounts receivables post year-end
- Review of accounts receivable sub-ledger for credit balances
- Review of disclosure requirements
- No issues noted

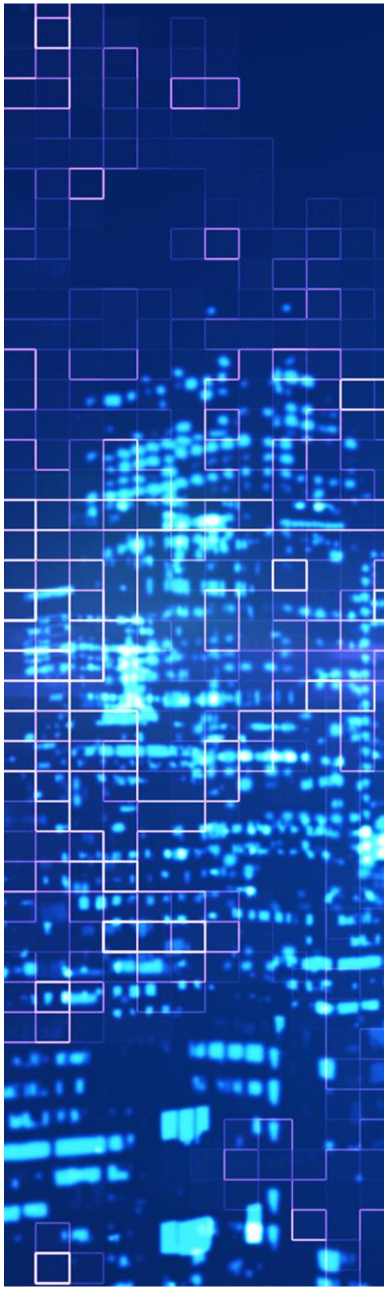


Audit risks and results

Significant financial reporting risks	Why is it significant?
Tangible capital assets	This is a significant account balance

Our response and significant findings

- Select a sample of additions of tangible capital assets and work-in-progress and agree to original invoices to ensure proper accounting treatment
- Review of significant transfer of items out of the work in progress account
- Review of any significant disposals
- No issues noted

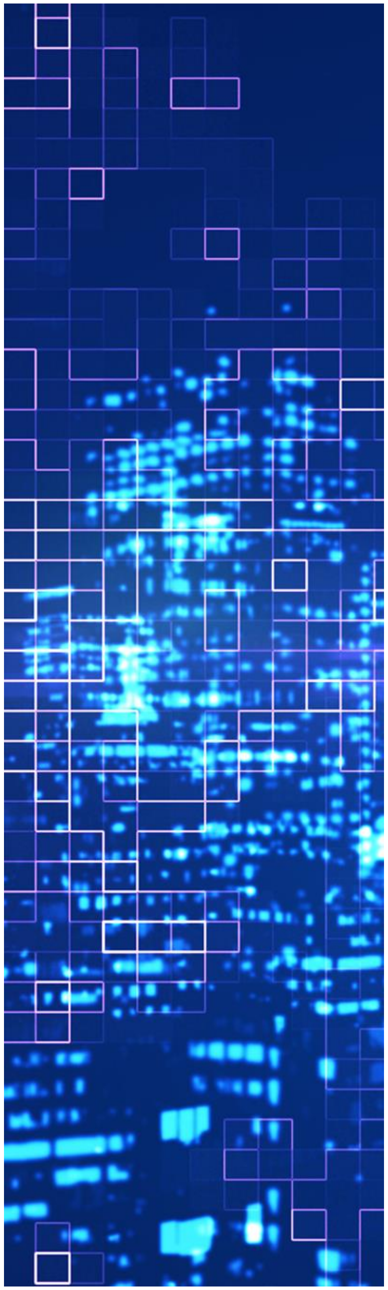


Audit risks and results

Significant financial reporting risks	Why is it significant?
Expenses / Accounts Payable and Accrued Liabilities	This is a significant account balance

Our response and significant findings

- Select a sample of expense transactions and agree to original invoices to ensure proper classification of expenses
- Review supporting documentation for significant accruals
- Perform trend analysis
- Review of expense cut-off through the search for unrecorded liabilities
- No issues noted

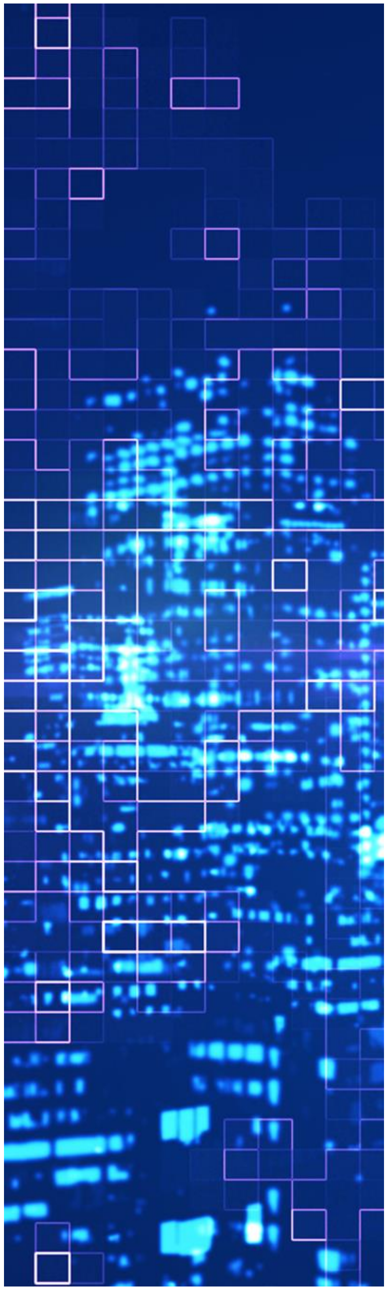


Audit risks and results

Significant financial reporting risks	Why is it significant?
Payroll	This is a significant account balance

Our response and significant findings

- Obtain an understanding on payroll processes
- Perform substantive analytical procedures over compensation expenses
- Testing of payroll input to source documents
- Review supporting documentation for significant payroll and vacation accrual
- No issues noted



Critical accounting estimates

Certain figures in the financial statements contain elements requiring the use of judgment and assumptions that management makes about the future, and other sources of estimation uncertainty, at the end of the reporting period. These judgments and estimates have a risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

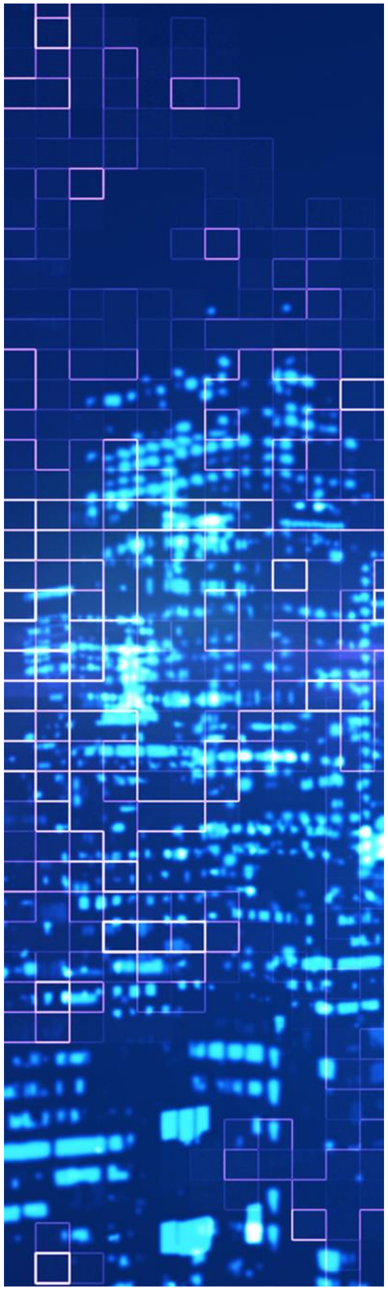
We have summarized our assessment of the subjective areas.

Asset / liability	
Contingent liabilities	See discussion below

KPMG comment

Contingent Liabilities:

- The CPA Handbook, PS 3300 Contingent Liabilities, requires that the Authority recognize a liability when *“…it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.”*
- At any point in time, the Authority is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as land purchases, fatalities, personal injuries, and flooding on or adjacent to properties.
- We reviewed the Authority’s assessments of contingent liabilities and the process employed to develop and record the estimated liabilities. During our review, we noted that the Authority maintains insurance coverage to mitigate its exposure to litigation risk. Over the course of the year, the Authority regularly notifies its insurers of legal claims and actions that arise.
- Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is consistent with the approach taken in prior years and has been appropriately reviewed.
- As ongoing legal matters are resolved, it is possible that the amounts recorded as liabilities may change. However, the amounts currently recorded represent management’s best estimates of exposure given the information presently available.



Critical accounting estimates

Asset / liability	Balance ($'000s)
Amortization expense	$ 76,384

KPMG comment

Amortization expense:

- We have reviewed the estimated useful lives of the various additions from work in progress to tangible capital assets and conclude that they are reasonable.
- Fiscal 2018 amortization expense was recalculated and it was determined that management's calculation of the amortization expense was appropriate.

We believe management's process for identifying critical accounting estimates is appropriate.

Significant accounting policies and practices

Initial selections

The following new significant accounting policies and practices were selected and applied during the period:

PS 2200 – Related Party Disclosures

- This standard defines related parties and requires disclosure of material transactions occurring between related parties at a value that is different from that which would have been arrived at if the parties were unrelated.
- The Authority has internal policies over procurement and conduct that address conflicts of interest and transactions with individuals or parties at non-arms' length. We held discussions with management who informed us that there were no material related party transactions that were not transacted at fair value during the year. Our findings from our review of the Authority and Executive Committee meeting minutes were consistent in this regard. At the completion of the audit, we will obtain from management a signed representation letter indicating that there were no related parties or transactions not identified to us or disclosed in the financial statements.

PS 3420 – Inter-Entity Transactions

- These are transactions occurring between commonly controlled entities. There are no inter-entity transactions to consider as there are no commonly-controlled entities to the Authority.

PS 3380 – Contractual Rights

- Contractual rights, which are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future, must be disclosed and described. As at December 31, 2018, there were a number of contracts for funding support, shared services, and leases. The aggregate amounts for each of these types of contracts are disclosed in note 16 to the financial statements.
- For a sample of contracts, we verified the maximum amount available to the Authority, ensured that amounts are to be earned in future periods, and recalculated the future portions by deducting actual revenues earned to date on the contracts.

PS 3320 – Contingent Assets

- Contingent assets, which exist when an unresolved existing condition exists and an expected future event will resolve that uncertainty as to whether an asset exists, must be disclosed. Management has not identified any contingent assets, which is supported by the Authority's risk management team. No disclosures are required.

PS 3210 – Assets

- Items meeting the expanded definition of assets must be recorded as assets in the statement of financial position. The Authority has recorded all such assets. This standard does not have a significant impact on the financial statements.

Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG Comment
Construction and Term Financing Agreement	On February 22, 2019, the Board authorized TRCA to enter into a $54,000 construction and term financing agreement to support the construction of the new administrative office building at 5 Shoreham Drive. The financing agreement was signed with a Canadian commercial bank on February 26, 2019. As part of the transaction, the Authority entered into an interest rate swap to forward fix the interest payable by TRCA at 3.658% on $50,000 of the available $54,000 credit. The municipal partners of the Authority, including the City of Toronto and the Regions of Durham, Peel and York have committed up to $60,000 of funding for the building over the next 30 years, as approved by their individual Councils. KPMG reviewed the terms of the agreement to obtain an understanding of the loan purpose, commitment period, and the associated financial and non-financial covenants. KPMG also reviewed the financial note disclosure relating to the inception of this agreement. See note 17 to the financial statements.

Technology in the audit

As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Areas of the audit where Technology and D&A routines were used

Tool	Our results and insights
Journal Entry Testing	We utilized our proprietary D&A tool, IDEA, to evaluate the completeness of the journal entry population through a roll-forward of all accounts, analyze journal entries and determine sub-populations for more focused and risk-based testing, and apply certain criteria to sub-populations to identify potential high-risk journal entries for further testing. We did not identify any issues in regards to the completeness of journal entries. Moreover, we are satisfied with the results of our testing of specific relevant journal entries

Performance improvement observations

We have previously communicated to management some performance improvement observations identified during the prior year audit. Below is a summary of these performance improvement observations and updated management's response:

Observation	Description and Potential effect	2018 Management Response
Manual adjustments	**2016 audit observation:** During the audit, we noted that management focuses its in-year financial information needs on subproject/program statements of operations which leads to a high volume of manual journal entries subsequent to year-end related to payroll, tangible capital assets, deferred revenue and other correcting entries. Given the extent of entries occurring at year-end, it is possible that management does not have full visibility of the in-year actual results and resources available across the organization. By permitting all employees, regardless of their level of relevant financial training, access to the general ledger accounts for processing transactions, it increases the risk of error. During the audit, we noted many entries recorded to correct originally recorded journal entries. We further noted several adjustments relating to employees' time coded to various projects. Project statements are available to review during the year; however, review may not happen until year-end. By delaying a fulsome review to year-end, it increases the risk of undetected errors during the year. We noted that Tangible Capital Asset (TCA) entries are coded to expense accounts, requiring manual effort to review whether expenditures should have been capitalized if they were capital in nature at year-end. As part of this annual assessment, we noted no formal process to provide evidence to support an asset being moved from an asset under construction to its completed state. We recommend management review acquisitions throughout the year and implement a formal process to acknowledge the completion of an asset.	Management is constantly exploring processes and modifying procedures to improve the efficiency of financial reporting. Specifically, in the current year management created certain budget reports to assist in better information in year for actuals to budget comparisons. Also, the tangible capital asset process was streamlined from six weeks to three weeks by evaluating and refining the existing processes as well as better utilizing excel tools to work with the data. In fiscal 2018, management implemented its first full year cycle of quarterly reporting deadlines to provide more current in-year financial information. This resulted in providing more complete and accurate data to municipal and other partners for reporting deadlines.

Observation	Description and Potential effect	2018 Management Response
	We noted a manual process related to the reporting of deferred revenue. At year-end, manual effort is required to identify all revenue that should be deferred. This increases the risk of missing an item for deferral or the risk of an error related to the recognition of revenue subject to restrictions. We recommend that management: – Consider implementing a semi-annual review of in-year financial information to identify corrections to projects/programs on a more timely basis. – Review its current process with deferred revenue, and consider recording deferred revenue on a quarterly or semi-annual basis. We recommend management provide training to individuals who post journal entries, charge and/or approve time to ensure they understand the financial reporting implications and that permission to record entries be restricted to users with appropriate training to do so. **2018 update:** We obtained an update on the status of the recommendations. Refer to 2018 Management Response column.	
Reporting system (Business World)	**2016 audit observation:** A different set of codes and chart of accounts exist, creating additional steps for all users to cross reference to in order to search for any transactions within the two systems. We note that management has not maximized the functionality of Business World which could help alleviate some of the manual processes. We recommend management explore the options available with the ERP system to simplify and automate some of its current processes, such as allowing users to record journal entries directly in the ERP. **2018 update:** We obtained an update on the status of the recommendation. Refer to 2018 Management Response column.	On December 22, 2018 the organization launched Ceridian Dayforce's HCM product for payroll, time and attendance, core HR, scheduling and benefits administration, moving away from an in-house server-based delivery model to a cloud based software as a service model to better suit the growing needs of the organization. TRCA will continue to build out the remaining human resources modules of the Dayforce product throughout 2019 and 2020, including recruiting, onboarding, performance management and learning and development. Towards the end of 2018, TRCA also hired a Chief Information Officer to evaluate the existing IT infrastructure for the organization and to propose a sound overall IT plan for the organization. In April 2019, TRCA migrated to Microsoft Outlook for email from Lotus Notes. Amongst TRCA's IT priorities is the evaluation of the costs and benefits of fully implementing

Observation	Description and Potential effect	2018 Management Response
		the existing financial system software (Business World), as compared with other products in the marketplace. The decision will be approved by the Board of Directors and will ultimately integrate with all other TRCA software and replace the numerous Lotus Notes databases currently used to process the majority of the organization's transactions.
Compliance with vacation policy	**<u>2016 audit observation:</u>** Upon examination of the vacation accrual schedule, we noted that certain employees appear to have accumulated vacation days in excess of what is allowed in the vacation policy. Through discussion with management, we noted that payroll does not have the documented approval for exceptions to the vacation policy on file. We recommend that management enforce the policy and develop a plan to bring the organization in line with the policy within a reasonable timeframe. We further recommend that as a best practice, documented approvals for all banked day requests and exceptions be provided to payroll for record keeping, to ensure consistent application of the vacation policy across the organization. **<u>2018 update</u>**: We obtained an update on the status of the recommendations. Refer to 2018 Management Response column.	Management recognizes the need to enforce its vacation policy, and accordingly revised the policy that will be effective on December 31, 2019. The new policy will allow employees to carryover a maximum of their annual vacation entitlement year over year. In anticipation of the effective date of the new vacation policy, TRCA's Dayforce software has already been configured to reflect the change. As such, management expects this matter to be resolved as of the end of 2019.

Current developments and audit trends

Standard	Summary and implications	Reference
Public Sector Update - connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars.

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
Audit Quality 2018	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report
Cyber defense in depth	High walls alone won't defend the castle Assume that you have been compromised and work on what needs to be done to address it.	Link to report

Current developments and audit trends

Public Sector Accounting Standards

The following are upcoming changes that will be effective in future periods. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in December 2018. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018. – The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts ("SOC") and Statement of Principles ("SOP") were issued for comment in May 2018 and has closed.

	– The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before 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). • 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.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.

Appendices

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Auditors' report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Executive Committee. Management have provided you with a copy of the representation letter for the audit of the financial statements. / The management representation letter is attached.

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the six key elements of our quality control system.

Visit our Audit Quality Resources page for more information including access to our Audit Quality Report.

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 3: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation 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 internal control. Accordingly, we do not express an opinion on the effectiveness of internal control

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 or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses and other control deficiencies have been identified. 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

kpmg.ca/audit

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”).

KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.