

AUDIT

The Regional Municipality of York

Audit Findings Report to the Audit Committee
For the year ended December 31, 2014

KPMG LLP

May 13, 2015

kpmg.ca

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Executive summary

Overview

The purpose¹ of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the consolidated financial statements (hereinafter “financial statements”) of The Regional Municipality of York as at and for the year ended December 31, 2014.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Status

As of the date of this report, we have completed the audit of the financial statements and received evidence of approval of the consolidated financial statements from the Commissioner of Finance and Regional Treasurer (individual delegated authority to approve the financial statements).

Our audit report is dated the date of approval of the consolidated financial statements by the Commissioner of Finance and Regional Treasurer, May 13, 2015.

¹ 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.

Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming audit committee meeting. We look forward to discussing these matters and our findings with you.

Investments and related income
<i>Substantive approach</i> <ul style="list-style-type: none">• Test of details over additions and disposals of investments• Obtain confirmations from third parties• Review investment policy for compliance
KPMG comments on results
<ul style="list-style-type: none">• Accounting records of investments were compared with third-party confirmations without issue. Testing verified that recognition of additions, and derecognition of disposals were properly executed. Investment activity and record-keeping was consistent with municipal policies.
Misstatements
<ul style="list-style-type: none">• None

Taxation revenue
<i>Substantive approach</i> <ul style="list-style-type: none">• Recalculate tax revenue using approved tax rates and assessments• Obtain confirmations from the lower tiers for the Region's share of write-offs and supplementary taxes
KPMG comments on results
<ul style="list-style-type: none">• Reconciliation and recalculation of taxation revenue, including confirmation of revenue from lower tiers, was completed without issue.
Misstatements
<ul style="list-style-type: none">• None

Development charges
<i>Substantive approach</i> <ul style="list-style-type: none">• Test of details for development charge collections by vouching to cash receipts and ensure proper classification• Perform interest reasonability test on interest earned relating to development charges• Vouch development charge expenditures to supporting documents and ensure they relate to the appropriate programs

KPMG comments on results
<ul style="list-style-type: none"> • Test of details verified collection of cash receipts. Interest income testing was completed without exception, and the test of detail that matched expenditures to supporting documents was completed without issue.
Misstatements
<ul style="list-style-type: none"> • None

Tangible capital assets
<i>Substantive approach</i>
<ul style="list-style-type: none"> • Test of details over additions and disposals • Review amortization policy and recalculations • Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis • Assess impairment reviews by management • Review progress of cost-shared capital projects with the City of Toronto, Region of Peel and Metrolinx, and perform test of details to verify accurate records
KPMG comments on results
<ul style="list-style-type: none"> • Testing of additions and disposals to supporting documentation was completed without issue. Amortization calculations were appropriately performed, and transfers of construction in progress were correctly transferred to the appropriate capital asset classes. Furthermore, impairment analysis did not identify any impaired assets. • Test of details of cost-shared capital projects were completed without issue.
Misstatements
<ul style="list-style-type: none"> • None

Employee benefits
<i>Substantive approach</i>
<ul style="list-style-type: none"> • Obtain actuary report and review assumptions used by actuary expert • Communication with actuary and testing of data provided to the actuary
KPMG comments on results
<ul style="list-style-type: none"> • No issues were identified during review of actuary report, and testing of data provided to the actuary.
Misstatements
<ul style="list-style-type: none"> • None

Changes from the Audit Plan

There have been no changes from the Audit Planning Report previously presented to you.

Matters related to management's judgment and estimates

We have not noted any significant matters related to management's judgment and estimates that we would like to bring to your attention.

Other matters

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

Contingent liabilities
<ul style="list-style-type: none">• The CPA Handbook PS3300 Contingent Liabilities requires that the Region 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 Region 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 legal claims, contract settlement accruals etc.
KPMG comments on results
<ul style="list-style-type: none">• KPMG has reviewed the Region's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG met with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.• As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.
Misstatements
<ul style="list-style-type: none">• None

<p>Accounting Treatment with Housing York Inc. (“HYI”)</p>
<ul style="list-style-type: none"> • HYI owns several building under the Affordable Housing Program (“AHP”). In prior years, Housing York Inc. recorded the amortization expense for these buildings based on the terms of the mortgages secured to finance such assets and the annual charges of the mortgage as the amortization expense. This is in compliance with the Contribution Agreement between Housing York Inc. and the Region and Section 80(2) of the Housing Services Act, 2011 (the “Act”). This treatment resulted in non-cash deficiency of revenue over expenditures and ultimately a deficit, which was disallowed under AHP rules. • In 2012, the Contribution Agreement was amended to allow for the cessation of amortization on AHP buildings by HYI. The amendment was applied in 2012 and future years.
<p>KPMG comments on results</p>
<ul style="list-style-type: none"> • While amortization has not been recorded on these projects since 2012 in the HYI financial statements, the amortization continues to be recorded in the Region’s consolidated financial statements. • KPMG perform reasonability test to ensure that amortization expense on these HYI buildings is adequately performed and recorded within the Region’s financial statements. • There is no impact on the consolidated financial statements.
<p>Misstatements</p>
<ul style="list-style-type: none"> • None

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we discussed with you:

Significant accounting policies	<ul style="list-style-type: none">• Significant accounting policies or practices are disclosed in Note 1 to the financial statements.• There are no new significant accounting policies or practices.
Critical accounting estimates	<ul style="list-style-type: none">• There were no significant accounting estimates and assumptions other than depreciation of tangible capital assets, certain valuations related to tangible capital assets, accruals/expenses relating to land expropriation claims and fees, and certain accruals and obligations related to employee benefits.
Critical disclosures and financial statement presentation	<ul style="list-style-type: none">• The financial statements include disclosures and presentation requirements under the relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.• Significant disclosures include related party transactions.

Here are other significant risks and results:

Fraud and non-compliance with laws and regulations	<ul style="list-style-type: none">• We did not identify:<ul style="list-style-type: none">• any fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements• any matters related to fraud that are, in our judgment, relevant to your responsibilities• any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.
Significant unusual transactions	<ul style="list-style-type: none">• We did not identify any significant unusual transactions.
Modifications to the audit plan	<ul style="list-style-type: none">• We conducted our audit in accordance with our audit plan.
Related parties and related party transactions	<ul style="list-style-type: none">• We did not identify any related party transactions outside the normal course of business that involve significant judgments made by Management concerning measurement and/or disclosure.

Misstatements

Identification of misstatements

No misstatements were identified during the audit.

Control deficiencies

Background and professional standards

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 and therefore, there can be no assurance that all significant deficiencies 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.

Identification

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

Appendices

Independence letter

Management representation letter

Current developments

Independence letter



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Members of the Audit Committee
The Regional Municipality of York
17250 Yonge Street,
Newmarket, Ontario, L3Y 6Z1

May 13, 2015

Dear Members of the Audit Committee,

Professional standards specify that we communicate to you in writing all relationships between the Regional Municipality of York (the “Region”) (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the Institute of Chartered Professional Accountants of Ontario and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since the date of our last letter dated April 28, 2014.

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Region (and its related entities) up to the date of this letter:

Description of Professional Services
<ul style="list-style-type: none"> - Audit of the 2014 consolidated financial statements of the Regional Municipality of York. - Audit of 2014 financial statements of The Regional Municipality of York, Sinking Funds, The Regional Municipality of York Residents' Trust Funds, York Regional Police Appreciation Dinner, and the York Region Rapid Transit Corporation. - Provision of fairness monitor services relative to a procurement process. - Provision of advisory services relative to a risk-based budget allocation study.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We did not assume the role of management by instituting policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement, extent of fees charged, and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Region (and its related entities) that may reasonably be thought to bear on our independence during the period from January 1, 2014 to May 13, 2015.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Region (and its related entities) within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Professional Accountants of Ontario as of the date of this letter.

OTHER MATTERS

This letter is confidential and intended solely for use by those with oversight responsibility for the financial reporting process in carrying out and discharging its responsibilities and should not be used for any other purposes.

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

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The letters are slanted and connected in a cursive style. A horizontal line is drawn underneath the signature, starting from the left and ending with an arrowhead pointing to the right.

Chartered Professional Accountants, Licensed Public Accountants

Management representation letter

(refer to separate document)

Current Developments

Public Sector Accounting Changes (PSAB)

New Standard on Financial Instruments

Highlights

A new standard has been issued establishing a standard on accounting for and reporting all types of financial instruments including derivatives – PS 3450.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2016 (applicable for the Region in fiscal year 2017), however earlier adoption is permitted. An entity early adopting this standard must also adopt the revised Foreign Currency Translation standard.

Implications

This standard will require the Region to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Region. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.

Revised Standard on Foreign Currency Translation

Highlights

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency – PS 2601.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2016 (applicable for the Region in fiscal year 2017), however earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard.

Implications

Exchange gains and losses arising prior to settlement are recognized in the statement of remeasurement gains and losses.

New Standard on Liability for Contaminated Sites

Highlights

A new standard has been issued establishing a standard for the recognition of liabilities for contaminated sites – PS 3260.

Effective date and transition

This standard is effective for fiscal years beginning on or after April 1, 2014 (applicable for the Region in fiscal year 2015), however earlier adoption is encouraged.

Implications

A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility for the remediation, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.

This would only impact the Region if property was determined to be a contaminated site requiring remediation.

Refer to the KPMG publication "Contaminated Sites – Issues and Implementation Action for PS 3260:

<http://www.kpmg.com/Ca/en/topics/IPO-Services/Documents/Contaminated-Sites-Fall-2013-web-FINAL.pdf>

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