Regional Municipality of York

Audit Findings Report to the Audit Committee

For the year ended December 31, 2010

KPMG LLP, Chartered Accountants Licensed Public Accountants

AUDIT

Contents

Executive Summary

Overview and Status

The purpose[1] of this Audit Findings Report is to assist the Audit Committee in your review of the (consolidated) financial statements of York Region for the period ended December 31, 2010.

We have completed the audit of the financial statements.

We will update the audit committee on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that:

- all the statements that comprise the financial statements, including the related notes, have been prepared
- the Treasurer has approved the financial statements.

Topics to Discuss

Below are topics identified from the audit that we have highlighted for discussion at the upcoming Audit Committee meeting. We believe these topics need to be brought to your attention, and we look forward to discussing our findings with you:

- Significant Audit, Accounting and Reporting Matters
- Significant Qualitative Aspects of Accounting Practices
- Misstatements
- Performance Improvement Observations

[1] This Audit Findings Report should not be used for any other purpose. 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 any other purpose.

Significant Audit, Accounting and Reporting Matters

Prior year restatement

The Region of York has 2 long-term water supply agreements: one with the City of Toronto and one with the Region of Peel to supply water from Lake Ontario and Lake Simcoe to the Region. In prior years, the Region has been expensing the costs related to these agreements as incurred. Total of $74.8 million was incurred in prior years relate to the building of infrastructure.

Actions taken by management

- In current year the Region begins capitalizing and expensing project costs related to these agreements based on a predetermined tangible capital asset implementation policy set up in prior year.

Effect on the audit

- We discussed with management about the agreements to ensure that we gained understanding of the situation.
- We reviewed both agreements to ensure Region’s accounting treatments on the shared water supply agreements are in compliance with PSAB 3150 guidelines.
- We obtained listing of all project costs are capital assets in substance and we ensured amounts recorded are accurate and properly accounted for.
- We concur with management accounting treatment on this matter.

Significant Qualitative Aspects of Accounting Practices

The following are the significant qualitative aspects of accounting practices that we will discuss:

Significant Accounting Policies	• The financial statements have been prepared in accordance with Canadian generally accepted accounting principles • No changes in significant accounting policies • No application of new accounting pronouncements
Significant Accounting Estimates	• Significant estimates include depreciation of capital assets
Significant Disclosures	• No changes on significant disclosures

Other matters

Matters pertaining to the financial statement audit

Matters communicated	Comments
Significant unusual transactions	Other than as discussed previously in this document, we did not identify, in the course of our financial statement audit, any significant unusual transactions.
Accounting policies, judgments and estimates	Management describes their critical accounting policies and key estimates that are subject to uncertainty in the notes to the financial statements. We identified, in the course of our financial statement audit, no material changes in selection or application of accounting policies, other than as previously described.
Related party transactions	We did not identify, in the course of our financial statement audit, any related party transactions outside the normal course of business that involve significant judgments made by management concerning measurement and disclosure.
Material weaknesses in internal control over financial reporting	We did not identify, in the course of our financial statement audit, any material weaknesses in the design, implementation or operating effectiveness of internal control over financial reporting, including anti-fraud controls. Our audit has not been designed to determine the adequacy of internal control over financial reporting for management purposes.
Illegal and fraudulent activities	We did not identify, during our financial statement audit, any illegal acts or possibly illegal acts or any: • matters that pose questions regarding the honesty and integrity of management • fraud or suspected fraud involving management • fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting • fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements • matters that may cause future financial statements to be materially misstated
Auditors' independence	Our independence letter dated June 9, 2011, in the Appendix 1, indicates that we have not performed any professional services for the entity or identified any relationships that, in our professional judgment, may reasonably be thought to bear on our independence. We have, since the date of this letter, provided no additional professional services nor identified other relationships that, in our professional judgment, may reasonably be thought to bear on our independence. Accordingly, we confirm that, since the date of this letter, we remain independent.

Matters communicated	Comments
Dealings with Management	We received the full cooperation of Management and employees of the Region and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit. We had no disagreements with Management, and we have resolved all auditing, accounting and presentation issues to our satisfaction.
Consultation with other Accountants	We are not aware of any consultations by Management with other accountants regarding accounting or auditing matters.
Major issues discussed with Management that influence our audit appointment	We did not engage in discussion with Management about any major issues in connection with our appointment as auditors.

Other matters (continued)

Designated public documents

As at the date of this Report, we were unable to perform the procedures required by professional standards since the designated public documents were not yet available. We will perform such procedures when Management finalizes such documents and we will formally notify the Audit Committee if we are unable to satisfactorily resolve any matters.

Definition

Designated public documents include:

- annual financial report

Professional standards

Professional standards require auditors to:

- determine whether the financial statements and the audit report have been accurately reproduced
- read the designated public document and assess whether any of the information appears to be inconsistent with the financial statements or the auditor's knowledge obtained in the course of the audit
- compare the financial statements and our audit report ultimately posted on the Region's Website to the original
- discuss with Management any information that appears to be inconsistent or a material misstatement of fact or a misrepresentation that auditors may become aware of upon reading the designated public document
- report any unresolved matters to the audit committee.

Professional standards do not require auditors to perform any other procedures.

Misstatements

Audit Misstatements – Identification

- Misstatements identified during the audit have been categorized as follows:
  - uncorrected audit misstatements, including disclosures
  - corrected audit misstatements, including disclosures

Uncorrected Audit Misstatements

- There are no uncorrected audit misstatements

Corrected Audit Misstatements

	Statement of Financial Position effect, if corrected[2]			Statement of Operations effect, if corrected[2]
Description	Assets $'000	Liabilities $'000	Equity $'000	Income Statement Method $'000
To record amounts owing to Housing York Inc. regarding SHRP grant.	1,976	(1,976)		
To reclassify Ministry of Community and Social Services receivables	6,055	(6,055)		
To reduce revenue for Town of Markham write offs	(1,529)			1,529
To reclassify municipality writeoffs located in A/P as to appropriate A/R accounts	(5,356)	5,356		
Total	1,146	(2,675)		1,529

[2] Debit (Credit)

Control Deficiencies

Background

- In planning and performing our audit of the financial statements, we considered internal control 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 consideration of internal control was for the limited purpose described in the preceding paragraph(s) 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 consider to be significant deficiencies in internal control.

Performance Improvement Observations

Current year observations:

Observation	Implication	Recommendation	Management Response
<u>Operating lease</u> During operating lease testing, amounts carried forward from prior year do not agree.	Though, this did not result in material misstatement, lack of controls in place could result in detecting errors in financial reporting.	Region of York Accounting and Property Services should ensure proper communication lines to ensure all new and renewed leases are being included on the schedule. Property services should review and confirm the amounts included on the schedule to ensure all parties are on the same page.	Management concur and suggested that the new system implemented would better track lease commitment per year.

Prior year observations:

Observations	Implication	Recommendation	2010 Update
<u>Tangible capital assets</u> It was noted that the Region of York does not have a formal policy in place to determine when assets should be transferred from the work in process account to the applicable tangible capital asset account.	While the error noted did not lead to a material misstatement of the financial statements, the timing of amortization could be affected. This could become material at a later date.	We recommend that a formal policy be adopted and a formal process be implemented to ensure work in process that is completed and ready for use is transferred to the applicable tangible appropriate tangible capital account appropriately	A formal policy is in place and therefore no longer an issue.
<u>Tangible capital assets</u> During our testing of the Region's restatement relative to tangible capital assets, we noted that the Region has not implemented a formal process related to the impairment or write down of assets. Given that this was the first year of reporting, the Region went through an extensive exercise to determine what the value should be as at December 31, 2009 and 2008 respectively. On a go forward basis, the Region should be implement a formal process between operations and finance that will ensure that finance is made aware of any write-downs or write-offs as they arise or on a timely basis.	If the situation is not monitored formally, then there could be tangible capital assets that in fact are impaired that are not recorded as such. Also, tangible capital assets that are no longer in use may not be removed from the accounts.	We recommend that management implement a formal process on a quarterly basis to ensure write-downs and write-offs are appropriately captured	We noted that formal process is in place in 2010; however, there is still a time lag amongst departments and financial reporting team for capital asset tracking. Finance department is being notified of substantially complete assets in WIP months after those items were ready for use or implemented by the respective departments. We continue to recommend that this formal process should be performed on a more timely basis.

Prior year observations (continued):

Observations	Implication	Recommendation	2010 Update
Reconciliation of interdepartmental accounts During our testing of the Region's interdepartmental accounts, we observed that there were some instances where certain interdepartmental accounts were not reconciled. This was not material for Region of York on a consolidated basis, but for the entities that are within the Region, it can be material for those entities on a stand alone basis.	While the error noted did not lead to a material misstatement of the financial statements, this item could become material at a later date.	We recommend that management implement a formal process on a quarterly basis to ensure all intercompany accounts are reconciled on a regular basis.	We noted that management has started reconciling interdepartmental accounts on a monthly basis and most interdepartmental accounts are recorded adequately. However, we identified one audit misstatement relating to intercompany reconciliation with HYI for SHRRP grant which was not recorded. As a result, we also recommend that the Region communicates with HYI on a regular basis to ensure accounts are reconciled.

Appendices

Appendix 1 – Independence Letter

PRIVATE & CONFIDENTIAL

Members of the Audit Committee
Region of York

June 9, 2011

Dear Members of the Audit Committee:

We have been engaged to express an opinion on the consolidated financial statements of the Region of York (the "Region") as at and for the year ended December 31, 2010.

Professional standards require that we communicate at least annually with you regarding all relationships between the Region (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence.

A related entity is defined as:

(a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries.

(b) in the case of a client that is not a reporting issuer, an entity over which the client has control, or that has control over the client provided the client is material to such entity, and an entity that is under common control with the client provided such entity and the client are both material to the controlling entity.

(c) an entity over which a client has significant influence, unless the entity is not material to the client.

(d) an entity that has significant influence over a client, unless the client is not material to the entity.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and applicable legislation, 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 been primarily involved in the audit of the financial statements of the Region of York, and York Housing, but have also provided advisory services relative to fairness monitoring of procurement awards, and also conducted review of the accounts receivable management process.

OTHER RELATIONSHIPS

We are not aware of any relationships between the Region (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence that has occurred from January 1, 2010 to June 9, 2011.

CONFIRMATION OF INDEPENDENCE

Professional standards require that we confirm our independence to you in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

Accordingly, we hereby confirm that, we are independent with respect to the Region (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 9, 2011.

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. No responsibility for loss or damages, if any, to any third party is accepted as this letter has not been prepared for, and is not intended for, any other purpose. This letter should not be distributed to others outside the entity without our prior written consent.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Appendix 2 – Definitions

Terminology	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant Deficiency in Internal Control	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Appendix 3 – Current Developments

Tax Revenue

- *Public Sector ("PS") 3510 – Tax Revenue* was approved by Public Sector Accounting Board ("PSAB") in November 2009.
- This standard sets out revenue recognition principles for tax revenue.
- Provides principles for recognition of taxes collected on behalf of others.
- This standard is effective for fiscal years beginning on or after April 1, 2012.

Liability for Remediation and Mitigation of Contaminated Sites

- *PS 3260 – Liability for Contaminated Sites* was approved by PSAB in March 2010.
- 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, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
- This standard is effective for fiscal years beginning on or after April 1, 2012.

Government Transfers

- PSAB approved a 3rd Re-Exposure Draft for Government Transfers
- Sets outs recognition principles for government transfers for transferring and recipient governments.
- Transferring governments recognize an expense when the transfer has been authorized and all eligibility criteria have been met by the recipient.
- Recipient governments recognize revenue when the transfer is authorized and all eligibility criteria have been met, except when a transfer gives rise to a liability.
- This standard is not yet effective.

Financial Instruments Re-Exposure Draft

- Sets out principles to be used in establishing an accounting standard with respect to financial instruments and derivative instruments.
- Fair value measurement proposed for derivatives and portfolio investments that are equity instruments quoted in an active market. Fair value can be applied to non-equity instruments through an accounting policy choice.
- PSAB is developing a re-exposure draft expected to be issued in September 2010 with an approved standard in March 2011.
- This proposed standard is not yet effective.

Appendix 4 – KPMG's Audit Committee Resources

General

- *Audit Committee Update*, Issue 2010-01, Audit Committee Institute http://www.kpmg.ca/auditcommittee/update.html
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute http://www.kpmg.ca/auditcommittee/roundtables.html
- *Shaping the Canadian Audit Committee Agenda* (2006 edition), Audit Committee Institute http://www.kpmg.ca/auditcommittee/shaping.html
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee