



# Regional Municipality of York

## Audit Findings Report

For the year ended December 31, 2008

AUDIT

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This Audit Findings Report (the "Report") provides an overview of the results of our audit of the Regional Municipality of York's consolidated financial statements ("financial statements") for the year ended December 31, 2008.

This Report is confidential and intended solely for the use of the audit committee 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 Report has not been prepared for, and is not intended for, any other purposes.

This Report is a by-product of the audit and is therefore a derivative communication and should not be distributed to others outside the Entity without our prior written consent.

**KPMG LLP**, Chartered Accountants, Licensed Public Accountants

## Topics for discussion

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### Auditors initiating discussion with the Audit Committee

We have issued this Report to assist you in your review of the Region's financial statements.

The matters that we raise within this Report arise from the audit and are matters that we believe need to be brought to your attention.

We propose to highlight the following topics at the upcoming audit committee meeting. We welcome your questions and look forward to discussing our findings with you at this meeting.

<u>Topic</u>	<u>Audit committee action</u>
Audit status (page 2)	Review and discuss
Significant matters (page 3)	Review and discuss
Misstatements (page 6)	Review and discuss

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### Audit Committee input/matters to be raised with the auditors

This Report may not include all matters of interest to you. Please let us know of other areas you would like to discuss with us.

- Audit committee members should use this section to note any areas of potential concern that should be raised and discussed at the audit findings meeting.

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## Audit Status

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### Audit Status: Complete

- We have completed our audit of the Region's financial statements in accordance with professional standards and have released our report dated April 3, 2009.

## Significant matters

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### Federal Gas Tax Revenue and Federal Public Transit Funds

- During the year, the Region received approximately \$12.0 million from the Federal Gas Tax Revenue program as administered by the Association of Municipalities of Ontario (“AMO”). No additional amount was received from the Federal Public Transit program.

### Actions taken by Management

- During the fiscal 2008, approximately \$2.2 million was spent on qualifying projects under the Federal Gas Tax Revenue program and the remaining funds of approximately \$20 million was deferred in the Region’s financial statements. In addition, during the fiscal 2008, the entire balance of approximately \$3.6 million received from the Federal Public Transit program in the prior years was spent on qualifying projects.
- Under the terms and conditions of the Federal Gas Tax Agreement and Federal Public Transit Agreement with AMO, the Region must provide AMO with an auditors report as to their compliance with certain sections of the relative funding agreements for federal gas tax and federal public transit funding received and related expenditures.

### Effects on the audit

- KPMG has examined the evidence supporting the Region’s compliance with the pertinent sections of their funding agreements for the year-ending December 31, 2008 and has issued an unqualified auditors report to AMO.
- KPMG is in agreement with the accounting treatment adopted by the Region relative to these funds.

## Significant Matters (continued)

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### Tangible Capital Assets, CICA PS 3150, PSG 7

- Canadian municipalities will be required to present information about the entire stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.
- This section applies to municipalities for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

### Transitional provisions

- Public Sector Accounting Guideline 7 - Tangible Capital Assets of Local Governments provides that local governments should commence disclosing information about their tangible capital assets in their annual financial statements until full adoption has occurred. Note 15 to the Region's financial statements provides the required information.

### Actions taken by Management

- In 2008, the Region continued working towards compliance with the reporting requirements. As at December 31, 2008, the Region has developed a complete listing and values of assets that will be used to provide opening balances as at January 1, 2009.

## Significant Matters (continued)

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### Segment Disclosures, PS 2700

- A new reporting requirement for municipal governments was established under PSAB 2700 for Segment Disclosure and is effective for fiscal years beginning on or after April 1, 2007.
- A segment is defined as distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard.
- Government financial statements should separately disclose the following information, in notes or schedules, about each of a government's segments identified in accordance with paragraph PS 2700.07:
  - (a) the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
  - (b) segment expense by major object or category;
  - (c) segment revenue by source and type;
  - (d) the aggregate of the net surplus / deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable;
  - (e) the aggregate of the net surplus / deficit of government organizations accounted for under the modified equity basis in accordance with the transitional provisions of GOVERNMENT REPORTING ENTITY, paragraph PS 1300.47, for each segment, if applicable; and
  - (f) a reconciliation between the information disclosed for segments and the consolidated information in the financial statements.

### Actions taken by Management

- The Region has adopted this standard for the fiscal year ended December 31, 2008 and presented financial information in segmented format in Note 16.

## Significant Matters (continued)

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### Amortization of premiums and discounts on bonds

- During the year the Region changed its accounting policy of amortization of premiums and discounts on bonds from straight-line basis to the effective interest rate method.

### Actions taken by Management

- As the result of this change, management recalculated all investment balances as of December 31, 2008 year end based on the new policy and corresponding adjustment was recorded in the current year financial statements

### Effects on the audit

- We performed audit procedures on amortization of premiums and discounts on bonds based on the new policy and did not identify significant differences.
- In addition, we concurred with management that the new method of amortizing premiums and discounts results in providing reliable and more relevant information.
- CICA HB Section 1506 requires that change in accounting policy is to be accounted retrospectively and therefore adjustment of prior year balances is required to reflect the new amortization policy. The impact of the change in accounting policy on the fiscal 2007 financial statement is \$1,063,000.
- 2007 financial statements were not restated to reflect the new policy of amortization. Management recorded the cumulative impact of the change in policy in the 2008 financial statements. Therefore we proposed an audit adjustment to reduce the assets by \$1,063,000 and to increase the equity by the same amount in 2007 financial statements. Refer to Misstatements section of this report.

## Other matters

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### 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; and
- report any unresolved matters to the Audit Committee.

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

## Misstatements

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### Misstatements

- Management is responsible for the financial statements and, accordingly, evaluates uncorrected misstatements to determine whether individually, and in the aggregate, these misstatements, in their judgement, are material to the financial statements.

### Audit Differences

- Misstatements identified during the audit ("audit differences") and defined in Appendix 3 are described in the next page and have been categorized as follows:
  - unrecorded audit differences – only one audit difference is noted in this category for the amount of \$1,063,000 and it relates to the impact of change in accounting policy on the prior year balances and therefore relates to 2007 financial statements. Refer to page 6 for details.
  - corrected audit differences – refer to next page
  - uncorrected and corrected omissions or other errors in presentation and disclosure.

### Control deficiencies implications

- We have considered whether, for each corrected audit difference, the audit difference was the result of a control deficiency.
- We have not identified any control deficiencies. Please refer to the Management Letter for performance improvement observations.

### Discussion with the Audit Committee

- Correction of all audit differences.

## Misstatements (continued)

### Summary of corrected audit differences

<u>Description</u>	<u>Statement of financial position effect of correction</u>			<u>Statement of financial activities effect of correction</u>
	<u>Assets</u> <u>(000's)</u>	<u>Liabilities</u> <u>(000's)</u>	<u>Equity</u> <u>(000's)</u>	<u>(000's)</u>
To reclassify prepaid salaries from accrued liabilities to prepaid expense	1,196	(1,196)	-	-
To reconcile accounts payable and accounts receivable accounts with Markham records	(944)	2,430	-	(1,486)
To reduce East Gwillimbury's accounts receivable account	(292)	-	-	292
To reverse accounts receivable for future issuance of debenture	(3,333)	-	-	3,333

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## Appendices

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### Appendix 1 – Independence letter

#### **PRIVATE & CONFIDENTIAL**

Members of the Audit Committee  
Regional Municipality of York

April 3, 2009

Dear Members of the Audit Committee:

We have been engaged to express an opinion on the financial statements of the Regional Municipality of York (the "Region") as at and for the year ended December 31, 2008.

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.

The following summarizes the professional services rendered by KPMG to the Region (and its related entities) for the year ended December 31, 2008. Audit related services provided to the

Region during the year include the audits of the Regional Municipality of York, York Residents' Trust Funds, York Sinking Fund and York Housing Corporation and certain other small subsidized program audits. We also provided certain tax services to the Region and its related entities.

**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, 2008 to April 3, 2009.

**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 April 3, 2009.

**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,

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath.

Chartered Accountants, Licensed Public Accountants

## **Appendix 2 – Management letter on control deficiencies**

Refer to Management letter issued separately.

## Appendix 3 – Glossary

**Audit differences** are proposed adjustments of misstatements in the financial statements that, in the auditor's professional judgement, may have not been detected except through the audit procedures performed. Any misstatement identified by Management during the audit and subsequently corrected is not considered an audit difference.

**Income Statement Method** (Rollover Method) is a method of quantifying misstatements. This method considers the impact of misstatements primarily from the income statement perspective. Misstatements are quantified as the amount by which the income statement is misstated. This method considers the reversing or correcting effect of prior year misstatements but ignores the accumulation of immaterial misstatements in the balance sheet over multiple periods.

**Material weakness** is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual financial statements will not be prevented or detected.

**Misstatements** generally consist of differences between the amount, classification, or presentation of a reported financial statement element, account, or item and the amount, classification, or presentation that would have been reported under the financial reporting framework.

## Appendix 4 – KPMG's Audit Committee resources

- *Audit Committee Update*, Issue 2008-01, Audit Committee Institute
- *Shaping the Canadian Audit Committee Agenda* (2006 edition), Audit Committee Institute
- *Canadian Survey of Audit Committee Members – 2007*, Audit Committee Institute (12/2007)
- *Our System of Audit Quality Controls*, KPMG (2006)
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at [www.kpmg.ca/accountability](http://www.kpmg.ca/accountability)
- *Certification of Internal Control: Final Certification Rules*, KPMG (08/2008)
- *Governance of Tax* – Discussion paper, KPMG (2007)
- *Focus on Financial Reporting*, KPMG (12/2007)
- Audit Committee Institute – Audit Committee Roundtables held each spring and fall
- Audit Committee Institute Web site – [www.kpmg.ca/auditcommittee](http://www.kpmg.ca/auditcommittee)



**KPMG LLP**  
**Chartered Accountants**  
Yonge Corporate Centre  
4100 Yonge Street Suite 200  
Toronto ON M2P 2H3

Telephone (416) 228-7000  
Telefax (416) 228-7123  
[www.kpmg.ca](http://www.kpmg.ca)

Mr. Bruce Macgregor  
Chief Administrative Officer  
The Regional Municipality of York  
17250 Yonge Street  
Newmarket, Ontario L3Y 6Z1

April 3, 2009

Dear Mr. Macgregor:

We have audited the consolidated financial statements of The Regional Municipality of York ("the Region"), as of and for the year ended December 31, 2008 and have issued our audit report thereon dated April 3, 2009. In planning and performing our audit of the Region's consolidated financial statements, we considered the Region's internal control over financial reporting in order to determine the nature, extent and timing of our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. A financial statement audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

The maintenance of adequate controls designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time, may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control over financial reporting in our audit of the consolidated financial statements would not necessarily disclose all internal control matters that might be weaknesses under assurance standards established by the Canadian Institute of Chartered Accountants. A weakness in internal control is a deficiency in the design or effective operation of internal control. A weakness in internal control is significant if the deficiency is such that a material misstatement is not likely to be prevented or detected in the consolidated financial statements being audited. During our audit of the consolidated financial statements upon which we reported on April 3, 2009, we noted certain items involving the design or operating

effectiveness of internal control over financial reporting that we are bringing to your attention and to offer our comments and recommendation.

We believe that the matters presented in Appendix A, are, by their nature, are control weaknesses or performance improvement opportunities which warrant the attention of management.

These internal control weaknesses and performance improvement opportunities were considered in determining the nature, extent and timing of the audit tests applied in our audit of the consolidated financial statements as at and for the year ended December 31, 2008, and this letter does not affect our audit report on these consolidated financial statements dated April 3, 2009. We have not considered internal control over financial reporting since the date of our audit report.

Appendix B presents an update on matters identified during the performance of the fiscal 2007 audit.

All the matters identified in the appendices have been discussed with the appropriate members of management.

This letter is a by-product of the consolidated financial statement audit and is therefore a derivative communication. This letter has been prepared solely for the use of management and the Audit Committee, and Regional Council in discharging their responsibilities with respect to the consolidated financial statements and is not intended for any other purposes. This letter should not be distributed to others outside the entity without our prior written consent. We disclaim any liability to any third party who may rely upon this letter.

Very truly yours,

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath the text.

Kevin M. Travers, CA  
*Associate Partner*

**Appendix A – Current Year Control  
Weaknesses and Performance Improvement  
Opportunities**

**1. VIVA AND GENERAL FARE (GFI)  
RECONCILIATIONS**

**Observation:**

We noted in our test of controls for the reconciliation of transit revenue and related cash receipts that in certain instances there was no evidence of management's review of the reconciliations.

**Recommendation:**

We recommend the Region develop procedures to ensure that management's review of reconciliations is evidenced by a signature and date when the review was performed.

**Management response:**

Management agrees with the recommendation. Region will retain evidence of management review in the future and will document existing procedures.

## **2. RAPIDCO EXPENSE ALLOCATION**

### **Observation:**

We noted that all direct expenses are expensed directly to either York Region Transit or RapidCo depending on where the direct costs were incurred. At the end of each month, certain other expenses are allocated to RapidCo at a rate determined by the management. However, we understand there is no formal agreement in place to support the allocation of other expenses and cost allocation methodology.

### **Recommendation:**

We recommend the Region develop and implement a formal agreement documenting cost allocation process between the two parties and that this process is then applied on a consistent basis in the future.

### **Management response:**

As a performance improvement, management will develop a Letter of Understanding between York Region Transit and Rapid Transit (RapidCo) which documents the allocation method to be used for costs allocated to Rapidco.

**Appendix B – Prior Year Control Weaknesses  
and Performance Improvement Opportunities**

**1. CLAIMING OF GST REBATE**

**Recommendation:**

During our audit of fiscal 2007, we noted that January 2008 GST return included certain 2006 GST rebates that had been previously claimed. This resulted in claiming those GST rebates twice. The amount was not considered significant. We suggested that management review their process for the recording of GST claims recoverable, including the carried forward amounts related to the prior claim period on a regular basis in order to avoid double claiming of the GST in the future.

**2008 Update:**

No issues were noted in this area in the current year.

## **2. SECURITY DEPOSITS FOR DEVELOPER FINANCING AGREEMENTS**

### **Recommendation:**

We recommended that the Region examine their security deposits records and ensure that older items were cleared on a timely basis.

### **2008 Update:**

The Region has made significant progress in reducing the number of older items. We noted that old security deposits noted in the prior year audits were released in the current year and therefore the security deposits records contain significantly less number of old items. In addition, we performed testing of a sample of security deposits and noted that all deposits selected were for active projects.