

AUDIT

The Regional Municipality of York

Audit Findings Report to the Audit Committee
For the year ended December 31, 2013

KPMG LLP

April 28, 2014

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, 2013.

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, April 28, 2014.

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.

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 regarding effect on the audit
<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

Accounting Treatment with Housing York inc. ("HYI")
<ul style="list-style-type: none"> • HYI owns several building under the Affordable Housing Program ("AHP"). • In prior years, the 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 is amended to allow for the cessation of amortization on AHP buildings by HYI. The amendment was applied in 2012 and future years.
KPMG comments regarding effect on the audit
<ul style="list-style-type: none"> • Per discussion with the Region, they have agreed that starting from 2012 and onwards, the amortization should not be recorded on Housing York Inc audited financial statement, but the amortization will continue to be recorded on the Region's consolidated audited financial statement. • KPMG perform reasonability test to ensure that amortization expense on these HYI buildings are adequately recorded on the Region's book. • There is no impact on the consolidated financial statements.
Misstatements
<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 plan to discuss 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.• The following new significant accounting policies or practices were selected and applied during the year. they are disclosed in Note 1 to the financial statements:<ul style="list-style-type: none">◦ government transfers◦ tax revenues
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.

However, based on our audit we do have a number of performance improvement observations, as follows:

Description of performance improvement observations	Potential effect and Recommendation	Management comments/ Status Update
Nothing identified in current year		
Prior year process improvement points and update:		
Deferred revenue - In prior year, KPMG noted through observation, some items on the deferred revenue accounts have been carried forward since 2006, such as the \$6.8M for the Best Start Program. As of year-end audit date, the full revenue regarding to the specific deferred revenue has not been recognized yet. KPMG noted that the deferred revenue could be out-to-date.	KPMG concluded that this may indicate a need to monitor the deferred revenue closely to ensure that the deferred revenue would be recognized in a timely manner.	This issue was not noted in the performance of the current year audit and the point is considered closed.

Appendices

Independence letter

Management representation letter

Current developments

Thought Leadership

Independence letter



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Members of the Audit Committee
The Regional Municipality of York
17250 Yonge Street,
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April 28, 2014

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 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 June 9, 2013.

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 2013 consolidated financial statements of the Regional Municipality of York. - Audit of 2013 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 Federal Gas Tax Funds Program. - Advisory assistance in the procurement of a contractor for VIVANEXT - Advisory assistance in acting as fairness monitor of the process to procure an operator for VIVA after the current contract expires and to compare costs among transit systems

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, 2013 to April 28, 2014.

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 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 stylized and slanted to the right. A single horizontal line is drawn underneath the signature, starting from the left and extending to the right, ending with a small upward tick.

Chartered Professional Accountants, Licensed Public Accountants

Management representation letter

The Management representation letter was received on April 29, 2014.

Current Developments

Upcoming Indirect Tax Changes

Indirect taxes in Canada continue to evolve, bringing additional compliance issues and increasing the risks of over or under paying taxes. A number of major changes during 2013 that have increased the tax risk of not-for profit organizations include:

- Quebec's recent harmonization of the QST rules with the GST rules and rate change on January 1, 2013
- British Columbia's transition back to GST and PST from HST on April 1, 2013
- Prince Edward Island's new HST on April 1, 2013
- Canada Revenue Agency's increased enforcement regime

In particular the Canada Revenue Agency has increased its audit activity over the past year and has a stated intent to focus on the MUSH, NPO and charitable sectors in coming years. Canada Revenue Agency audits have raised a significant number of issues. For example, we have encountered issues in the following circumstances:

- Claiming ITCs where grants and subsidies are received in relation to the activity
- Charging and collecting GST/HST in a shared cost or related party environment
- CRA auditors failing to audit to net tax and not granting applicable rebates and/or ITCs
- Denying ITCs and/or rebates where satisfactory documentation is not present
- Unreasonable projections when using sampling methodologies for audit purposes
- Denying methodologies for allocating GST/HST paid between taxable and exempt activities for purposes of claiming ITCs and/or rebates

In addition, CRA has recently announced its intention to enforce the requirement that public service bodies claim public service body rebates of GST/HST paid or payable in the rebate claim period in which the GST/HST was paid or payable, rather than including an amount in a subsequent claim period. Public service bodies include:

- Municipalities
- Universities and public colleges
- Schools
- Hospitals
- Charities
- Public institutions
- Qualifying non-profit organizations (i.e., at least 40% of revenues from government funding)

KPMG encourages all charities and non-profit organizations to review their operations with respect to the issues discussed above. KPMG would be pleased to assist with any such review.

Managing Business Risk Related to Information Technology

Information technology and information systems are widely accepted as being key enablers of the business of most enterprises in the world today. With the ever increasing and changing profile of IT, Board Members need to be aware of and understand those things that are keeping their CIOs awake at night.

The key areas of focus and concern of CIO's or Director's of IT include the following:

- Managing Complex Projects: These often involve multiple stakeholders, suppliers and technologies that need active oversight and escalation of issues and risks.
- Overseeing Delivery Partners: The increasing reliance on others to deliver services to IT either through outsourcing or shared services arrangements.
- Securing the Enterprise against threats, including Cyber attacks: Access to the technology and information assets requires active and dynamic approaches to keep pace with intruders. Security is broader than just securing information systems; it encompasses personnel, business continuity, facilities and supply.
- Emerging Technologies: Impact on operations, and on risk.

Cyber Security, Is your organization at risk?

Cyber attacks are an inevitable part of life today, and the financial and reputational costs of not being prepared against such attacks are significant. Cyber attacks are being launched against all forms of valuable information including both financial and non financial data sources. Estimates suggest the global financial impact of cybercrime is US\$114 billion; companies are thought to bear almost 80% of those costs. The nature of these attacks and the perpetrators behind them are always changing. Hacktivists, organized criminals, competitors, and even rogue governments are mounting attacks with a high level of sophistication and persistence. These perpetrators have different motives, however are common in that they are looking to either disrupt or better themselves by stealing another entities data.

Patching servers and installing intrusion detection systems is no longer enough to protect your critical assets and business processes. Cyber Security has never been solely about IT; it has always been a business issue first. To survive and prosper requires a business-wide understanding of the threats, safeguards, and responses involved. Key elements to consider include:

- Preparing your people, processes, infrastructure and technology to resist an attack
- Detecting the attack and initiating your response
- Containing and investigating the attack
- Recovering from an attack and resuming business operations
- Reporting on and improving security

Non-profit organizations should begin to review their organization and consider Cyber Risks. Key data that may be identified includes key research data; client or member data etc.

Thought Leadership

KPMG's Not-for-Profit Practice – 2013 Year in Review

KPMG's Not-for-Profit practice proudly provided programs, webinars, publications and communications to Not-for-Profits and Charities. Below is a quick reference list for your convenience.

Program

- **Community Shift**

Community Shift is an exclusive development program and network for C-level leaders of Canadian charities and Not-for-Profit Organizations (NPOs), founded by KPMG Enterprise™ and the Richard Ivey School of Business. A rigorous annual five-day developmental program for Canada's leaders of charities and Not-for-Profits, Community Shift has changed the way participants look at their operations and provides a catalyst for change.

Publications and Communications

- **Public Service Transformed: Harnessing the Power of Behavioural Insights**

The report explores the potential and use of behavioural insights in modernizing the public service cultural transformation and provides actionable recommendations designed to encourage the four positive work behaviours (collaboration, innovation, transparency and a focus on results) that will help the public services sector adapt to changing conditions, encourage culture change and produce the kinds of outcomes and transformation that governments are demanding.

- **Future State 2030**

This report is part of a series that explores how governments must respond to the global megatrends (Demographics, Rise of the Individual, Enabling technology, Economic interconnectedness, Public debt, Economic power shift, Climate change, Resource stress, and Urbanization) driving change into 2030.

- **The Integration Imperative: reshaping the delivery of human and social services**

The report provides the results of a global survey of government and thought leaders to review active integration schemes in the human and social services sector across 22 jurisdictions from around the world. It examines the features of integration initiatives and identifies where the integration agenda is heading, including the key trends, the lessons learned, and the implications of these trends for governments, clients, and providers from the private and not-for-profit sectors.

- **Contaminated Sites – Issues and Implementation Action Plan for PS 3260**

This report addresses the Public Sector Accounting Board's accounting standard on Liability for Contaminated Sites (Section PS3260) which will affect all entities reporting under the Public Sector Accounting (PSA) standards. The report discusses why contaminated sites are an issue, provides a technical overview, explores liability measurement, and outlines an implementation action plan.

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