The Regional Municipality of York

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

April 2019

kpmg.ca/audit

Table of contents

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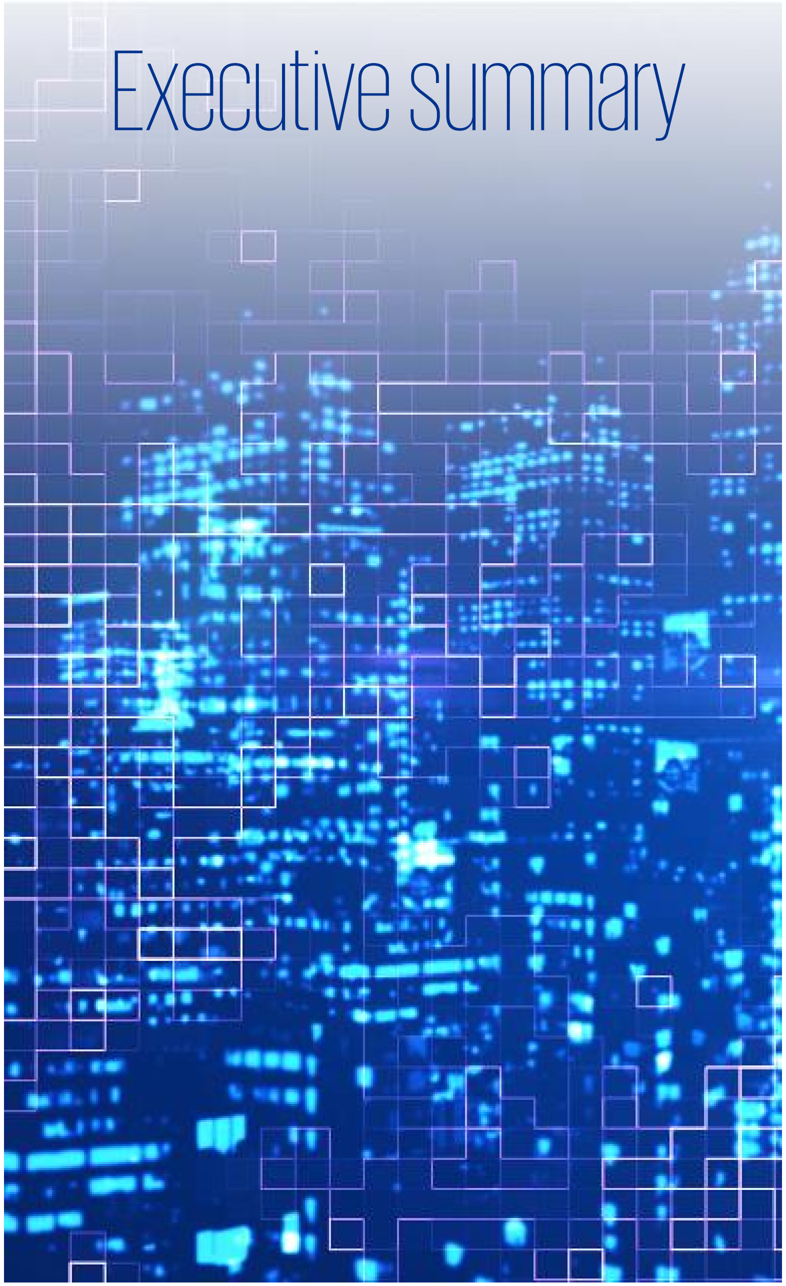
Executive summary



Purpose of this report*

The purpose 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 of the Regional Municipality of York as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

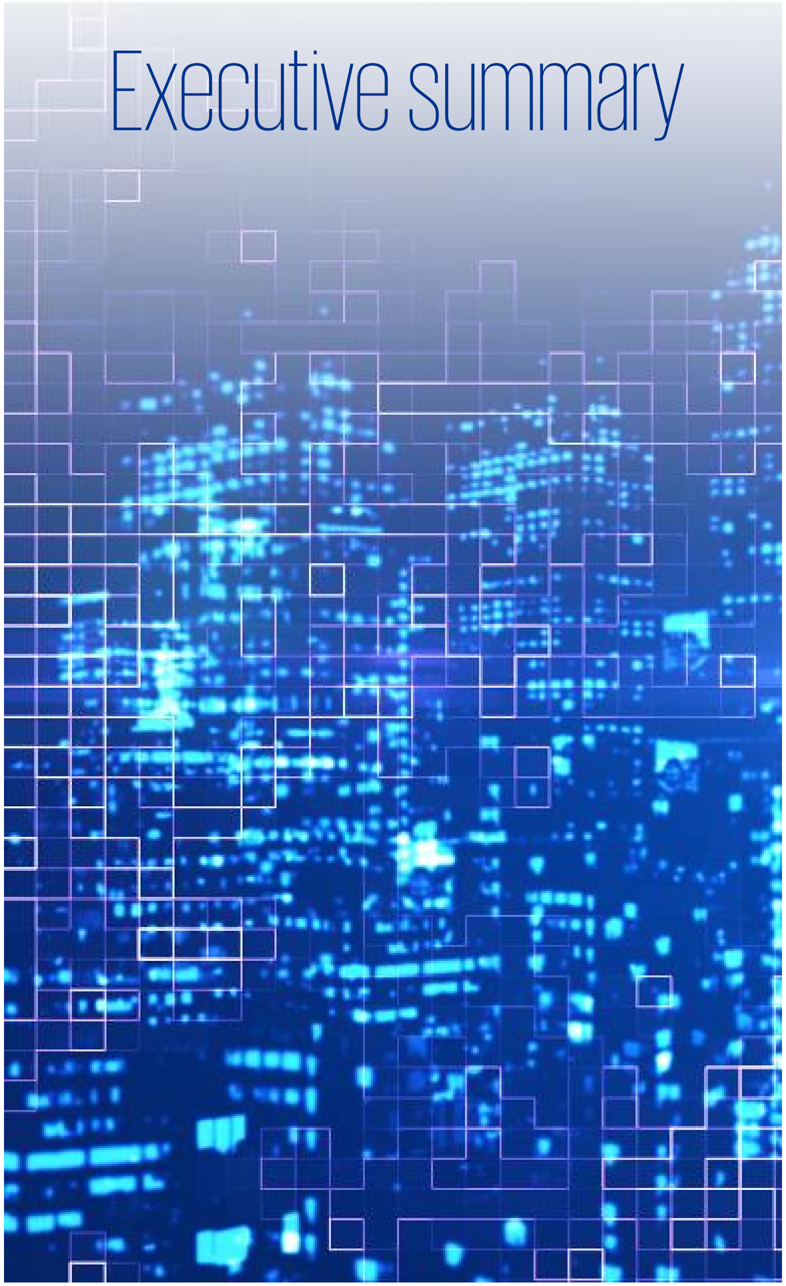
Finalizing the audit

As of April 30, 2019, we have completed the audit of the consolidated financial statements and received evidence of approval of the consolidated financial statements from the Region's Commissioner of Finance (individual delegated authority to approve the consolidated financial statements). We have also extended our subsequent event procedures up to our auditor's report date.

Our audit report is dated the same as the date of approval of the consolidated financial statements by the Region's Commissioner of Finance on April 30, 2019.

*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



Audit risks and results

We discussed with you at the start of the audit a number of areas of focus for the audit.

See pages 4-7

Critical accounting estimates

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

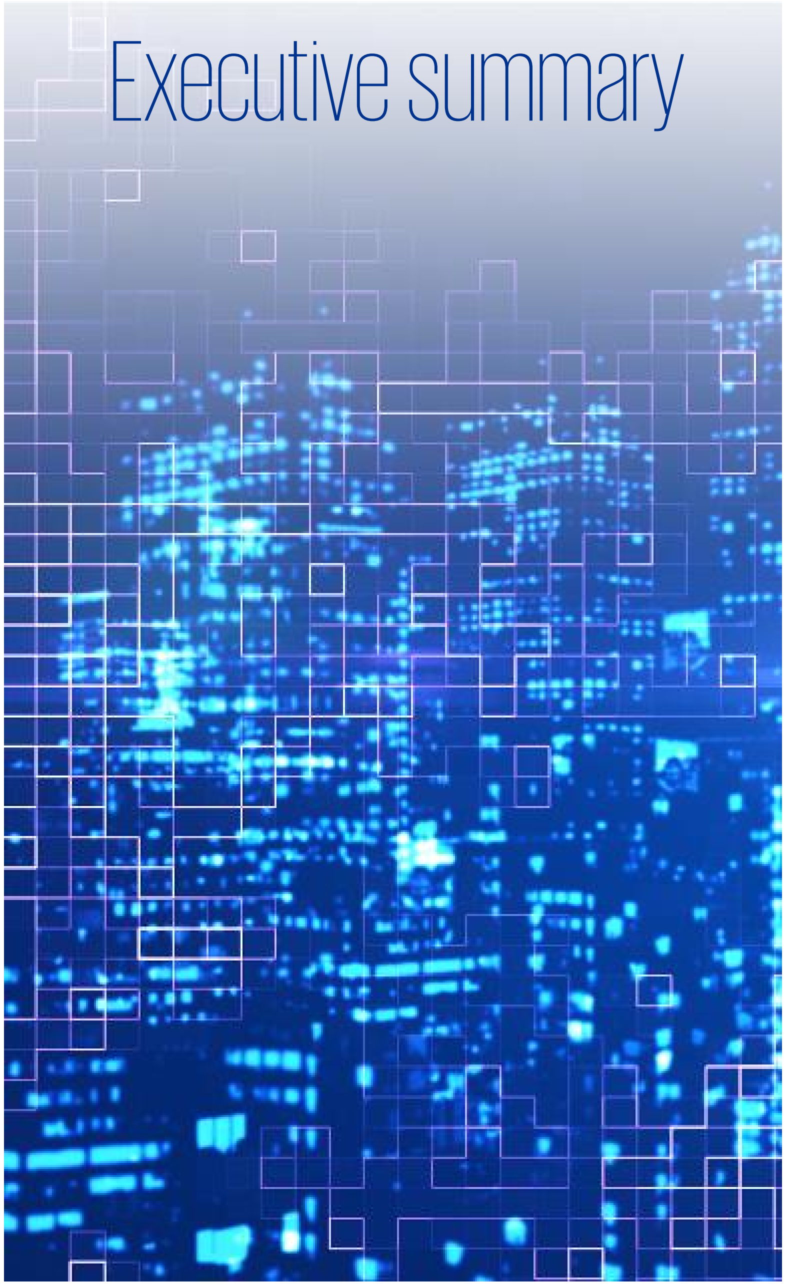
The critical areas of estimates relate to depreciation of tangible capital assets, employee future benefits, and contingent liabilities.

See pages 8-10

Significant accounting policies and practices

See page 12 for a summary of significant accounting policies and practices to bring to your attention.

Executive summary



Control and other observations

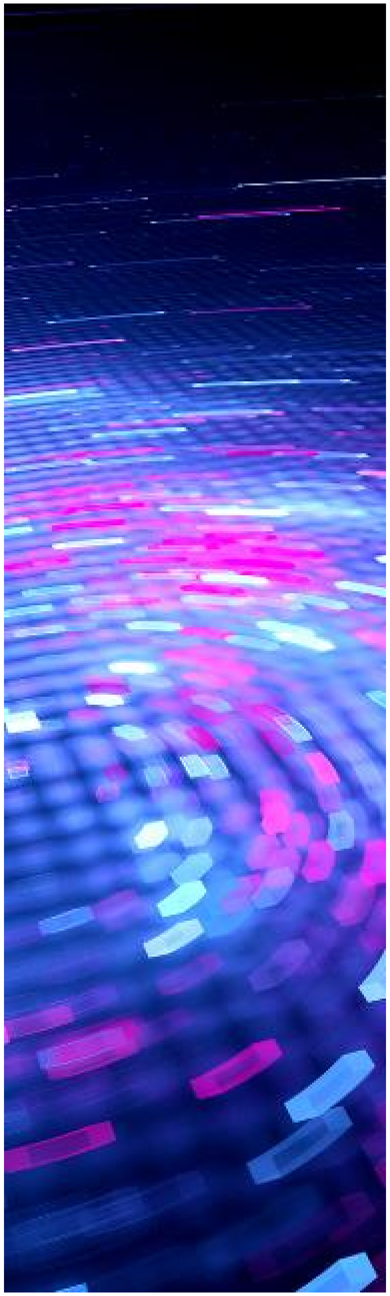
We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Independence

We are independent with respect to the Regional Municipality of York (and its related entities), within the meaning of the relevant rules and related interpretation prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Adjustments and differences

We did not identify differences that remain uncorrected.



Audit risks and results

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why is it significant?
Fraud risk from revenue recognition	This is a presumed fraud risk, which has not been rebutted. The primary fraud risk resides with manual journal entries for revenue transactions not in the normal course of business
Risk of management override of controls	This is a presumed fraud risk. We have not identified any specific additional risk of management override relating to the audit.

Our response and significant findings

Fraud risk from revenue recognition

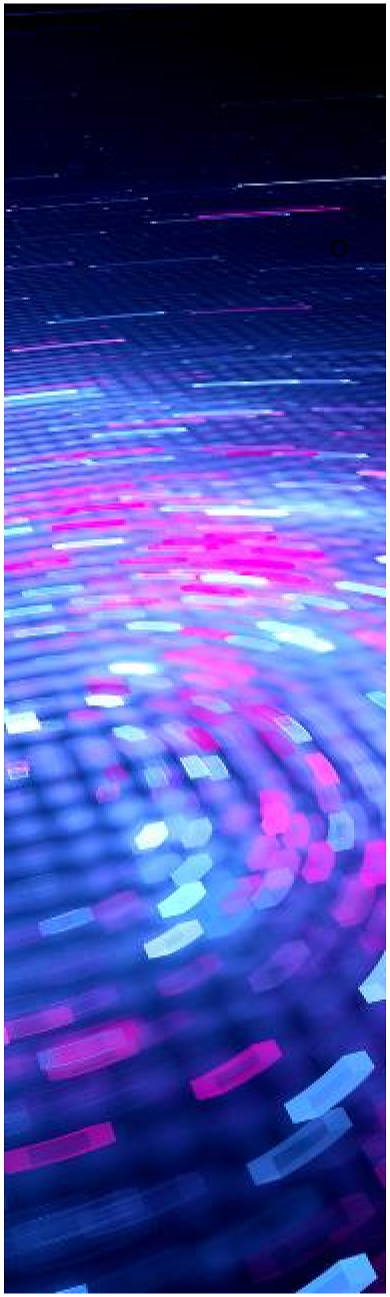
Our audit methodology incorporates the required procedures in professional standards to address this risk. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on the areas and/or accounts that are susceptible to manipulation through management override and/or design search filters that allow us to identify any unusual entries.

We did not identify any issues related to fraud risk associated with revenue recognition.

Risk of management override of controls

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.

We did not identify any issues or concerns regarding management override of controls.



Audit risks and results

Other areas of focus

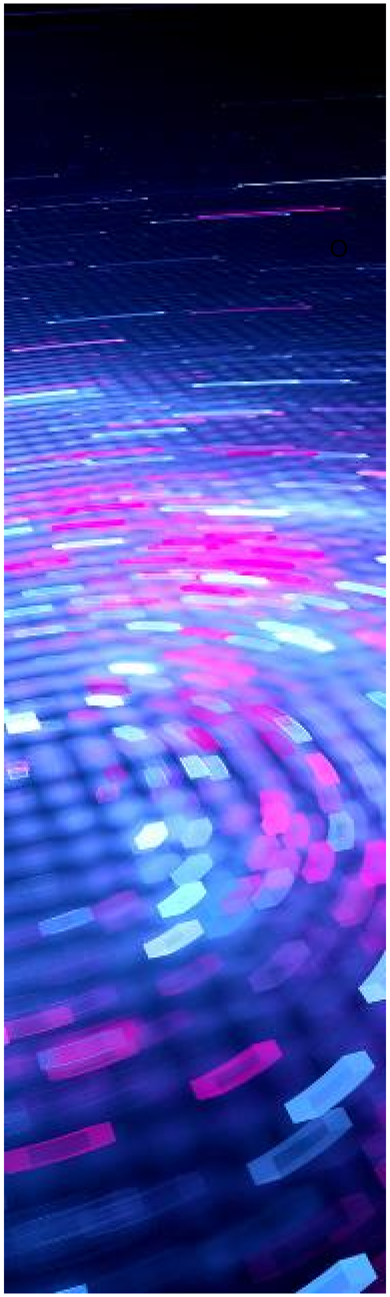
Development charges

Investments

Our response and significant findings

- During the audit, we noted the development charge collections were $439.9M (2017 – $391.0M) and the amount recognized as revenue was $474.2 M (2017 - $284.5M).
- We reviewed on a sample basis both development charge collections and transfers into income. We also agreed the total development charge transfers to the amount recognized into revenue. We noted that the development charge collections and transfers were appropriate, and the transfers had appropriately been recognized into revenue.

- As at year-end, the Region held $3.3B (2017 - $2.8B) in investments. The cash balance also includes $5.6M (2017 - $230M) of short-term investments with maturity dates less than 3 months from year-end.
- We performed test of details over the additions and disposals of investments, compared the investment listing to third party confirmations, and reviewed the investments for compliance with the investment policy.
- We noted the recognition of additions and de-recognition of disposals were properly executed. The accounting records were compared to third party confirmations without issue. Also the investment activity and balances were consistent with the Region's policies.



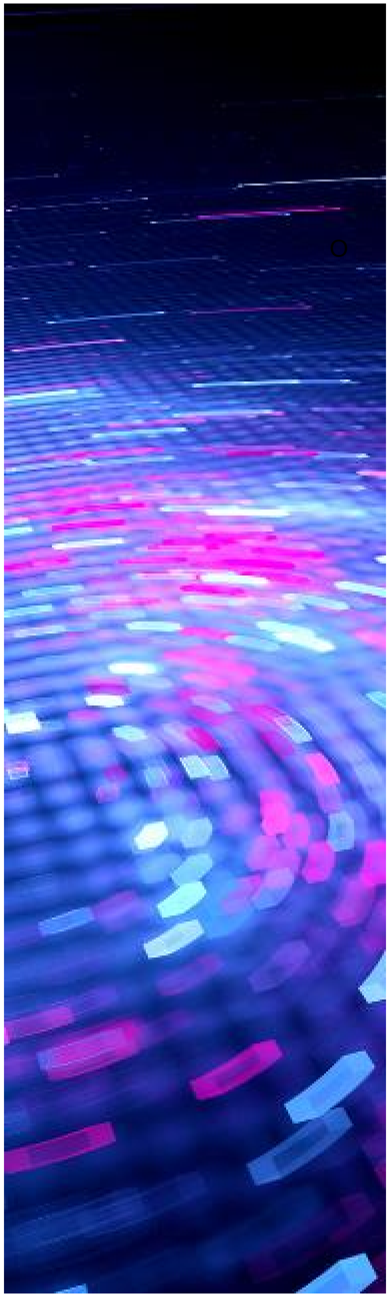
Audit risks and results

Other areas of focus

Tangible capital assets

Our response and significant findings

- During our substantive testing of tangible capital asset additions, we noted that the Region recognized $344.1M (2017 - $658.0M) in total additions, which is comprised of $326.7M (2017 - $643.1M) of additions to the Region's work in progress ("WIP"), and $17.4M (2017 - $14.9M) of additions to Housing York Inc. The Region also capitalized $377.8M (2017 - $542.0M) from WIP into tangible capital assets.
- The Region disposed of assets with a cost base of $33.4M (2017 - $110.2M) and accumulated amortization of $30.9M (2017 - $99.8M). The proceeds on the disposal of tangible capital assets were $1.1M (2017 - $6.9M), which resulted in a loss on disposal of $1.4M (2017 - $3.5M).
- We reviewed on a sample basis the additions to both WIP and tangible capital assets. We noted that the capital additions were appropriate and management has correctly capitalized the additions from work in progress to tangible capital assets. We also reviewed on a sample basis the disposals of tangible capital assets, and recalculated the overall loss on disposal. We noted that the disposals were recorded appropriately.



Audit risks and results

Other areas of focus

Deferred Metrolinx revenue

Expropriation accruals

Our response and significant findings

- During our substantive testing, we noted that the Region recognized $252.1M (2017 - $322.1M) of deferred revenue earned for the Metrolinx projects. The Region also received cash advances from Metrolinx of $158.5M (2017 - $47.8M).
- We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized appropriately as revenue in the current period. We also tested the cash advances by agreeing to cash payments.
- Based on our testing, we concluded that the Metrolinx deferred revenue was recognized appropriately.

- During our substantive audit of accruals we noted the expropriation accruals balance for non-Metrolinx projects was $10.4M (2017 – $11.3) and the amount accrued for the expropriation related to Metrolinx projects was $26.5M (2017 - $43.0M).
- We obtained a listing of non-Metrolinx expropriation accruals and selected significant additions and disposals for testing to determine if the year-end balance was appropriate. We also obtained detailed schedules of the Metrolinx related expropriation accruals by project, and selected samples for testing to ensure the liability existed as of year-end and the amount accrued was appropriate.
- We noted that expropriation accruals were recognized appropriately.

Critical accounting estimates

Under PSAS (PS 2130), management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant 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

KPMG comment

- The CPA Handbook PS 3300 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.
- We reviewed the Region’s assessment of contingent liabilities and the process employed to develop and record the estimated liabilities. 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.
- During the audit an adjustment was recorded related to an accrual for a contingent liability.
- 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.

We believe management’s process for identifying critical accounting estimates is considered adequate

Critical accounting estimates

Asset / liability

Amortization expense

Employee future benefits

KPMG comment

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

- We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports.
- We recalculated the accruals based on the information noted above, and did not identify any discrepancies.

We believe management's process for identifying critical accounting estimates is considered adequate

Critical accounting estimates

Asset / liability

Metrolinx betterments

KPMG comment

- During the 2018 audit we noted no significant change in estimate for expenditures that were previously allocated as Metrolinx-owned assets (2017 - $35.8M).
- At the beginning of the project the original allocation estimate between Region-owned versus Metrolinx-owned assets was based on the Master Agreement where the majority of “projects assets” would be Metrolinx owned and thus expensed through the consolidated statement of operations by the Region. As segments were completed and put into service the Owner’s Engineer provided detailed analysis of those completed assets, which resulted in a change in estimate and a higher cost allocation of the value of the betterment to the Region-owed assets.
- We previously recommended that the Region should consider performing more detailed analyses of actual construction expenses for Metrolinx projects before the in-service period in order to better allocate capital costs and expenditures at each reporting date. In 2017 the Region utilized the detailed analyses to budget for the Region-owned portion of any new Metrolinx project and expected the adjustments to be minimal for new Metrolinx projects. We concur with management’s assessment and noted no significant change in estimate for the Metrolinx projects in fiscal 2018.

We believe management’s process for identifying critical accounting estimates is considered adequate

Technology in the audit

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

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

Tool	Description
Journal entry testing	We utilized our computer-assisted audit techniques to evaluate the completeness of the journal entry population provided by management, 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 with completeness of the journal entry population — We are satisfied with the results of our testing of specific relevant journal entries

Significant accounting policies and practices

Applicable Changes to the Public Sector Accounting Standards

The following new significant accounting policies and practices were selected and applied during the period based on current changes to the public sector accounting standards.

Contractual rights (PS 3380)

The standard defines contractual rights as rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Contractual rights are distinct from assets because there has been no past transaction or event giving rise to an asset at the financial statement date. Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.

The standard requires disclosure of contractual rights including their nature, extent and timing.

Note 9 of the consolidated financial statements discloses the Region's contractual rights as of December 31, 2018.

We reviewed the disclosure and on a sample basis agreed the individual contractual rights to source documents. We noted no issues.

Contingent assets (PS 3320)

The standard defines contingent assets as assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the entity's control occurs or fails to occur. Contingent assets must meet two criteria:

- An existing condition or situation that is unresolved at the financial statement date
- An expected future event that will resolve the uncertainty as to whether an asset exists

The standard requires disclosure of contingent assets when the occurrence of the confirming event is likely.

Note 9 of the consolidated financial statements discloses that the Region has no contingent assets that at estimable due to the early stages of claims.

We reviewed the disclosure and noted no issues.

Related party disclosures (PS 2200)

The standard defines related parties as either an entity or an individual. Related parties exist only when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.

The standard requires disclosure when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Disclosure is also required where no amount has been recognized.

Management issued a memorandum comparing the requirements of this new standard and the Region's existing internal reporting practices and controls for identifying related parties. Management determined there are no related party transactions that meet the disclosure criteria.

We reviewed the memorandum and determined management's assessment was appropriate.

Assets (PS 3210)

The standard defines assets and further expands on that definition as it relates to control.

The standard requires disclosure of economic resources that are not recorded as assets to provide the users with better information about the resources available.

Note 13 of the consolidated financial statements includes a disclosure of unrecognized assets, including textual records, artwork, artefacts and historical furniture.

We reviewed the disclosure and noted no issues.

Inter-entity transactions (PS 3420)

The standard defines inter-entity transactions as those transactions occurring between commonly controlled entities and provides guidance on how to account for those transactions.

As consolidated financial statements, the inter-entity transactions have been eliminated on consolidation.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Region's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	We did not note any presentation or disclosure misstatements that have a material impact on the consolidated financial statements.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified adjustments or differences be corrected. We have already made this request of management.

Uncorrected differences

We did not identify differences that remain uncorrected.

Current developments and audit trends

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
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

Standard	Summary and implications
PS 3430 Restructuring Transactions	The issued standard states “A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility”. A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred. The standard states that assets and liabilities received in a restructuring transaction should be recognized at their carrying amount. The carrying amount for an asset or liability transferred is the amount reported in the statement of financial position of the transferor at the restructuring date, net of valuation allowance. The standard also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Region’s December 31, 2019 year-end).
PS 3450 Financial Instruments	A standard has been issued establishing standards on accounting for and reporting all types of financial instruments including derivatives. 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 Region’s choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. Hedge accounting is not permitted. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard also 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. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region’s December 31, 2022 year-end). Earlier adoption is permitted.
Revised Standard PS 2601 Foreign Currency Translation	A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency. This standard will require that exchange gains and losses arising prior to settlement are recognized in a new statement of re-measurement gains and losses. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region’s December 31, 2022 year-end). An entity early adopting this standard must also adopt the new financial instruments standard.
PS 3280 Asset Retirement Obligations	A standard has been issued establishing standards on how to account for and report a liability for asset retirement obligations. The standard will require the Region to record a liability when a legal obligation associated with the retirement of a tangible capital asset exists. The costs associated with the asset retirement increase the carrying amount of the related tangible capital asset and would be expensed in a rational and systematic manner. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region’s December 31, 2022 year-end). Earlier adoption is permitted.
PS 3400 Revenue	A standard has been issued establishing standards which delineates revenue as either exchange transactions or unilateral transactions and the appropriate revenue recognition timing under each type. Exchange transactions are present where the transaction gives rise to one or more performance obligations on the part of the recipient. If no performance obligations are present, it would be described as unilateral. The standard is effective for fiscal periods beginning on or after April 1, 2022 (the Region’s December 31, 2023 year-end). Earlier adoption is permitted.

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Background and professional standards

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 auditors' report attached to the consolidated financial statements

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.

Audit findings report

As attached

CPAB Audit Quality Insights Report (October 2017) (formerly the "Big Four Firm Public Report")

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 most recent Audit Quality Report.

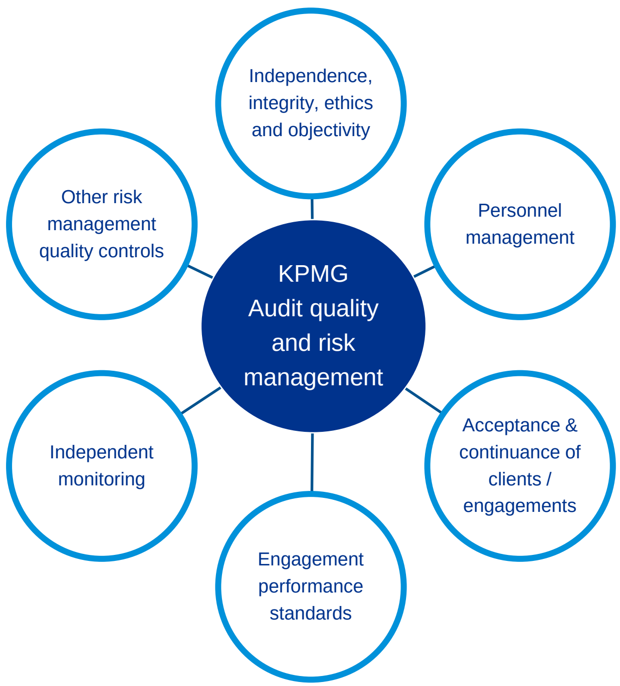
Other controls include:

- 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.

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