



# The Corporation of the Town of Markham

## **Audit Findings Report to the Audit Committee**

For the year ending **December 31, 2009**

AUDIT

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This Audit Findings Report (the "Report") for the year ended December 31, 2009, is designed to provide an overview for the Audit Committee, Management and others within the Corporation of the Town of Markham (the "Town") of the results of our audit.

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 Town without our prior written consent.

## 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 Town's financial statements.

The matters that we raise within this Report are topics and processes that we believe you should be aware of.

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.

#### Topic

#### Audit Committee action

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Audit status

Review and discuss

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Matters arising from the audit that are important and relevant to the Audit Committee

Review and discuss

- Investment in PowerStream Inc.
- Tangible Capital Assets
- Segmented Disclosures

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Audit differences

Review and discuss

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## Audit status

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### Audit Status: Complete

We have completed our audit of the financial statements of the Corporation of the Town of Markham in accordance with generated accepted accounting principles (“GAAP”) as recommended by Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants (“CICA”). This report sets out, as the basis for discussion at the Committee of Council meeting, our significant findings and other matters which we believe should be brought to your attention.

## **Matters arising from the audit that are important and relevant to the Audit Committee**

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### **Investment in PowerStream Inc.**

- The Town has a 34.185% investment in PowerStream Inc.

### **Actions taken by Management**

- The investment in PowerStream Inc. (“PowerStream”) is accounted for on a modified equity basis. Under the modified equity basis, the business enterprise’s accounting principles are not adjusted to conform with those of the Town and inter-organizational transactions and balances are not eliminated.
- The Town’s share of net income of PowerStream at December 31, 2009 and has been recorded in the Consolidated Statement of Financial Activities.

### **Effects on the audit**

- KPMG is in agreement with the accounting treatment adopted by the Town as at December 31, 2009.

### **Discussion with management and audit committee**

As a government business enterprise, PowerStream will be adopting International Financial Reporting Standards. This adoption was previously required to occur for the 2011 financial statements. The Canadian Accounting Standards Board currently is deliberating on an exposure draft which would allow for this adoption to occur two years later, or for the 2013 fiscal year.

The adoption of IFRS may cause more volatility in Powerstream’s reported results as IFRS as it currently stands does not support rate regulated accounting practices currently allowed under Canadian GAAP which permits certain costs and revenues to be deferred on the balance sheet when specifically approved by the Ontario Electricity Board.

## **Matters arising from the audit that are important and relevant to the Audit Committee (continued)**

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### **Significant policy changes**

#### **Tangible capital assets**

- As discussed in our audit planning report, the Town adopted the new PSAB Standard 3150, Tangible Capital Assets, which requires the Town to capitalize their tangible capital assets and amortize the assets over their estimated useful life.
- As a result of adopting this new standard as of January 1, 2009 on a retrospective basis, a restatement of the 2008 results was required. This is described in note 6 to the consolidated financial statements
- In addition, a breakdown of the cost and accumulated amortization by major category for 2008 and 2009 are provided in note 13 to the consolidated financial statements.
- As of December 31, 2009, tangible capital assets with a net book value of approximately \$3 billion are recorded on the consolidated statement of financial position.

#### **Actions taken by Management**

- As at January 1, 2008, the Town obtained/developed a complete listing of all buildings, furniture, computer and office equipment, infrastructure, land, land improvements, vehicle and machinery. Work was completed on establishing policies relating to tangible capital asset reporting, including asset classifications, capitalization thresholds, useful lives and depreciation methods.
- Tangible capital assets are required to be recorded at historic cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Where historic cost was not available, the Town developed estimation techniques to determine cost.

#### **Effect on the Audit**

- We reviewed the process surrounding application of direct overhead costs to qualifying capital projects.
- We performed testing on significant additions / disposals to supporting documentation and recalculated amortization expense.

## **Matters arising from the audit that are important and relevant to the Audit Committee (continued)**

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### **Financial Statements Presentation**

- The Town adopted PSAB Standard 1200, Financial Statement Presentation, which requires financial statements to contain a statement of financial position, a statement of operations, a statement of change in net financial assets, and a statement of cash flows. The standard establishes general reporting principles and standards for disclosures of information within government financial statements.
- The key changes to the Town's financial statements presentation on the adoption of PSAB Standard areas as follows:
  - Results by fund are no longer reported on the statement of financial position and the statement of financial activities;
  - The statement of operations is on a consolidated basis only (operating, capital and reserves) and required consolidated budget comparisons; and
  - The previous "Total Fund balance" section on the statement of financial position, consisting of year end balances of the operating, capital, and reserve funds and amounts to be recovered, is replaced by a single line item called "Accumulated Surplus/Deficit".

### **Actions taken by management and effect on the Audit**

- We reviewed the financial statements prepared by management to ensure compliance with the new standard.

## Other matters

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- We did not identify, in the course of our financial statement audit, any significant unusual transactions.
- Significant estimates within the financial statements include determination of accrued liabilities, allowance for doubtful accounts, deferred revenue and expenditure allocation.
- We did not identify any illegal acts or possible illegal acts.
- We did not identify any:
  - Matters that pose questions regarding the honesty and integrity of management
  - Fraud or suspected fraud involving Management or 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.
- We did not identify any related party transactions outside the normal course of business that involve significant judgements made by Management concerning measurement and disclosure.
- We conducted our audit in accordance with the audit plan.
- We received full cooperation of Management and employees, and to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit.



## 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") are categorized as follows:
  - unrecorded audit differences
  - corrected audit differences
  - uncorrected and corrected omissions or other errors in presentation and disclosure.
- There were no corrected audit differences. There was one uncorrected audit difference related to an over accrual of salary expense by \$235,000 for which management believes are immaterial to the financial statements as a whole and we concur with this assessment.

## Appendices

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### Appendix 1 – Independence letter



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September 20, 2010

The Audit Committee – The Corporation of the Town of Markham

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the Corporation of the Town of Markham, and the financial statements of its related entities (the “Town”) for the year ended December 31, 2009. The related entities include:

- Unionville Business Improvement Area
- Markham Village Business Improvement Area
- Markham Public Library Board
- National Centre for Medical Device Development
- Innovation Synergy Centre in Markham
- Trust Funds
- Markham District Energy
- Markham Enterprises Corporation
- Varley-McKay Art Foundation of Markham

Canadian generally accepted auditing standards (CICA Handbook Section 5751, *Communications with Those Having Oversight Responsibility for the Financial Reporting Process* (HB 5751), require that we communicate at least annually with you regarding all relationships between the Town and us that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute/ordre and applicable legislation, covering such matters as:

- a) holding a financial interest, either directly or indirectly, in a client;
- b) 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;
- c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- d) economic dependence on a client; and
- e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising from April 17, 2009, the date of our last letter, to September 20, 2010.

We are not aware of any relationships between the Town and us that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred from April 17, 2009 to September 20, 2010.

GAAS requires that we confirm our independence to the Audit Committee. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Town within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of September 20, 2010.

This report is intended solely for the use of the Audit Committee, Town Council, Management, and others within the Town and should not be used for any other purposes.

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 at our upcoming meeting. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

## Appendix 2 – KPMG's Audit Committee resources

### General

- *Audit Committee Update*, Issue 2009-01, 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](http://www.kpmg.ca/accountability)
- Audit Committee Institute Web site – [www.kpmg.ca/auditcommittee](http://www.kpmg.ca/auditcommittee)

### IFRS Related

- *Overseeing IFRS Transition: Implications for CEO/CFO control certifications*, Audit Committee Institute (04/2009)
- *Managing the Transition to IFRS: Moving forward*, KPMG (01/2009) Fourth publication in this series <http://www.kpmg.ca/en/ms/ifrs/timepassing.html>
- *IFRS compared to Canadian GAAP: An overview*, Second edition 2008-09, KPMG  
[http://www.kpmg.ca/en/ms/ifrs/tools\\_ifrscdngaap.html](http://www.kpmg.ca/en/ms/ifrs/tools_ifrscdngaap.html)
- *IFRS Transition: What Audit Committees Should Be Asking*, Audit Committee Institute (06/2008) [http://www.kpmg.ca/en/ms/auditcommittee/publications\\_ifrs\\_transition.html](http://www.kpmg.ca/en/ms/auditcommittee/publications_ifrs_transition.html)
- *Managing the Transition to IFRS: Clearing the Path to 2011*, KPMG (04/2008) Third publication in the series <http://www.kpmg.ca/en/ms/ifrs/clearing.html>
- *The Transition to IFRS: The Past Need Not Be the Future*, Audit Committee Institute (12/2007) [http://www.kpmg.ca/en/ms/auditcommittee/publications\\_transitions.html](http://www.kpmg.ca/en/ms/auditcommittee/publications_transitions.html)
- KPMG IFRS Web site – [www.kpmg.ca/ifrs](http://www.kpmg.ca/ifrs)