



AUDIT

Hamilton Police Services

Audit Findings Report
For the year ended December 31, 2015

KPMG LLP

Prepared May 18th, 2016 and presented on May 26th, 2016

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At the end of the day, we measure our success from the **only perspective that matters – yours.**

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Board, in your review of the results of our audit of the Schedule of Operations for the Hamilton Police Services for the year ended December 31, 2015

Audit risks and results

We noted financial risks relating to various revenues and expenses that we have addressed throughout the audit.

We have also addressed specific concerns that were highlighted to KPMG that related to the financial reporting process.

See pages 5 and 6

Adjustments and differences

We did not identify differences that remain uncorrected.

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Executive summary (continued)

Finalizing the audit

As of May 18th, 2016, we have completed the audit of the Schedule of Operations, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Board
- obtaining evidence of the Board's approval of the schedule.

We will update the Board, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

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

Independence

We confirm that we are independent with respect to the Entity (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada. We have extensive quality control and conflict checking processes in place.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

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Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

Significant financial reporting risks

Our significant findings from the audit

Revenue recognition and deferral

We performed testing over the recognition of significant government grants and subsidies and agreed amounts recorded to contract agreements.

We performed substantive procedures over general fees and revenues to ensure that revenue was recognized in accordance with revenue recognition criteria.

We performed cut off testing for grant funding and other revenue to ensure that revenue is recorded in the correct fiscal period.

No misstatements related to revenue recognition were identified.

Operating expenditures

We completed various audit procedures around operating expenditures, including payroll and employee benefits expenditures.

We performed a detailed comparison of operating expenditures to budget and investigated significant variances.

No misstatements related to operating expenses were identified during our testing.

Other matters

Professional standards require us to communicate to the Board Other Matters, such as material inconsistencies or material misstatements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Entity's related parties, significant difficulties encountered during the audit, and disagreements with management.

Other matters:

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Retro-active pay accrual	<ul style="list-style-type: none"> - Final settlement was for approximately \$9 million - Amounts accrued in previous year's were written off when settlement was made - The amount of settlement in excess of accruals was expensed during the year ended December 31, 2015 - No audit misstatement was identified
Accumulated sick leave	<ul style="list-style-type: none"> - Liability is estimated by the actuary - Expense for the year was determined by the actuary - Payments for sick leave made during the year reduced the liability - Estimated expense exceeded payments made, resulting in an increase to the liability - No audit misstatements were identified
Vacation accrual	<ul style="list-style-type: none"> - Vacation accrual is based on vacation hours not taken valued at the current rate of pay - The liability balance is adjusted annually to expense - Vacation taken and paid reduce the vacation hours owed and thus the liability - No audit misstatements were identified
Use of departmental vehicles and car allowances	<ul style="list-style-type: none"> - CRA consider personal use of a company vehicle to be a taxable benefit - When this change was implemented by the CRA, the Board made a decision to cover the taxes on this taxable benefit for the employees affected - This expense is paid directly to the CRA on behalf of the chief and deputies and is not an allowance paid directly to the employee - No audit misstatements were identified
Audit Fees	<ul style="list-style-type: none"> - Audit fees for this audit are \$10,000 and is considered to be a financial statement audit - A value for money audit would be an expensive engagement resulting in a fee in the six digit range - A value for money audit would be far more extensive than a financial statement audit
Police Association president salary	<ul style="list-style-type: none"> - Under PSAS revenues and recoveries are not allowed to be offset against the related expense - Proper accounting treatment is to show the gross cost in expense and the recovery in revenue - No audit misstatements were identified

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.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

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