# The Regional Municipality of York

## Audit Planning Report to the Audit Committee

For the year ending **December 31, 2010**

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

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

# Contents

# Topics for discussion

We propose to highlight the following topics with the Audit Committee.

| Topic | Audit Committee action |
| --- | --- |
| What has changed from last year (page 3) | Review |
| Scope and timing of the audit (page 4) | Review and comment |
| Audit Committee members' potential concerns | Raise and discuss |

# Audit plan for Audit Committee consideration

## What has changed from last year

### Entity-specific changes

### Auditing standards

- Canadian Auditing Standards are effective for periods ending on or after December 14, 2010
  - consistent with the clarified International Auditing Standards
- Significant audit performance differences relate to:
  - communications with those charged with governance. The engagement letter in Appendix 2 provides a list of the communication requirements under Canadian Auditing Standards.
  - accounting estimates (including fair value accounting estimates and disclosures), evaluation of the severity and communication of control deficiencies, related parties and transactions, service organizations, and association with other information.
- Significant reporting differences relate to:
  - date of the audit report – when sufficient appropriate audit evidence has been obtained, financial statements including notes have been prepared and the recognized authority has taken responsibility for the financial statements
  - form of the audit report, content of the audit report (e.g. emphasis of matter paragraph for material uncertainty related to future outcome of exceptional litigation)
  - fair presentation or compliance frameworks related to special purpose financial statements – expresses opinion on fair presentation or expresses opinion that financial are in compliance with the framework
- Incremental audit file documentation requirements.

## Scope and timing of the audit

### Our responsibilities

- Our responsibilities are described in the engagement letter in Appendix 2 to the Audit Planning Report.

### Scope – Materiality

- We determine materiality to:
  - plan and perform the audit
  - evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
- We will reassess materiality at year-end to confirm whether it remains appropriate prior to evaluating the effect of uncorrected misstatements.
- We will communicate to you corrected and uncorrected misstatements identified by us during the audit, other than those that are clearly trivial.
- Should uncorrected misstatements remain, we will:
  - in accordance with professional standards, request that all uncorrected misstatements be corrected
  - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on the opinion in the audit report on the financial statements.

## Milestones and deliverables

The following are key deliverables and dates of the audit:

| Topic | Date(s) |
|---|---|
| Present the Audit Planning Report to the Audit Committee | February 2011 |
| Conduct interim audit work | November / December 2010 |
| Conduct year-end audit field work | March 2011 |
| Conduct year-end audit field work (York Housing Corporation) | March 2011 |
| Present the Audit Findings Report to the Audit Committee | June 2011 |
| Provide audit opinion on financial statements | June 2011 |
| Provide management letter to the Audit Committee | June 2011 |

## Audit response to identified financial reporting risks – Region of York

### Significant risks of material misstatement, including risks of fraud

| Significant accounts and disclosures | Summary of planned audit approach |
|---|---|
| Investments and related income | • Substantive test of details |
| Tangible capital assets | • Substantive test of details over additions |
| Taxation revenue | • Substantive approach recalculating tax revenue using approved tax rates and assessment. |
| User charges revenue | • Verify revenue using substantive analytical methods. |
| Government grants | • Compare grants received to grants earned with reference to the related expenditures to ascertain that the appropriate amount of revenue has been recognized. |
| Expenses – current | • Evaluate the design and implementation of controls over payroll expenditures.<br>• Test the operating effectiveness of the controls.<br>• Substantive test of details of non-payroll expenditures. |
| Post retirement liabilities | • Review the actuarial valuation of the liability for reasonableness of assumptions used.<br>*Use of External Experts*<br>• Actuary |

Substantive approach refers to the application of substantive analytical procedures or test of details procedures.

Substantive analytical procedures consist of the evaluation of financial information through a study of plausible relationships among both financial and non-financial data. They also encompass the investigation of identified fluctuations and relationships that are seemingly inconsistent with other relevant information or deviate significantly from predicted amounts.

Test of details are the application of one or more of the following techniques to individual items or transactions: inspection of records or documents; inspection of tangible assets; observations; confirmations; recalculation; re-performance.

## Audit response to identified financial reporting risks – York Housing Corporation

### Significant risks of material misstatement, including risks of fraud

| Significant accounts and disclosures | Summary of planned audit approach |
|---|---|
| Investments and related income | • Substantive test of details |
| Income-producing properties | • Substantive test of details over additions |
| Subsidy revenue | • Substantive test of details |
| User charges revenue / tenants rents | • Verify revenue using substantive analytical methods. |
| Government grants | • Compare grants received to grants earned with reference to the related expenditures to ascertain that the appropriate amount of revenue has been recognized. |
| Expenses – current | • Evaluate the design and implementation of controls over payroll expenditures.<br>• Test the operating effectiveness of the controls.<br>• Substantive test of details of non-payroll expenditures. |

Substantive approach refers to the application of substantive analytical procedures or test of details procedures.

Substantive analytical procedures consist of the evaluation of financial information through a study of plausible relationships among both financial and non-financial data. They also encompass the investigation of identified fluctuations and relationships that are seemingly inconsistent with other relevant information or deviate significantly from predicted amounts.

Test of details are the application of one or more of the following techniques to individual items or transactions: inspection of records or documents; inspection of tangible assets; observations; confirmations; recalculation; re-performance.

# Executing the audit

## Service team and multidisciplinary resources

We will continue to make every effort to meet your needs and exceed expectations by:

- utilizing professionals who understand the key issues being addressed by management
- keeping pace with changes in the industry and at the Entity
- anticipating issues and adequately planning all aspects of our service
- being available and responsive.

### Service team

| | |
|---|---|
| **Kevin Travers**<br>Lead Audit Engagement Partner | **Telephone:** 416-228-7004<br>email: ktravers@kpmg.ca |
| **Sandra Chiu**<br>Audit Engagement Manager | **Telephone:** 416-228-7042<br>email: schiu1@kpmg.ca |

### Multidisciplinary resources

| | |
|---|---|
| **Iqbal Merchant**<br>Senior Principal, Tax | **Telephone:** 416-549-7784<br>email: imerchant@kpmg.ca |
| **Gerry Hagerman**<br>Engagement Quality Control Reviewer, Partner | **Telephone:** 416-224-4196<br>email: ghagerman@kpmg.ca |

# Appendices

## Appendix 1: Current developments

### Tax Revenue

- *PS 3510 – Tax Revenue* was approved by PSAB in November 2009.
- This standard sets out revenue recognition principles for tax revenue.
- Provides principles for recognition of taxes collected on behalf of others.
- This is standard effective for fiscal years beginning on or after April 1, 2012.

### Liability for Remediation and Mitigation of Contaminated Sites

- *PS 3260 – Liability for Contaminated Sites* was approved by PSAB in March 2010.
- A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
- This standard is effective for fiscal years beginning on or after April 1, 2012.

### Government Transfers

- PSAB approved a 3rd Re-Exposure Draft for Government Transfers
- Sets outs recognition principles for government transfers for transferring and recipient governments.
- Transferring governments recognize an expense when the transfer has been authorized and all eligibility criteria have been met by the recipient.
- Recipient governments recognize revenue when the transfer is authorized and all eligibility criteria have been met, except when a transfer gives rise to a liability.
- This standard is not yet effective.

### Financial Instruments Re-Exposure Draft

- Sets out principles to be used in establishing an accounting standard with respect to financial instruments and derivative instruments.
- Fair value measurement proposed for derivatives and portfolio investments that are equity instruments quoted in an active market. Fair value can be applied to non-equity instruments through an accounting policy choice.
- PSAB is developing a re-exposure draft expected to be issued in September 2010 with an approved standard in March 2011.
- This proposed standard is not yet effective.

## Appendix 2: Engagement letter

## Appendix 3: KPMG's Audit Committee resources

### General

- *Accountability e-Lert* – Periodic electronic newsletter
  www.kpmg.ca/accountability
- *Canadian Audit Committee Update* – Semi-annual publications
  http://www.kpmg.ca/auditcommittee/update.html
- Audit Committee Roundtables – Spring and Fall
  http://www.kpmg.ca/auditcommittee/roundtables.html
- Audit Committee Institute Web site
  www.kpmg.ca/auditcommittee