The Regional Municipality of York

Audit Planning Report to the Audit Committee
for year ending December 31, 2006

AUDIT ▪ TAX ▪ ADVISORY

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This Audit Planning Report is prepared for the year ending December 31, 2006 and is designed to provide an overview for the Audit Committee of the Region of the audit procedures to be performed by KPMG LLP in discharging its audit responsibilities.

This Audit Planning Report is confidential and intended solely for the use of the Audit Committee with respect to carrying out and discharging their 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.

Audit Plan 2006
What has changed from last year?

Region-specific changes

- Full year of operations of York Region Rapid Transit

Accounting standards

- PS 3150 Tangible Capital Assets
- Exposure Draft – Reporting Model

Auditing standards

- Project – Communications with Actuaries

Canadian Accounting Changes
PS 3150 Tangible Capital Assets

Overview / Status

- PSAB passed a revised standard dealing with Tangible Capital Assets such that it will apply to all levels of government (previous standard only applied to senior levels of government, i.e. Federal and Provincial). The revised standards will:
  - Require local governments to adopt Fixed Asset Accounting effective January 2009
  - Move from "expenditure" accounting to "expense" basis of accounting for capital assets
  - Requires development of inventory of capital assets, capitalization thresholds, costing, amortization and disclosure in financial statements

Implications for Region of York

Seek useful implementation guidance, including:

- Ontario Municipal Benchmarking Initiative (OMBI) – Municipal Guide to Accounting for Capital Assets http://www.ombi.ca

-US GASB 34 implementation guidance

Other steps / considerations :

- Determine how you will inventory assets

- Assess existing historical data available

- Capitalization thresholds, asset categories

- Consider alternative valuation methods (discounted replacement/reproduction cost/ appraisal)

- Determine amortization calculation approach

- Involve your auditor early on

Canadian Accounting Changes
Exposure Draft – Reporting Model

Overview / Status

- On May 31, 2006, the PSAB published exposure drafts for revisions to PS 1000, *Financial Statement Concepts*, PS 1100 *Financial Statement Objectives*, and PS 1200 *Financial Statement Presentation.* These sections are intended to apply to all levels of government.
- The final standards are expected to be issued in the third quarter of 2006, at which time the effective date of the amendments is expected to be coincidental with the change in reporting of tangible capital assets.

Implications for Region

- Should be considered in conjunction with PS 3150.

Highlights

The proposed amendments to PS 1000, PS 11000, and PS 1200 are as follows:

- Will establish the individual statements required within the consolidated financial statements.
- Could replace current "municipal equity" section of statement of financial position with single line.

Canadian Auditing Changes
Project – Communications with Actuaries

Overview / Status

- The AASB approved a project to revise guidance relevant to the auditor's use of the work of an actuary as audit evidence when the financial statements include amounts determined using specialized techniques or methods, such as the liabilities of an insurance company or the pension costs and obligations of a defined benefit pension plan.
- This project will revise HB 5365, *Communications with Actuaries*, including its Appendix, *Joint Policy Statement Concerning an Auditor's Use of the Work of an Actuary and an Actuary's Use of the Work of an Auditor in Connection with the Preparation and Audit of Financial Statements*, as a result of the issuance of AuG-43, *Audit of Policy Liabilities of Insurance Enterprises*.

Highlights

The following key issues will be addressed in developing the revised material:

- Communications between the auditor and the pension actuary - Pension actuaries are concerned that the protocols of communication between actuaries and auditors are not adequate, with the result that too much reliance is being placed by both management and the auditor on the actuary's calculations of pension liabilities.
- Communications between the auditor and the actuary of an insurance enterprise – HB 5365 and its appendix, the *Joint Policy Statement*, no longer adequately deal with key aspects of communications between the actuary and the auditor in today's environment.

Key responsibilities regarding financial reporting

Management

- Prepare financial statements and notes in accordance with Canadian GAAP and other applicable reporting requirements.
- Design, implement and maintain effective internal control over financial reporting.
- Exercise sound judgment in selecting and applying critical accounting policies.
- Implement policies and procedures designed to:
  - safeguard assets
  - prevent, detect and correct errors
  - prevent and detect fraud
- Provide representations to external auditors.
- Assess quantitative and qualitative impact of misstatements discovered during the audit on the fair presentation of the financial statements.

External Auditors

- Maintain independence. Confirm independence in accordance with relevant professional, regulatory and legislative requirements.
- Report directly to the Audit Committee.
- Conduct audit in accordance with Canadian generally accepted auditing standards.
- Conduct audit in accordance with the audit plan approved by Audit Committee.
- Express an opinion on the consolidated financial statements.
- Communicate openly with Audit Committee and management.

Audit Committee

- Create a culture of honesty and ethical behaviour; set the proper tone and emphasize fraud prevention.
- Oversee management, including monitoring that management establishes and maintains internal control to provide reasonable assurance regarding reliability of financial reporting.
- Directly oversee the work of the external auditors including reviewing, discussing, and approving audit plan.
- Review annual financial statements, and annual report.

Audit deliverables

Audit Committee

- Audit Planning Report
- Engagement letter
- Audit Findings Report
- Independence letter
- Management letter

Provincial Ministries

- Completion of auditors' questionnaire
- Audit reports or completed Auditors Questionnaires with respect to certain Health Program

Federal Government (through Association of Municipalities of Ontario)

- Auditors' report on federal gas tax funding and expenditures

Other

- Completion of auditors' questionnaire with respect to annual information return for York Housing Inc. and auditors' report on financial statements of York Housing Inc.
- Audit reports as required under funding agreements for York Rapid Transit

Council, Ratepayers and Inhabitants

- Audit opinion on consolidated financial statements

Draft: AUDITORS' REPORT TO MEMBERS OF COUNCIL, INHABITANTS AND RATEPAYERS OF THE REGIONAL MUNICIPALITY OF YORK

We have audited the consolidated statement of financial position of The Regional Municipality of York as at December 31, 2006 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of The Region's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Region as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit process

Phase	Activities
Planning	• Perform risk assessment procedures, including understanding the Region and its environment and identifying risks • Determine planning materiality • Summarize audit plan to the Audit Committee • Evaluate the design of entity level controls
Control evaluation	• Understand accounting and reporting activities, identify risk points and controls • Perform walkthroughs • Evaluate design and implementation of selected controls, including IT general controls • Test operating effectiveness of selected controls, including IT general controls
Substantive testing	• Plan and perform substantive procedures comprised of tests of details and substantive analytical procedures • Evaluate audit differences • Consider if audit evidence is sufficient and appropriate • Conclude on significant accounting matters
Completion	• Perform completion procedures • Perform overall evaluation of the financial statements and disclosures • Obtain management representations • Form audit opinions • Communicate with Audit Committee

Planning
Materiality

Materiality (definition): **A misstatement in the financial statements that is likely to change or influence the decisions of persons relying on the financial statements. Materiality takes into account both quantitative and qualitative factors.**

Management

- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Correct all material misstatements
- Must not make intentional misstatements even if not material
- Provide written representation re immateriality, individually and collectively, of uncorrected audit differences

External Auditors

- Understand management's process for identifying, communicating and correcting misstatements
- Consider whether misstatements are indicative of fraud
- Recommend management correct all misstatements
- Communicate non-trivial misstatements, corrected and uncorrected, to management and the Audit Committee

Audit Committee

- Understand management's process for identifying, communicating and correcting misstatements
- Understand management's tolerance for uncorrected misstatements
- Monitor "tone at the top"
- Discuss corrected and uncorrected misstatements
- Encourage management to correct all misstatements

Planning
Materiality

Quantitative measure of materiality for planning purposes

- We define a level of materiality to provide a quantitative starting point for planning the precision of our audit.

For Region in the 2006 audit

- Materiality for planning purposes was established at $5,000,000

Reporting materiality

- Reporting materiality is the threshold we use to determine whether corrections must be made at the completion of the audit.
- As part of our Audit Findings Report, we will communicate to you all corrected misstatements identified by us during the audit as well as uncorrected misstatements identified by us during the audit that management has determined to be immaterial.
- At that time, we will discuss with you the reporting materiality for the Region.

Audit response:
Identified financial reporting risks on significant accounts or disclosures

Significant Accounts and Disclosures	*Inherent Risks*		*Planned Audit Approach*				
			Selected controls		**Substantive analytical procedures**	**Substantive tests of detail**	**Involvement of others**
	Relevant assertions	**Risk of Error**	**Evaluate design and implementation**	**Test operating effectiveness**			
Cash and short-term investments	Accuracy Existence Valuation	Not Significant	Yes	Yes	Yes	Yes	No
Property tax and other accounts receivable	Accuracy Existence Valuation	Significant	Yes	Yes	Yes	Yes	No
Accounts payable and accruals	Accuracy Existence Complete-ness	Significant	Yes	Yes	No	Yes	No
Long-Term Debt	Accuracy Existence Completeness	Significant	Yes	Yes	Yes	Yes	No
Property tax revenue and other revenue	Existence Complete-ness	Significant	Yes	Yes	Yes	Yes	No
Expenditures	Existence Complete-ness	Significant	Yes	Yes	Yes	Yes	No

Audit response:
Identified financial reporting risks on significant accounts or disclosures continued

Significant Accounts and Disclosures	*Inherent Risks*		*Planned Audit Approach*				
	Relevant assertions	Risk of Error	Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
			Evaluate design and implementation	Test operating effectiveness			
Employee Future Benefits	Accuracy Completeness	Not Significant	No	No	No	Yes	Yes
Payroll	Accuracy Completeness	Significant	Yes	Yes	Yes	Yes	No
Reserves and Reserve Funds	Accuracy Authorization	Significant	Yes	Yes	Yes	Yes	No
Contingencies	Completeness	Significant	No	No	No	Yes	Yes

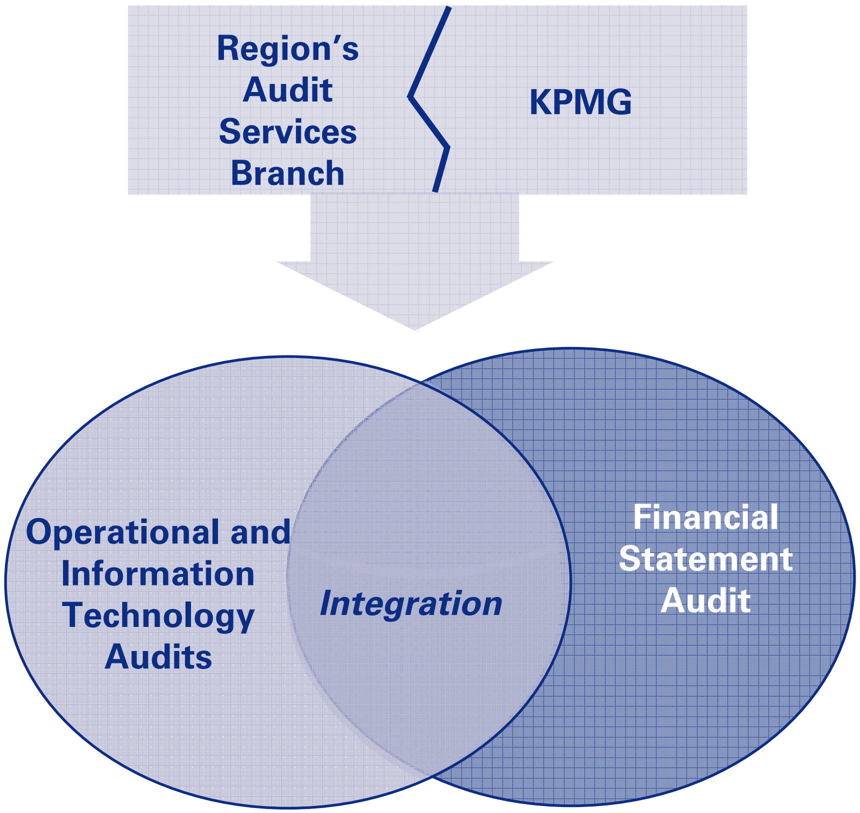
KPMG

Executing the Audit

Service team and resources

Name	Role / Experience
Core Team	
Kevin Travers Lead Audit Engagement Associate Partner	Serves as primary contact for your audit committee and management. Has the overall authority and responsibility for the audit engagement and key conclusions reached by the engagement team on all accounting and auditing matters Kevin has been part of our engagement team serving the Regional Municipality of York for more than 5 years and has more than 14 years experience providing audit services to other public sector organizations.
Inna Glebova Engagement Manager	Serves as the day-to-day audit liaison between the Region and KPMG. Will identify, schedule, and supervise the professionals who perform the day-to-day audit work for your organization, reporting directly to the lead partner. Inna was previously the audit senior on the audit of the Regional Municipality of York.
Gerry Hagerman Concurring Reviewer / Quality Assurance Associate Partner	Responsible for the overall quality of services we provide you, helping to ensure that our service delivery is seamless and that our team meets all of your engagement expectations. Has the authority to help ensure that the lead audit engagement partner has the resources to meet the needs of the audit committee and management. Gerry has served the Regional Municipality of York in this role for more than 5 years.

Internal Audit (The Region's Audit Services Branch)



KPMG meets with and regularly communicates with the Region's Audit Services Branch to look for:

- Duplications in audit effort
- Opportunities to share information to assist each other in our mandates

Appendix 2 – KPMG’s Audit Committee resources

- Audit Committee Institute – *Audit Committee Update, Spring 2006* and *Fall 2005* issues
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- KPMG*:* *Certification of Internal Control: New Canadian Proposals,* May 2006
- KPMG*:* *Tax in the Boardroom,* 2005 – Discussion paper
- KPMG: *Focus on Financial Reporting*, December 2005
- KPMG: *Survey on the Risk of Manipulation of Financial Statements, 2004*
- KPMG*:* Audit Committee Institute – Audit Committee Roundtables held each spring and fall
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee