The Regional Municipality of York

DRAFT Audit Planning Report to the Audit Committee for year ending December 31, 2005

November 3, 2005

AUDIT ▪ TAX ▪ ADVISORY

Contents

This Audit Planning Report is prepared for the year ending December 31, 2005 and is designed to provide an overview for the Audit Committee of the Regional Municipality of York 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.

Topics for discussion
Auditors initiating discussion with the Audit Committee

We propose to highlight the following topics when we discuss our audit plan with the Audit Committee at the upcoming audit planning meeting.

	Audit Committee action/ level of support being sought
• Audit Committee input	Raise potential concerns, questions and requests
• What has changed from last year	Review
• Financial reporting risks	Review, provide input
• Responses to risks identified	Review, comment, and agreement

Audit Plan 2005
What has changed from last year?

Region-specific changes

- Evolution of York Region Rapid Transit Corporation

Accounting standards

- No significant developments expected to affect the 2005 audits.

Auditing standards

- Affecting the performance of your 2005 audit
  - Quality control
  - Audit risk
  - Planning

Key responsibilities regarding financial reporting

Management

- Prepare financial statements and notes in accordance with Canadian GAAP (Public Sector Accounting Standards Board)
- Design, implement and maintain effective internal control over financial reporting processes
- Exercise sound judgment in selecting and applying critical accounting policies
- 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 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 GAAS
- Conduct audit in accordance with the audit plan approved by audit committee
- Express an opinion on the financial statements based on the audit
- 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 ensuring 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

Audit deliverables

Audit Committee

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

Council, Ratepayers and Inhabitants

- Audit opinion on 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, 2005 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, 2005 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit process

Regular communications

Discuss expectations and critical success factors regularly
Regular update on issues on a proactive basis

Planning

Perform risk assessment procedures, including obtaining an understanding of the Company and its environment

Identify risks

Identify significant accounting matters

Determine audit strategy

Make preliminary decision on audit approach for each audit objective

Summarize audit plan to the Audit Committee

Control evaluation

Understand accounting and reporting activities

Confirm decision on audit approach for each audit objective

Evaluate design and implementation of selected controls, including anti-fraud controls

Test operating effectiveness of selected controls, including anti-fraud controls

Substantive testing

Plan and perform substantive procedures comprised of tests of detail and substantive analytical procedures, including fraud related procedures

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

Form an audit opinion

Communicate with Audit Committee

Risk assessment

Performance improvement

Comment on internal controls, feedback on performance improvement opportunities
Strive to continuously improve our audit approach, seek feedback from you each year

Identifying financial reporting risks

What other risks concern you as an Audit Committee?

Business, industry and environment

- Changes to technology
- Relationships with other levels of governments
- Continued emergence of public private partnerships
- Potential litigation and claims
- Interest rates and debt burdens
- Population growth / changes in demographics
- Regulatory compliance

Accounting policies and practices

- Financial reporting framework
  - No new accounting standards for 2005 audit
  - York Housing Corporation follows accounting procedures required by Service Manager and by CMHC

Identify financial reporting risks

Entity level controls

- Control environment
- Risk assessment process
- Information system and communication
- Monitoring

Instances of misconduct or unethical behaviour

Financial performance

- External expectations
- Analysis by other governments / inhabitants / ratepayers

Materiality for the Region in 2005

Materiality for planning purposes

- The “sieve” we use to establish the nature, extent and timing of audit procedures

For the Region in the 2005 audit

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

Reporting materiality

- 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

Financial statement reporting and materiality

Materiality (definition): Those qualitative and quantitative factors that are likely to change or influence the decisions of persons relying on the financial statements.

Management

- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Adjust 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
- Communicate to management misstatements identified during the audit
- Communicate to the audit committee corrected misstatements identified by us during the audit
- Communicate to the audit committee any uncorrected misstatements identified by us during the audit and determined by management to be immaterial

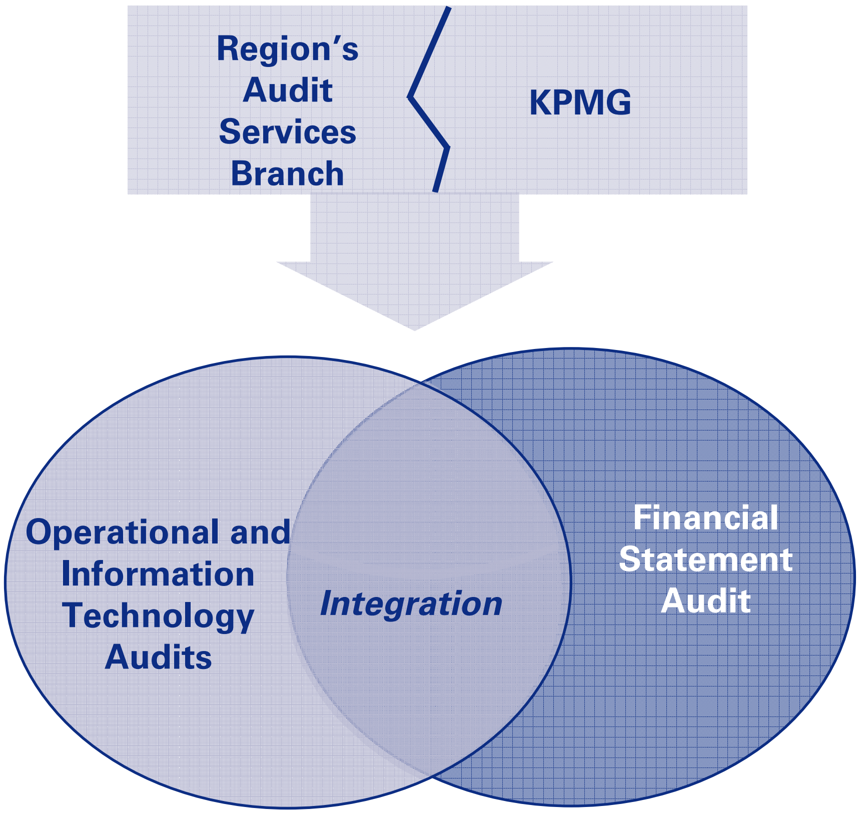
Audit Committee

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

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 5 years and has more than 13 years experience providing audit services to other public sector organizations.
Ally Tharani 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. The 2005 engagement will be Ally's second 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 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

Services planned for 2005

Nature of service	Audit Related	Tax	Non-audit related
Audit report on the financial statements of the Regional Municipality of York, the Trust Funds of the Regional Municipality of York and the Sinking Fund of the Regional Municipality of York	✓		
Audit report on the financial statements of Housing York Inc.	✓		
Report on the application of specific procedures related to the Annual Information Return of Housing York Inc.	✓		
Preparation of annual income tax returns for York Region Rapid Transit		✓	
Audit report on financial statements of York Region Rapid Transit	✓		
Completion of Auditors' Questionnaire for the MMAH			✓
Audit reports to Provincial ministries re: various funded programs	✓		

Quality at KPMG

Key components of KPMG's quality control system

- ***Integrity and ethics***

  We have developed a formal Code of Conduct that defines the values and standards by which we do business.. Partners and employees annually confirm their compliance with the Code, and we have created an independent Ethics and Compliance Hotline to help KPMG people in reporting any concerns.

- ***Personal independence of KPMG partners and employees***

  Our independence policies and procedures help ensure that our partners and employees act with integrity and objectivity. Our adherence to these policies is supported by integrated, Web-based systems that help our professionals maintain and monitor their compliance with independence requirements.

- ***Safeguarding our firm's independence and quality***.

  Other policies support independence, objectivity and quality as we work together – as teams of professionals and with our clients. Our personnel management system supports the ongoing quality of our people, while other engagement-related tools help to ensure we obtain audit committee pre-approval of auditor services, in accordance with the policies of our clients and the requirements of regulators.

- ***Client acceptance and continuance.***

  Specific policies and procedures help our partners in deciding whether to accept or continue a client relationship, and whether to perform a specific engagement for a client.

- ***Engagement performance.***

  We have established policies and guidance to ensure that the work of our engagement teams meets the firm's quality standards as well as applicable professional standards and regulatory requirements. Oversight of professional performance involves supervision, review and support processes, including engagement quality control partner reviews and our internal Quality Performance Review Program in which a sampling of partners and audit engagements are reviewed each year for quality and compliance

- ***Quality control structure.***

  KPMG has separated risk management and quality oversight from its business management activity. Our National Risk Management Partner reports directly to the CEO, and is supported by Professional Practice Partners who provide quality leadership in each business unit, as well as National Assurance and Professional Practice, a dedicated group of partners, senior managers, and other professionals who provide ongoing technical guidance and support for field professionals on a real-time basis.

Appendix 1 – KPMG's Audit Committee resources

- Audit Committee Institute – *Audit Committee Update, Spring 2005* and *Fall 2004* issues
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- KPMG*: Tax in the Boardroom,* 2005 – Discussion paper
- KPMG*: Proposed Canadian Rule on Internal Control Reporting,* February 2005
- KPMG: *Focus on Financial Reporting*, December 2004
- 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