KPMG

The Regional Municipality of York

Audit Planning Report to the Audit Committee for year ending December 31, 2004

November 4, 2004

This audit plan is prepared for the year ending December 31, 2004 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 in discharging its audit responsibilities.

This document has been prepared solely for the use of the Audit Committee in discharging its responsibilities and should not be used for any other purpose. We disclaim any obligation to any third party who may rely upon this document.

Contents

Key responsibilities regarding financial statement reporting

Audit Committee

- Provide oversight; challenge and influence – "Tone at the Top"
- Oversee the monitoring of risk, financial reporting and compliance with the law
- Oversee the control environment and reporting process and encourage continual improvement
- Review annual consolidated financial statements and recommend approval to Council
- Meet with management and external auditors to discuss annual financial statements and effectiveness of internal controls
- Review and discuss with the auditors and approve the audit plan

Management

- Prepare financial statements and notes, in accordance with Canadian GAAP
- Design, implement and maintain effective internal control and financial reporting processes to safeguard assets
- Adopt and apply sound accounting principles and apply sound judgment in preparing accounting estimates and disclosures contained in the financial statements
- Prevent and detect error or fraud
- Disclose to external auditors any fraud or suspected fraud and any illegal acts or possibly illegal acts
- Assess impact of misstatements discovered during the audit on fair presentation in the financial statements and record all material adjustments

External Auditors

- Be independent and communicate independence in accordance with Canadian professional requirements and KPMG professional requirements
- Conduct an audit in accordance with Canadian GAAS and in conformity with the Audit Plan submitted to the Audit Committee
  - –reasonable but not absolute assurance that F/S are free of material misstatement
  - –examination on a test basis
  - –assess accounting principles & significant estimates
  - –sufficient understanding of internal control to plan audit
  - –fair presentation (Canadian GAAP)
- Express an opinion on the consolidated financial statements based on the audit
- Communicate openly with Audit Committee and Management

Audit deliverables

Audit opinion on consolidated financial statements:

The Regional Municipality of York;

Audit opinion on F/S of Trust Funds of the

Regional Municipality of York;

Audit opinion on F/S of Sinking Fund of the Regional Municipality of York

Audit Committee

Audit Planning Report

Audit Findings Report

Independence Letter

Management letter

Other:

Audit reports to Provincial Ministries re: Funded Programs

Audit report on F/S of Housing York Inc.

Completion of Auditors' Questionnaire for MMAH

Our audit process – how it works

Regular communications

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

Strategic analysis

- Understand your business / industry
- Understand your business risks
- Consider fraud risk factors
- Understand financial statement implications
- Assess risk of significant misstatements
- Plan process analysis

Process analysis

- Understand key business processes and related risks
- Understand and test relevant internal controls over financial reporting
- Plan substantive audit procedures

Perform substantive audit procedures

- Perform analytical procedures and tests of details
- Evaluate findings
- Identify and resolve audit differences

Evaluate and communicate

- Analyse results
- Review and validate findings with management
- Form 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

Understanding your financial reporting risks

Business and industry environment

- Changes to technology
- Environmental Risk

What other risks concern you as an Audit Committee?

Accounting and regulatory framework

- Public Sector Accounting Standards Board of CICA

Economic, social, political environment

- Impact of provincial legislation
- Changing Demographics

Significant business risks

Control environment

- Management style/tone at the top
- Documentation / evaluation of internal controls
- Process to measure & monitor business results
- Impact of IT

Unusual and complex transactions

- Accounting for investments in Housing York Inc. and York Region Rapid Transit

Audit considerations

- ***Financial statement implications?***
- ***Risk of significant F/S misstatement?***

Fraud risk assessment

- Management's fraud risk assessment programs / controls

Audit response: audit procedures for key financial reporting risk areas

Significant Financial Statement Caption/Note Disclosure	Financial Statement Risk	Source of Audit Evidence				
		Reliance on internal controls within processes				
		Budget	Treasury and Financial Management	Human Resources	Analytical Procedures	Other Substantive Procedures
Cash and short-term investments	Accuracy, Existence and Valuation		✓			Confirmation of year end balances
Accounts receivable	Accuracy, Existence and Valuation		✓		Analysis of A/R ageing	Review of account reconciliations
Accounts payable, accruals and expenditures	Accuracy, Existence and Completeness	✓	✓			Search for unrecorded liabilities and vouching of significant accruals
Property tax and other revenue	Authorization Accuracy Completeness	✓	✓			Review of account reconciliations including reconciliations with area municipalities

✓ Controls over assertion will be tested

Audit response: audit procedures for key financial reporting risk areas (cont'd)

		Source of Audit Evidence				
		Reliance on internal controls within				
Significant Financial Statement Caption/Note Disclosure	**Financial Statement Risk**	**Budget**	**Treasury and Financial Management**	**Human Resources**	**Analytical Procedures**	**Other Substantive Procedures**
Salary costs and employee future benefits	Accuracy and Completeness	✓		✓	Comparison to budget and prior years. Review of actuarial reports.	Review of underlying assumptions for reasonableness.
Reserves and Reserve Funds	Accuracy and Authorization	✓	✓			Review provision and disclosures

✓ Controls over assertion will be tested

Audit procedures for specific financial reporting issues

Issue	Overview	Audit response
• Accounting for investments in Housing York Inc. and York Region Rapid Transit	• The Region owns and controls both Housing York Inc. and York Region Rapid Transit and is therefore required to consolidate the results of these organizations within its own consolidated financial statements.	• We will examine the consolidation including the conversion of the accounting policies of those adopted by Housing York Inc. and York Region Rapid Transit to be in conformity with the accounting policies followed by the Region.
• Contingencies	• Identification and evaluation of material contingencies • Financial accounting and disclosure.	• We will discuss and evaluate management's processes to identify material contingencies and make inquiries of your legal counsel.

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.

Audit Committee

- Understand management's process for identifying, communicating and correcting errors
- Understand management's tolerance for unadjusted differences
- Monitor "tone at the top"
- Discuss audit adjustments and uncorrected misstatements
- Persuade management to correct all misstatements

Management

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

External Auditors

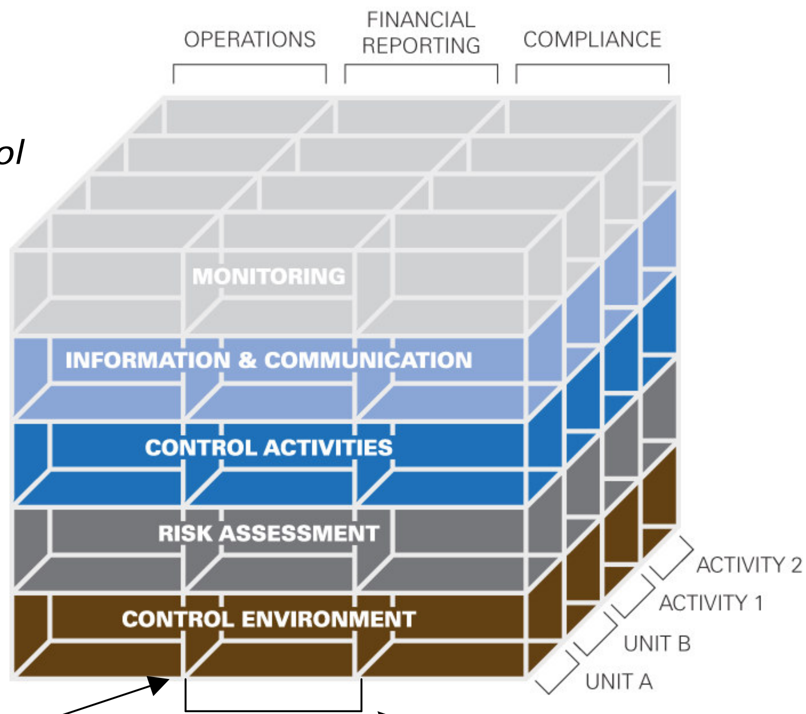
- Satisfy applicable standards and regulations
- Consider qualitative factors, including
  - Industry and regulatory influences
  - Impact on compensation
  - Reliance on estimates
- Consider whether misstatements are indicative of fraud
- Communicate non-trivial misstatements to management
- Communicate to the audit committee any uncorrected misstatements determined by management to be immaterial
- Consider need to report significant misstatements, whether or not adjusted, to the Audit Committee

Audit Materiality

- Materiality for planning purposes:
  - Essentially, the “sieve” we use to identify where audit work is required and determine the extent of required work
- For the consolidated financial statements in the 2004 audit:
  - Materiality for planning purposes established at $4,000,000
- 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 report to you all uncorrected misstatements that management has determined to be immaterial
  - At that time, we will discuss with you the reporting materiality

Internal controls and auditor opinions

CoSo Framework of Control



Auditor tests all five components in the CoSo framework of control – control environment, risk assessment, control activities, information and communication, and monitoring.

Audit report on internal control over financial reporting (currently not part of audit scope)

Auditor selects certain internal controls that he intends to test and rely on, and supplements with substantive evidence, in opining on the financial statements.

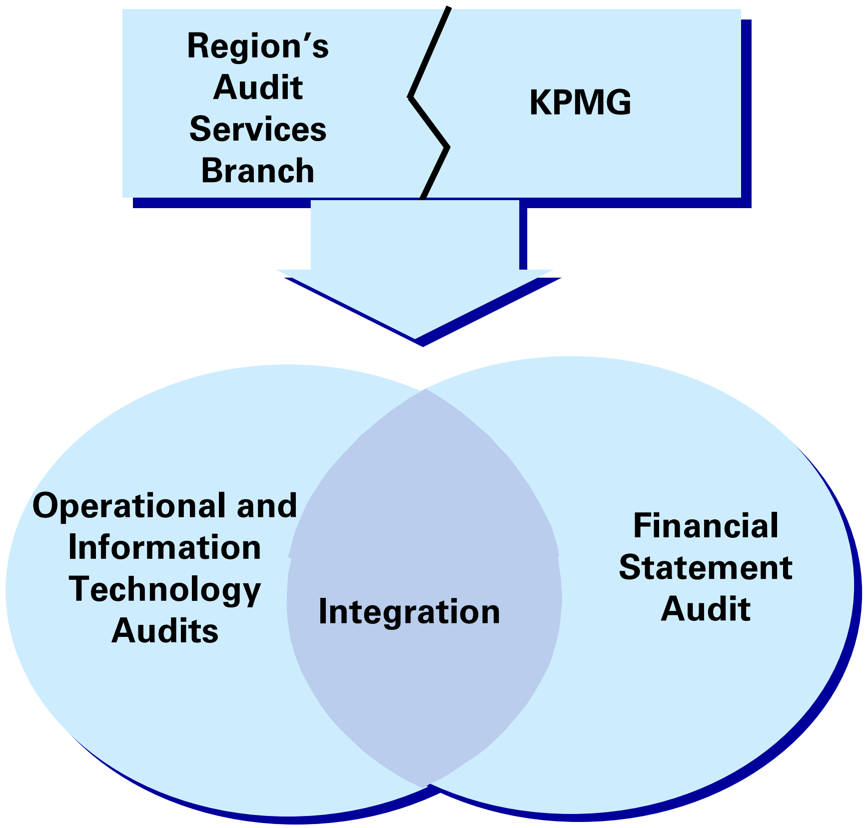
Auditor generally tests only control activities.

Audit report on financial statements

Our team

Team member	Role and Responsibility	Experience
Kevin Travers	Engagement lead with overall responsibility for quality of service and for forming the overall audit opinion.	Significant experience as auditor of other large GTA municipalities for more than twelve years, and has been part of KPMG's audit team serving the Region of York for four years.
Gerry Hagerman	Concurring Reviewer with responsibility for performing a preissuance review of the consolidated financial statements.	Associate partner and member of our Public Sector practice. Gerry has been the concurring reviewer on the Region of York audit for four years.
Ally Tharani	Engagement manager, responsible for overall project management and will collaborate with Kevin to determine the planning and scope of the overall audit.	Manager in our North York practice with more than five years experience.
Inna Glebova	Senior Accountant with responsibility for the day to day field audit work. She will supervise two additional staff.	Variety of experience doing risk assessment of IT controls for LDC's

Collaboration with 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.

Quality at KPMG

The key components of KPMG's quality control system are:

- The oversight of professional performance, including concurring partner reviews and our internal Quality Performance Review Program (QPRP), which provides for the review of a sampling of partners and audit engagements each year for quality and compliance.
- National Assurance and Professional Practice (NAPP), 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.
- Independence policies supported by integrated, Web-based systems that help our professionals maintain and monitor their compliance with independence requirements.
- KPMG's Audit Committee Institute (ACI), a resource that communicates with audit committee members and senior management to enhance their awareness of, commitment to, and ability to implement effective audit committee processes. ACI also supports KPMG partners and employees by providing background and information on current issues affecting audit committee.
- Our Assurance & Advisory Services Center, a dedicated group of professionals who develop the global methodologies used in our audit and non-audit service processes.
- A National Risk Management Partner (RMP) who is responsible for all areas of risk management, is a member of the Management Committee, and who reports directly to KPMG's CEO.

Meeting your expectations

Your needs

- *What are your priorities and concerns as an audit committee*?
- Consultation on public sector industry issues with financial reporting implications
- Advice on new accounting pronouncements with financial reporting implications for The Regional Municipality of York
- Regular and open communication
- Independent and objective advice
- Responsive and proactive approach to service delivery
- Proactive advisors providing strategic industry knowledge

Our approach

- KPMG attendance at Audit Committee meetings
- In addition to regular contact with senior management, we are available to dialogue and meet with the audit committee chair
- At each audit committee meeting, we will update you on any changes, and discuss likely timing and potential impact
- Providing informative supplemental reporting in addition to the formal audit report (specifically, this audit plan, the year-end audit findings report and our management letter)
- Providing you with an opportunity to measure how well we have met your expectations

KPMG's Audit Committee resources

- Audit Committee Institute – *Audit Committee Update, Spring 2004* and *Fall 2003* issues
- *Accountability e-Lert* – bi-weekly newsletter. Subscribe at www.kpmg.ca/accountability
- KPMG: *Survey on the Risk of Manipulation of Financial Statements, 2004*
- KPMG: *Focus on Financial Reporting*, December 2003
- KPMG*: Sarbanes-Oxley Section 404: An Overview of the PCAOB's Requirements* – the Canadian edition's introduction highlights what audit committees should expect in 2004 from Canadian regulators and standard setters
- Audit Committee Institute – Audit Committee Roundtables held each in spring and fall
- Audit Committee Institute web site – www.kpmg.ca/auditcommittee

The Regional Municipality of York: Impact of current accounting developments

Current Public Sector Accounting Standards Board (PSAB) Projects

- PSAB has approved a project on accounting for and reporting the non-financial assets of local governments. The project will also assess whether changes are needed to the local government financial statement model (movement from modified accrual method of accounting for non financial assets).
- At its March 2004 meeting, PSAB approved a final Statement of Recommended Practice for Financial Statement Discussion and Analysis. This statement provides a framework for the preparation of financial statement discussion and analysis information. It is not intended to be prescriptive but rather provide guidance as to the nature and extent of the information to be disclosed in such a report. This is the first stage of PSAB performance reporting initiative. The second stage, Performance Reporting is currently underway.
- The availability and use by governments of sophisticated, non-traditional financial instruments continues to rise but the PSA Handbook does not include disclosure and presentation standards comparable to the CICA Handbook – Accounting for financial instruments nor does it have recognition and measurement standards that address these financial instruments. A project has been approved to address these in the public sector.
- This project will define revenue, identify the distinction between non-exchange and exchange revenues and recommend how governments should account for and report their non-exchange revenues other than self-assessed taxes, and the related receivables. Non-exchange revenues that are expected to be reviewed include property taxes, fees other than users' fees, final, penalties and donations. The project will also define the requirements for the deferral of revenue, when it is appropriate and when it is not. Recoveries, refunds, deferrals and phase-ins of property taxes will also be addressed. This project is also expected to deal with the issue of gross or net reporting of revenues.

PS 1300 Government Reporting Entity

- These revisions address how the government reporting entity should be defined and, once defined, how the organization should be included in the consolidated financial statements
- Effective for years beginning on or after April 1, 2003
- ***Impact should be reviewed for its applicability to the Region***