KPMG

Regional Municipality of York

Audit Planning Report to the Audit Committee for year ending December 31, 2003

October 2, 2003

This audit plan is prepared for the year ending December 31, 2003 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.

Audit deliverables

Residents and Ratepayers

Audit opinion on consolidated F/S, and Trust Funds and Sinking Funds,

Audit opinion on Housing York Inc.,

Audit opinion on York Region Rapid Transit

Audit opinions on Regional Health and Social Services Settlement Reports

Audit Committee

Audit Planning Report

Audit Findings Report

Independence Letter

Management letter

Ministry of Municipal Affairs and Housing

Auditors' Questionnaire

Our audit process – how it works

Regular communications

Discuss expectations and critical success factors regularly
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

What other risks concern you as an Audit Committee?

Business and industry environment

- Changes to technology
- Environmental risks

Accounting and regulatory framework

- Public Sector Accounting Standards Board of the Canadian Institute of Chartered Accountants

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 investment in Housing York Inc. and York Region Rapid Transit
- Accounting for post-employment benefits

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	**Human Resources**	**Treasury / Financial Management**		**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 and accruals	Accuracy Existence and Completeness	✓		✓			Search for unrecorded liabilities and vouching of significant accruals
Property tax revenue and other revenue	Existence and Completeness	✓		✓		Comparison to budget and prior year	Review of account reconciliations including reconciliations with area municpalities
Expenditures	Existence and Completeness	✓		✓		Comparison to budget and prior years	Review of account reconciliations

✓ Controls over assertion will be tested

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

Significant Financial Statement Caption/ Note Disclosure	**Financial Statement Risk**	**Source of Audit Evidence**					
		Reliance on internal controls within					
		Budget	**Human Resources**	**Treasury / Financial Management**		**Analytical Procedures**	**Other Substantive Procedures**
Employee Future Benefits	Accuracy Completeness	✓				Review of actuarial report	Review of underlying assumptions for reasonableness
Payroll	Accuracy Completeness	✓	✓			Comparison to budget and prior year by department	Trend analysis
Reserves and Reserve Funds	Accuracy Authorization	✓		✓			

✓ Controls over assertion will be tested

Audit procedures for specific financial reporting issues

Issue	Overview	Audit response
• Accounting for investment 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 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 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.
• CICA Handbook – new PSAB reporting requirements	• The Region implemented the reporting requirements related to PS 3250 Retirement Benefits and PS 3255 Post-employment Benefits , Compensated Absences and Termination Benefits in the prior year.	• We will continue to review and evaluate any proposed new standards with management.

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:
  - Reliance on estimates
  - Budgetary pressures
- Consider fraud risk
- Communicate non-trivial misstatements to management
- Communicate significant misstatements, whether or not adjusted, to Audit Committee

Materiality for Regional Municipality of York

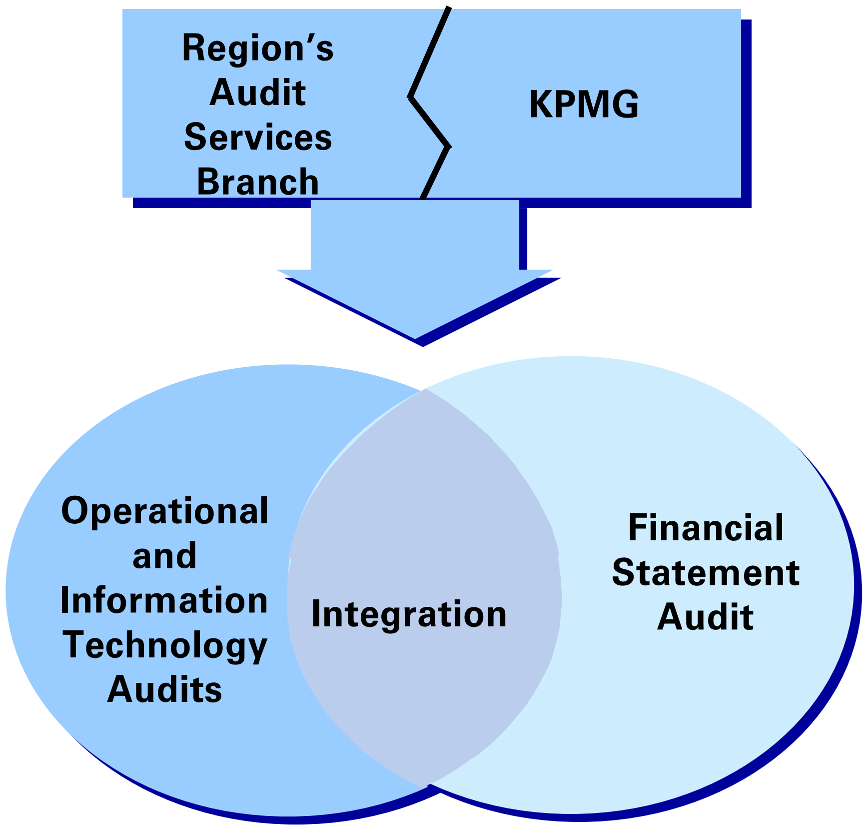
- Materiality for planning purposes:
  - Essentially, the “sieve” we use to identify where audit work is required and determine the extent of required work
- For the Regional Municipality of York in the 2003 audit:
  - Materiality for planning purposes established at $ 2,500,000 for the Regional Municipality of York audit, $130,000 for Housing York Inc.
- Reporting materiality:
  - Essentially, the “sieve” we use to identify adjustments which must be made at the completion of the audit
  - As part of our audit findings report, we will report all significant audit differences to you
  - At that time, we will discuss with you the reporting materiality for Regional Municipality of York

Our team

Team member	Role	Responsibility and Experience
Bob Correll	Lead Partner	Bob has overall responsibility for the examination and ascertains that Firm and professional standards have been complied with. He is responsible for resolving significant auditing and accounting questions and evaluating the adequacy of audit results and conclusions. Bob determines the content of and signs the audit reports and management letter. Bob is also available to provide client assistance in accounting and business matters as requested throughout the year. Bob is the leader of KPMG's Ontario Local Government network and has worked with municipal clients for more than twenty years including three with the Regional Municipality of York.
Gerry Hagerman	Concurring Review Associate Partner	Gerry will be responsible for performing a pre-issuance review of the consolidated financial statements. Gerry will also be available to deal with audit related concerns of the Region's councillors and staff. He has been involved with the Regional Municipality of York audit for three years.
Kevin Travers	Audit Senior Manager	Kevin and Bob will collaborate to determine the planning and scope of the overall audit. Kevin will review all phases of the Region's examination and evaluate results of the examination. Kevin has the responsibility of keeping Bob informed as to the status of the audit and any potential significant auditing or accounting issues. Kevin has over ten years' experience serving clients in the local government sector and has three years' experience on the Regional Municipality of York audit.
Inna Glebova	Senior Accountant	Inna will be the in-charge accountant responsible for the day to day field audit work. She will supervise two additional staff.

Collaboration with Audit Services Branch

KPMG keeps in regular contact with the Region's Audit Services Branch



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

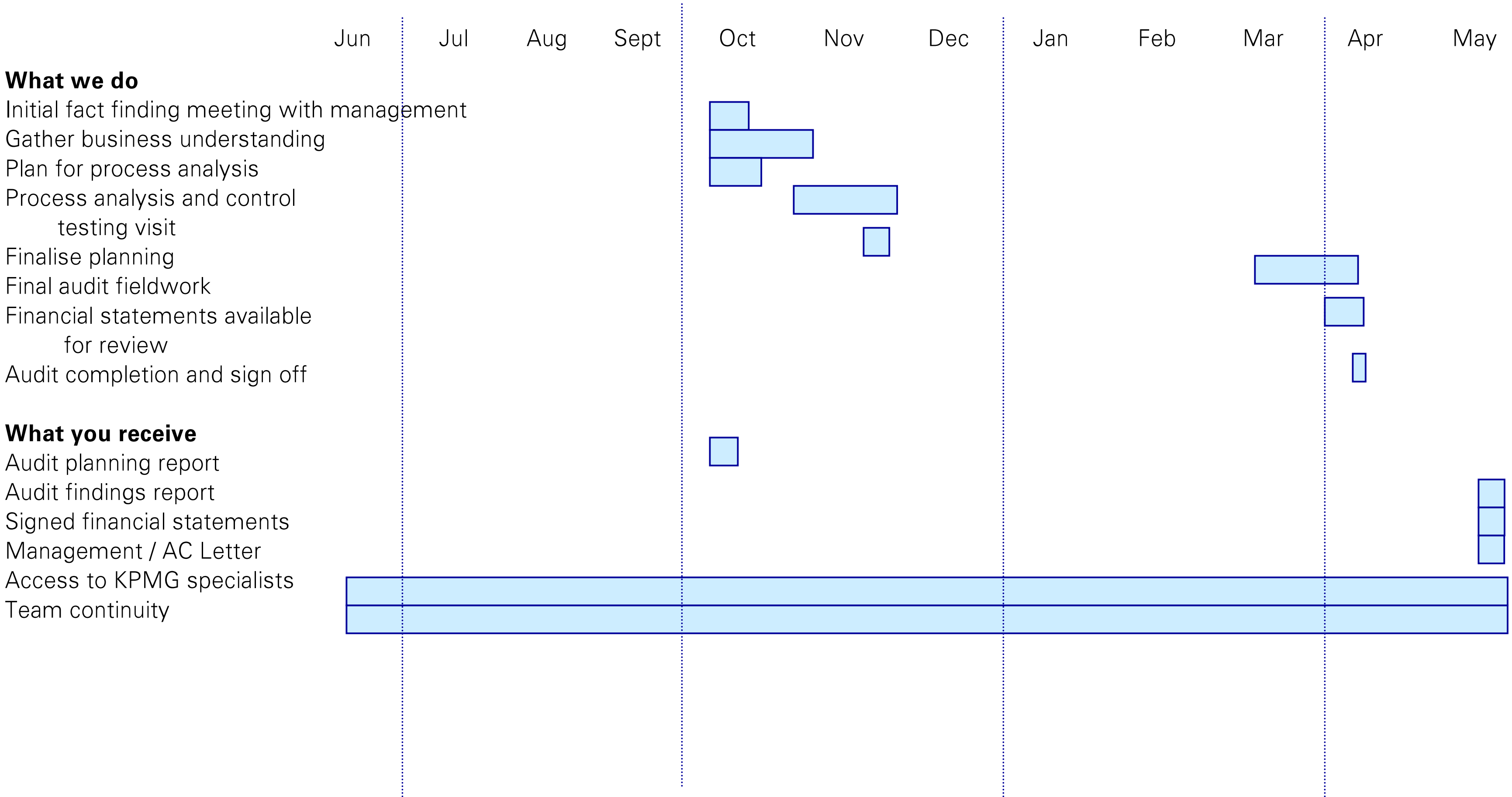
- Duplications in audit effort
- Opportunities to share information to assist each other in our mandates

Use of specialists

Type of specialist	Role		Reason for involvement / Audit implications
	External specialist	KPMG specialist	
• Information risk management		✓	A representative from KPMG's Information Risk Management Group ("IRM") will liase with Kevin and Bob to evaluate and identify information technology risk and will assist in designing and performing appropriate tests of controls developed to mitigate these risks.
• Actuary	✓		The computation and extrapolation of the costs and liabilities associated with the Region's employment benefit programs necessitates the use of an actuary. KPMG will review the report prepared by the Region's actuary

Our audit timetable

When will we do the work and report to you

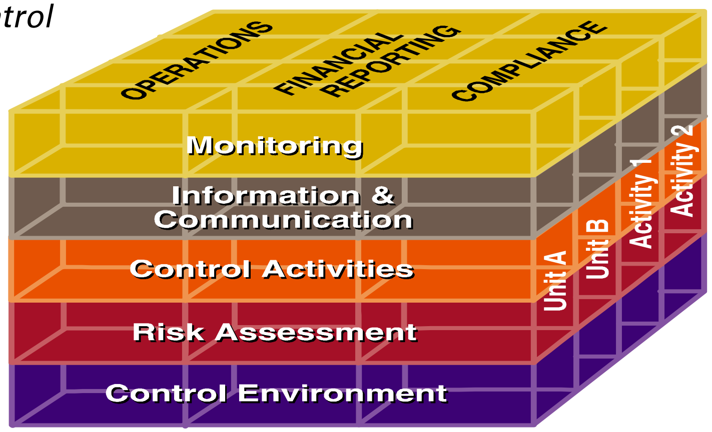


Independence

- Independence: a *state of mind of the auditor* requiring constant scepticism and opinions from an informed, knowledgeable perspective.
- Our approach to date:
  - Annual independence letter to confirm that we are objective within the meaning of the Rules of Professional Conduct.
  - As appropriate, we update you on the details of any changes and reconfirm our independence.
- Safeguards regarding our continued independence – ongoing:
  - We monitor our continued independence and communicate with the Audit Committee, at least annually, matters relating to our independence.
  - Annual internal independence declaration process for Canadian partners, managers, and staff.
  - Audit engagement partner must approve all non-audit services for audit client.
  - Independence compliance policies, supporting technology and audit procedures.
  - Annual monitored independence training.

Internal controls and auditor opinions

CoSo Framework of Control



Internal controls on financial reporting

—Monitoring
—Information & communication
—Control activities
—Risk assessment
—Control environment

Auditor testing

External 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.

Internal control attestation report

Financial statement audit report

Quality control at KPMG

- Quality control excellence provides mutual benefit to our clients and KPMG
- Key elements
  - Concurring partner review of financial statements on all public entity / high risk engagements
  - Industry specialist group meetings
  - Consultation required with National Assurance & Professional Practice on complex or unusual accounting, auditing or risk management issues
  - Prescribed process to resolve differences of opinion on audit engagements
  - Ongoing refinement of audit processes and tools in conjunction with our U.S. firm
  - Annual quality performance reviews; all partners reviewed triennially
  - Surprise quality performance reviews
  - Annual training of all audit personnel on audit methodology, regular technical training on new professional standards throughout the year for all audit personnel.
  - Prescribed independence policies supported by web-based compliance tools
  - Document retention policies
  - Periodic reviews by inspectors from provincial institutes / ordres of chartered accountants
  - Ongoing client reassessment

Current Accounting and Assurance Developments

PS 3255 Post-employment benefits, compensated absences and termination benefits

- Effective for all audit years commencing on or after January 1, 2004, however early adoption is encouraged.
- PS 3255 requires federal, provincial, territorial and local governments to record the liability for post employee benefits, compensated absences and termination benefits as the benefit is earned.
- The Region has adopted this standard in 2002.

Research Study: Accounting for Infrastructure in the Public Sector

- Released in the Fall of 2002.
- A research study serves to contribute to authoritative literature on an accounting issue of consequence.
- Research studies in themselves do not represent new standards, rather they serve to build the supporting literature and stimulate discussion.

Current Public Sector Accounting Board (PSAB) Projects

- A task force is developing guidance for Financial Statement Discussion and Analysis. Exposure Draft Comments are due in September 2003.
- Accounting for Liabilities, Contingencies and Commitments is being reviewed with an Exposure Draft likely to be issued before the end of 2003.
- Financial instruments: Guidance on recognition and measurement Exposure Draft planned for April 2004.
- Government Transfers: project initiated to address inconsistencies in reporting of payment and receipt of transfer payments and grants. Statement of principle approved, and Exposure Draft expected in 2004.
- Local Government Financial Reporting: recognizing that local governments have a significant investment in tangible capital assets and that there is a need to provide for this information in financial reporting model, a project has been commenced.

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 the Council
- Meet with management and external and internal auditors to discuss annual financial statements and effectiveness of internal controls
- Review and discuss with the auditors and approve the audit plan

Management

- Prepare consolidated 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
- 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

  - test basis

  - fair presentation
- Express an opinion on the consolidated financial statements based on the audit
- Communicate openly with Audit Committee and Management

KPMG

KPMG Audit Committee Resources

- Audit Committee Institute – *Spring Update 2003*
- Audit Committee Institute – Audit Committee Roundtables held each in spring and fall
- Audit Committee Institute web site – www.kpmg.ca/audit committee
- *Accountability e-Lert* – bi-weekly newsletter. Subscribe at www.kpmg.ca/accountability
- KPMG: *Focus on Financial Reporting*
- KPMG: *Sarbanes-Oxley: A Closer Look*
- KPMG: *Sarbanes-Oxley Section 404: Management Assessment of Internal Control and the Proposed Auditing Standards*