KPMG ENTERPRISE

AUDIT

The Regional Municipality of York

Audit Planning Report

For the year ended December 31, 2012

KPMG Enterprise™

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Dear Audit Committee members,

Audit planning is the cornerstone of an effective, efficient and high quality audit. In developing our audit plan, we have worked with management to obtain a common understanding of the issues and related financial reporting risks facing The Regional Municipality of York and have designed our audit to focus on those areas of risk.

As a member of the Audit Committee, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

At KPMG Enterprise™, we are committed to audit quality and outstanding client service. Audit quality is integral to our business and is engrained in our training, our processes and our systems and controls. We believe this audit plan embodies our commitment to audit quality.

We would like to take this opportunity to remind you that KPMG's Audit Committee Institute is committed to providing information, resources and knowledge-sharing opportunities to help those charged with governance strengthen the integrity of their financial reporting process and the quality of their corporate governance practices. For more information, and to register to receive updates, publications and invitations to Audit Committee Institute events, please visit www.kpmg.ca/auditcommittee.

We sincerely hope this Audit Planning Report is of assistance to you, and we look forward to discussing it in detail and answering any questions you may have at the upcoming audit planning meeting.

Yours sincerely,

Kevin Travers

Partner

For KPMG's audit committee resources,
please visit kpmg.ca/auditcommittee]

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I. Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose[1] of carrying out and discharging your responsibilities and exercising oversight over our audit of the consolidated financial statements.

What has changed from last year

There are no significant changes that might directly impact the audit for the current period.

Annual inquiries related to risks of fraud

Canadian Auditing Standards require that we ask you the following questions in connection with your oversight of management's process for identifying and responding to the risks of fraud:

- How do you provide effective oversight of management's process for identifying and responding to fraud risks, including programs and controls to prevent, detect and deter fraud?
- Are you aware of any instances of actual, suspected or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, how have the allegations been addressed?

Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations and accumulated surplus, change in net financial assets, and cash flows of The Regional Municipality of York in accordance with Canadian public sector accounting standards.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter presented separately from this report.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- For the current period, materiality of $50M (2011 - $40M) has been determined.

[1] KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this document has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

- We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.
- We will communicate uncorrected misstatements to you, other than those that are clearly trivial.
- Should uncorrected misstatements remain, in accordance with professional standards, we will:
  - request that all uncorrected misstatements be corrected.
  - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.

Significant financial reporting risks

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

A sample of significant accounts identified during our audit planning are listed below:

The Regional Municipality of York

Investments and related income
Risk of material misstatement
Completeness, existence, accuracy, valuation
Summary of planned audit approach
• Substantive test of details over additions and disposals of investment • Obtain confirmations from third parties • Review investment policy
Tangible capital assets
Risk of material misstatement
Completeness, existence, accuracy, valuation, presentation
Summary of planned audit approach
• Substantive test of details over additions and disposals • Review amortization policy and recalculations • Review construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis • Assess impairment reviews by management

Taxation revenue
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Substantive approach recalculating tax revenue using approved tax rates and assessment • Obtain confirmations from the lower tiers
Development charges revenue and expenses
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Substantive test development charge collections by vouching to cash receipts and ensure proper classification • Perform interest reasonability test on interest earned relating to development charges • Vouch development charge expenditures to supporting documents and ensure they relate to the appropriate programs • Perform analysis on certain over budgeted projects
Government grants
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Compare grants received to grants earned with reference to the related expenses to ascertain that the appropriate amount of revenue has been recognized
Expenses - current
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Evaluate the design and implementation of controls over payroll expenses • Test the operating effectiveness of the controls • Substantive test of details of non-payroll expenses

Post retirement liability
Risk of material misstatement
Completeness, existence, accuracy, valuation, occurrence, presentation
Summary of planned audit approach
Use of management's expert • Actuary

Housing York Inc.

Investments and related income
Risk of material misstatement
Completeness, existence, accuracy, valuation
Summary of planned audit approach
• Substantive test of details
Income-producing properties
Risk of material misstatement
Completeness, existence, accuracy, valuation, occurrence, presentation
Summary of planned audit approach
• Substantive test of details over additions
Subsidy revenue
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Substantive test of details
User charges revenue / tenants rents
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Verify revenue using substantive analytical methods

Government grants
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Compare grants received to grants earned with reference to the related expenses to ascertain that the appropriate amount of revenue has been recognized
Expenses - current
Risk of material misstatement
Completeness, existence, accuracy
Summary of planned audit approach
• Evaluate the design and implementation of controls over payroll expenses • Test the operating effectiveness of the controls • Substantive test of details of non-payroll expenses

Timing of the audit

We have discussed the key audit deliverables with management and the expected dates indicated below have been agreed upon:

Key deliverables and expected dates	
Deliverables	**Expected date(s)**
Conduct interim audit field work	November / December 2012
Conduct year-end audit field work • The Regional Municipality of York • Housing York Inc.	 March / April 2013 March 2013
Present the Audit Findings Report to the Audit Committee	June 2013
Provide audit opinion on financial statements	May 2013

Performance improvement observations

During the course of our audit, we may become aware of opportunities for improvements in financial, accounting or operational processes. We will discuss any such opportunities with management and provide our recommendations for performance improvement. We will also include a synopsis of these issues and our recommendations in our Audit Findings Report to be delivered to you at the completion of the audit.

II. Appendices

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, 2014.

Government Transfers

- PS 3410 - Government Transfers was approved in June 2011.
- Sets out 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 effective for fiscal years beginning on or after April 1, 2012.

KPMG’s Audit Committee resources

General

- *Ten To-Do’s for Audit Committee in 2012*, Audit Committee Institute (Feb 2012) http://www.kpmg.com/Ca/en/Hidden/Documents/ACI-ten-to-dos-2012-English.pdf
- *What is the role of audit committee*, Audit Committee Institute (Jan 2012) http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Publications-surveys-and-resources.aspx
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Roundtables.aspx
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee

KPMG’s Not for Profit Web site - http://www.kpmg.com/Ca/en/WhatWeDo/Industries/PublicSector/Pages/Not-for-Profit.aspx

www.kpmg.ca/enterprise
www.kpmg.ca/bottomlineblog