KPMG

The Regional Municipality of York

Audit Planning Report for the year ending December 31, 2016

September 23, 2016

kpmg.ca/audit

The contacts at KPMG in connection with this report are:

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Audit and business risk

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting.

See page 4.

KPMG team

The KPMG team will be led by Partner Kevin Travers and supported by Senior Manager Claudio Martellacci. Subject matter experts will be involved to ensure our approach is appropriate and robust.

Effective communication

We are committed to transparent and thorough reporting of issues to the Finance and Audit Committee.

Audit Materiality

Materiality has been determined based on budgeted operating expenditures. We have determined materiality to be $66,355,000 for the year ending December 31, 2016.

See page 9.

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk.	Our audit methodology incorporates the required procedures in professional standards to address this risk. We test journal entries that meet specific criteria. This criteria is designed during the planning phase of the audit and is based on areas and/or accounts that are susceptible to manipulation through management override and/or we design search filters that allow us to identify any unusual journal entries.
Fraud risk from management override of controls	This is a presumed fraud risk.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit approach

Other areas of focus include the following:

Other areas of focus	Our audit approach
Investments and Related Income	• Substantive test of details over additions and disposals of investment • Obtain confirmations from third parties • Review investment policy
Tangible Capital Assets	• 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	• Substantive approach recalculating tax revenue using approved tax rates and assessment • Obtain confirmations from the lower tiers
Development Charges Revenues and Expenses	• 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

Audit approach (Continued)

Other areas of focus include the following:

Other areas of focus	Our audit approach
Government Grants	• Compare grants received to grants earned with reference to the related expenses to ascertain that the appropriate amount of revenue has been recognized
Accounts Payable, Accrued Liabilities and Expenses – Current	• 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 • Search for unrecorded liabilities • Examine accrued liabilities for accuracy and completeness
Post Retirement Liability	• Obtain actuary report and review assumptions used by actuary expert • Communication with actuary and testing of data provided to the actuary • Review of disclosures
Cash and Investments (Housing York Inc.)	• Confirmation with third parties • Review of bank reconciliations and reconciling items

Audit approach (Continued)

Other areas of focus include the following:

Other areas of focus	Our audit approach
Property Holdings (Housing York Inc.)	• Confirmation with third parties • Review of bank reconciliations and reconciling items
Subsidy and Rental Revenue (Housing York Inc.)	• Perform substantive analytical procedures over subsidy and rental revenue • Revenue recognition, revenue restriction and presentation considerations
Accounts Payable, Accrued Liabilities and Expenditures (Housing York Inc.)	• Verify mathematical accuracy of the reconciliation between the sub-ledger and general ledger • Perform the search for unrecorded liabilities • Perform substantive analytical procedures over expenditures
Mortgage Payable (Housing York Inc.)	• Confirmation with various third party institutions and lenders • Ensure appropriate disclosure in the financial statements (current vs non-current, interest rates, maturity dates) • Assess compliance with covenants, if any

Data & analytics in the audit

We will be integrating Data & Analytics (D&A) procedures into our planned audit approach.

Use of innovative D&A allows us to analyze greater quantities of data, dig deeper and deliver more value from our audit.

We believe that D&A will improve both the quality and effectiveness of our audit by allowing us to analyze large volumes of financial information quickly, enhancing our understanding of your business as well as enabling us to design procedures that better target risks.

Area(s) of focus	Planned D&A routines
Journal Entries	– Utilize computer-assisted audit techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing

Detailed results and summary insights gained from D&A will be shared with management and presented in our Audit Findings Report.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Current Year
Benchmark	Based on budgeted operating expenditures plus amortization of tangible capital assets	$2,211,847,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%	3%
Materiality	Determined 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.	$66,355,000
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	$49,766,250
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	$3,317,750

Value for fees

The value of our audit services

We recognize that the primary objective of our engagement is the completion of an audit of the [consolidated] financial statements in accordance with professional standards. We also believe that our role as external auditor of The Region and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. We know that you expect this of us.

We want to ensure we understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhance the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit. We welcome your feedback.

- Extensive industry experience on our audit team – as outlined in our team summary, the senior members of our team have extensive experience in audits of other local governments. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Involvement of KPMG specialists – Our audit team is supported by specialists in payroll and indirect taxes, information risk management and valuations that are available to management on an as needed basis.

Audit cycle and timetable

Our key activities during the year are designed to achieve our one principal objective:

To provide a robust audit, efficiently delivered by a high quality team focused on key issues.

Our timeline is in line with prior year to avoid any last minute surprises.

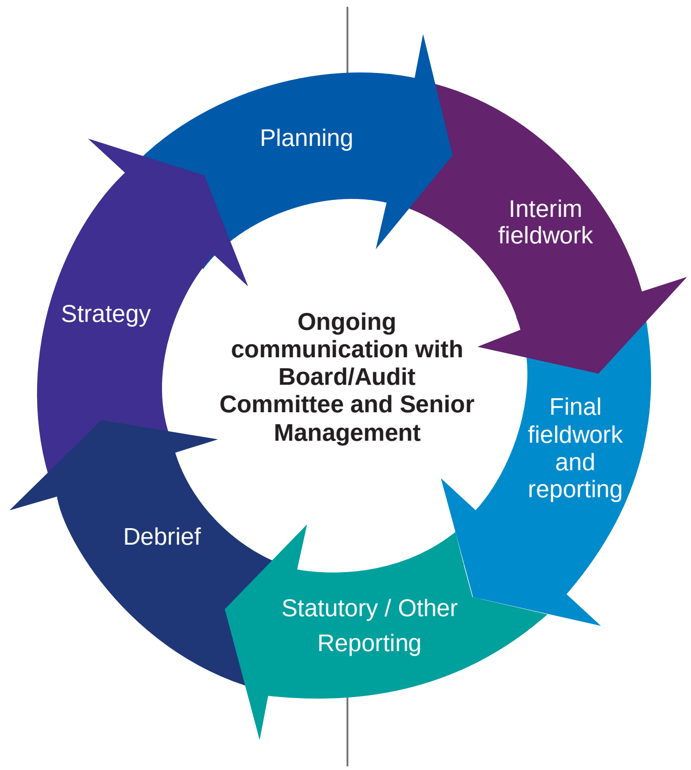
Planning meeting with management: **October 2016**

Commence year end planning: **November 2016**

Interim Fieldwork:

November 28, 2016 to December 9, 2016

Confirmations: **During Interim Fieldwork**



Final fieldwork:

The Region: **March – April 2017**

Housing York Inc.: **March 2017**

Audit Findings Discussion: **May 2017**

Issuance of Audit Report: **May 2017**

Appendices

Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our Audit Quality Resources page for more information including access to our audit quality report, Audit quality: Our hands-on process.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 2: KPMG's audit approach and methodology

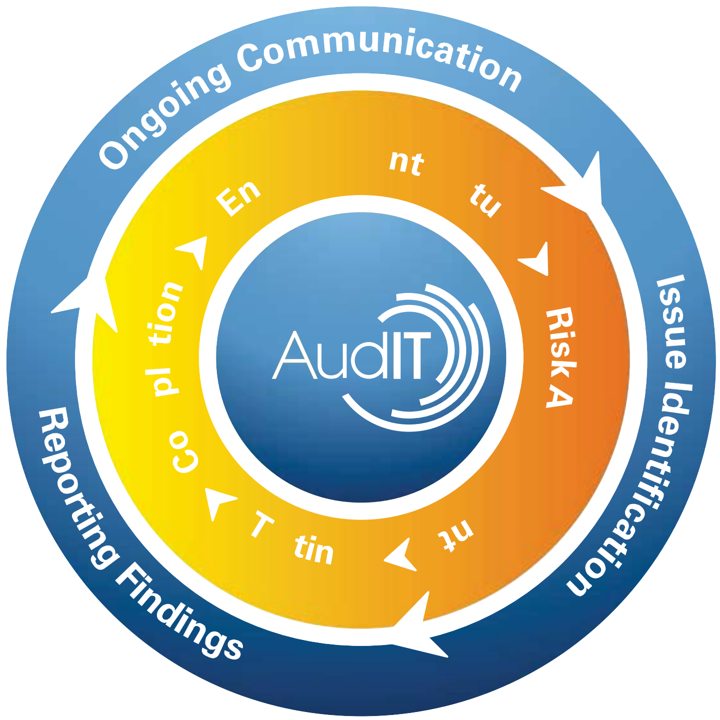
Technology-enabled audit workflow (eAudIT)

Engagement Setup

- Tailor the eAudIT workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudIT workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudIT workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 3: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management
- A**udit planning report** – as attached
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee
- **Audit findings report** – at the completion of our audit, we will provide a report to the Audit Committee
- **Annual independence letter** – at the completion of our audit, we will provide a letter to the Audit Committee

Appendix 4: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies. Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.

For the audit

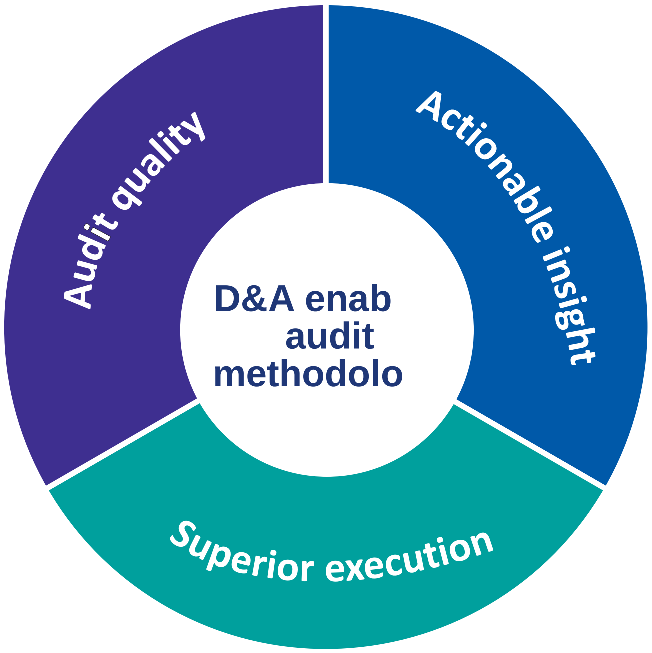
Audit quality

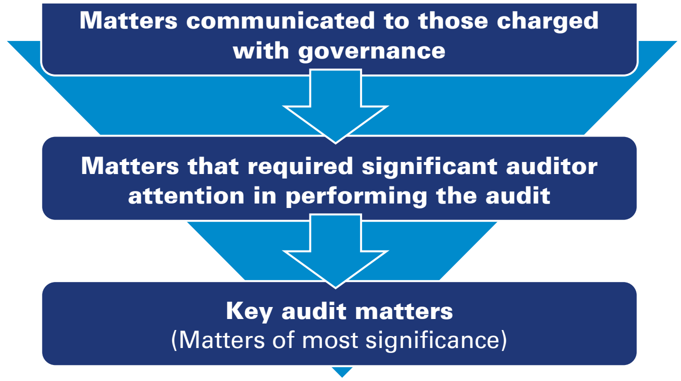
- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For your business

Actionable insight

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?





Appendix 5: Current developments

Topic/Standard	Summary and implications
Not-for-Profits in the Age of the Customer	**Not-for-Profit organizations face unique challenges in achieving mission objective in an increasingly "customer-centric" environment** Delivering excellent customer experience is difficult enough for traditional companies whose sole focus is on profitably delivering products and services to help drive shareholder value creation. Not-for-profit organizations face a unique challenge, as their "customers" can be recipients of "Mission" and/or providers of "Money, Time and Influence" at any given time. For most not-for-profit organizations, "Mission" interactions occur on a needs basis, while "Money" interactions happen as a series of one-off touch-points which can be years – or even decades – apart. A customer-focused strategy can provide the tools to help define the right experience to provide at each "life stage" so that relationships last longer, and so that cumulative lifelong engagement and giving is maximized. The age of the customer – KPMG's perspective: Not-for-profits must adapt
Cyber security	The threats from cyber adversaries are continuing to grow in scale and sophistication. NPOs worldwide now openly acknowledge that cyber attacks are one of the most prevalent and high impact risks they face. Cyber security for Canada's Not-for-Profit Organizations – Attack is certain – Your loss is not
PS 3210 - Assets	This standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows:

Topic/Standard	Summary and implications
	• They embody future economic benefits that involve a Region, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. • The public sector entity can control the economic resource and access to the future economic benefits. • The transaction or event giving rise to the public sector entity's control has already occurred. The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Region's December 31, 2018 year-end).
PS 3320 – Contingent Assets	This standard defines contingent assets. They have two basis characteristics: • An existing condition or situation that is unresolved at the financial statement date. • An expected future event that will resolve the uncertainty as to whether an asset exists. The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Region's December 31, 2018 year-end).
PS 3380 – Contractual Rights	This standard defines contractual rights to future assets and revenue. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:

Topic/Standard	Summary and implications
	(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Region's December 31, 2018 year-end).
PS 2200 Related Party Disclosures	This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons. This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Region's December 31, 2018 year-end).
PS 3420 Inter-entity Transactions	This standard relates to the measurement of related party transactions and includes a decision tree to support the standard. Transactions are recorded a carrying amounts with the exception of the following:

<table>
<tr><th>Topic/Standard</th><th>Summary and implications</th></tr>
<tr><td></td><td>In the normal course of business – use exchange amount
Fair value consideration – use exchange amount
No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair.
Cost allocation – use exchange amount
This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Region’s December 31, 2018 year-end).</td></tr>
<tr><td>Standard of Financial Instruments</td><td>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the Region’s December 31, 2020 year-end).

Implications: This standard will require the Region to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Region. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</td></tr>
<tr><td>Revised Standard on Foreign Currency Translation</td><td>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (the Region’s December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.

Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</td></tr>
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