



cutting through complexity

AUDIT

The Regional Municipality of York

Audit Planning Report
For the year ending December 31, 2015

KPMG LLP

Licensed Public Accountants

October 1, 2015

kpmg.ca



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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 Manager, Claudio Martellacci. Subject matter experts, as required, will be involved to ensure our approach is appropriate and robust.

Audit Materiality

For The Regional Municipality of York ("The Region"), materiality has been determined based on budgeted operating expenditures. We have determined materiality to be \$62,744,000 for the year ending December 31, 2015.

See page 8.

Effective communication

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

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 management override of controls exist in all companies.

The risk of management override of control cannot be rebutted because 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.

CAS requirements	Why	Our audit approach
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 (continued)

Other areas of focus	Our audit approach
Investments and Related Income	<ul style="list-style-type: none"> • Substantive test of details over additions and disposals of investment • Obtain confirmations from third parties • Review investment policy
Tangible Capital Assets	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Substantive approach recalculating tax revenue using approved tax rates and assessment • Obtain confirmations from the lower tier municipalities
Development Charges Revenues and Expenses	<ul style="list-style-type: none"> • 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	Our audit approach
Government Grants	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.)	<ul style="list-style-type: none"> • Confirmation with third parties • Review of bank reconciliations and reconciling items

Audit approach (continued)

Other areas of focus	Our audit approach
Property Holdings (Housing York Inc.)	<ul style="list-style-type: none"> • Confirmation with third parties • Review of bank reconciliations and reconciling items
Subsidy and Rental Revenue (Housing York Inc.)	<ul style="list-style-type: none"> • 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.)	<ul style="list-style-type: none"> • 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.)	<ul style="list-style-type: none"> • 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

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.	\$2,091,472,000
% 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.	\$62,744,000
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	\$47,058,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	\$3,137,000

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 with management:

October 2015

Commence year end planning:

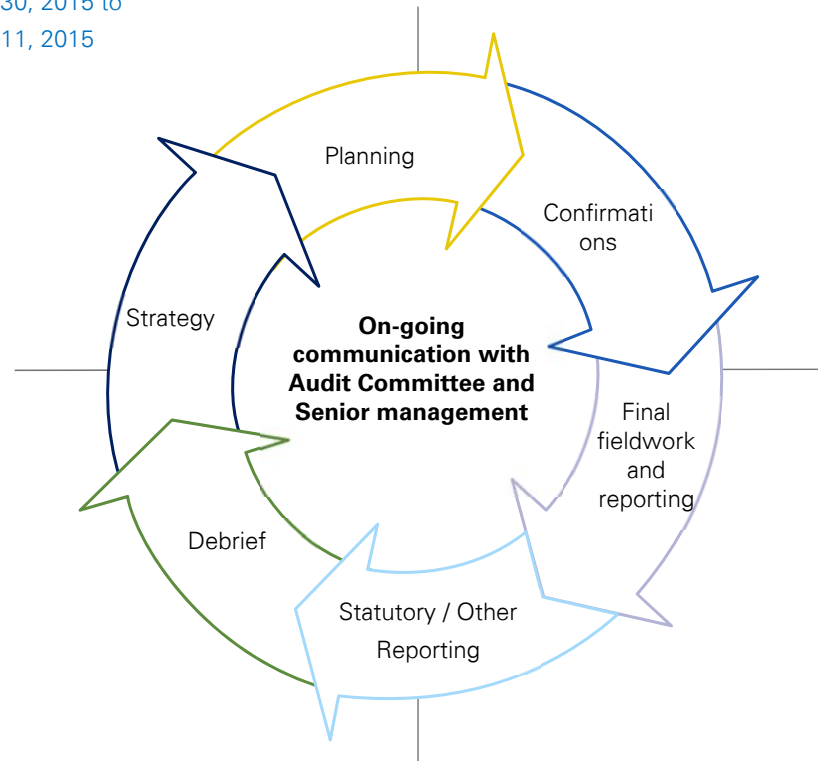
November 2015

Interim fieldwork:

November 30, 2015 to
December 11, 2015

Confirmations:

During interim fieldwork



Final fieldwork:

The Region
March – April 2016

Housing York Inc.
March 2016

Audit findings discussion:
May 2016

Issuance of Audit Report:
May 2016

Appendices

Appendix 1: Audit Quality and Risk Management

Appendix 2: KPMG's audit approach and methodology

Appendix 3: Required communications

Appendix 4: Current developments

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 <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
 - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of the audited financial statements
 - 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 work flow (eAudit)

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit work flow 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 work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including external experts, internal auditors, service organizations auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

Testing

- Tailor the eAudit work flow to your circumstances
- Test operating effectiveness of internal controls (as 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
- **Audit 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** – we will provide this letter at the completion of our audit to the Audit Committee

Appendix 4: Current developments

The following is a summary of the current developments that are relevant to The Region:

Standard	Summary and implications
Employer Compliance Audits	<p>Recently, Canada Revenue Agency (“CRA”) has demonstrated a renewed focus on “Employer Compliance Audits”, which include a review of various employer-provided benefits, as well as the nature of the relationship that exists between an employer and its employees and other third party consultants.</p> <p>Employer compliance audits – Are your benefits taxable?</p>
Cyber Security	<p>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.</p> <p>Cyber security for Canada’s Not-for-Profit Organizations – Attack is certain – Your loss is not</p>
Thought Leadership	<ul style="list-style-type: none"> Public Service Transformed: Harnessing the Power of Behavioural Insights <p>The report explores the potential and use of behavioural insights in modernizing the public service cultural transformation and provides actionable recommendations designed to encourage the four positive work behaviours (collaboration, innovation, transparency and a focus on results) that will help the public services sector adapt to changing conditions, encourage culture change and produce the kinds of outcomes and transformation that governments are demanding.</p> <ul style="list-style-type: none"> Future State 2030 <p>This report is part of a series that explores how governments must respond to the global megatrends (Demographics, Rise of the Individual, Enabling technology, Economic interconnectedness, Public debt, Economic power shift, Climate change, Resource stress, and Urbanization) driving change into 2030.</p>

- The Integration Imperative: reshaping the delivery of human and social services

The report provides the results of a global survey of government and thought leaders to review active integration schemes in the human and social services sector across 22 jurisdictions from around the world. It examines the features of integration initiatives and identifies where the integration agenda is heading, including the key trends, the lessons learned, and the implications of these trends for governments, clients, and providers from the private and not-for-profit sectors.

- Contaminated Sites – Issues and Implementation Action Plan for PS 3260

This report addresses the Public Sector Accounting Board’s accounting standard on Liability for Contaminated Sites (Section PS3260) which will affect all entities reporting under the Public Sector Accounting (PSA) standards. The report discusses why contaminated sites are an issue, provides a technical overview, explores liability measurement, and outlines an implementation action plan. The implementation of this standard will occur with the release of the 2015 financial statements for the Region of York. We have worked and will continue to work with management to ensure that it has been adopted in a successful fashion.

Refer to the KPMG publication “Contaminated Sites – Issues and Implementation Action for PS 3260:

<http://www.kpmg.com/Ca/en/topics/IPO-Services/Documents/Contaminated-Sites-Fall-2013-web-FINAL.pdf>

- Other new reporting standards along with required implementation date (we will present a more detailed description of these potential changes to your reporting along with our year end findings report):

- [PS 1201 – Financial Statement Presentation – Region is required to adopt for fiscal 2020](#)
- [PS 3450 – Financial Instruments – Region is required to adopt for fiscal 2017](#)
- [PS 3480 – Restructuring transactions – Region is required to adopt for fiscal 2019](#)
- [PS 3420 – Inter-entity transactions and PS 2200 – Related Party transactions – Region is required to adopt for fiscal 2018](#)
- [PS 3210 – Assets, PS 3320 – Contingent Assets and PS 3380 Contractual Rights – Region is required to adopt for fiscal 2018](#)

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