AUDIT

The Regional Municipality of York

Audit Planning Report

For the year ended December 31, 2013

KPMG Enterprise™

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Contents

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please visit kpmg.ca/auditcommittee

Considerations in developing our Audit Plan

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

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- There are no major changes to the Regional Municipality of York (the "Region") that impact the December 31, 2013 year end.

Accounting standards

- The Region will be adopting the new accounting standard Section PS3410, Government Transfers. This standard establishes the recognition, measurement, and disclosure requirements for government transfers. It provides specific revenue recognition criteria for both the transferring government and the recipient government.
- We will work with Management to determine the impact on the consolidated financial statements in adopting the new accounting standards. It is not expected that the adoption of this standard will have a significant impact on the Region's consolidated financial statements.
- Refer to the appendices for further discussion on future changes that impact future years.

Auditing and other professional standards

- There are no auditing standards changes that impact the December 31, 2013 year end.

Our timetable

To assist with your responsibilities as an Audit Committee member, we have planned the following interactions with you during the regular and in-camera sessions of your committee meetings:

Audit Committee Interactions	Date
Present the Audit Planning Report and obtain comments	February 2014
Provide audit opinion on financial statements	May 2014
Present our year-end Audit Findings Report, including independence communications	June 2014

Refer to the Appendices for KPMG's and management's responsibilities.

Annual inquiries of the Audit Committee

Professional standards require that during the planning of our audit we obtain your views on the risk of fraud. We make similar inquiries to management as part of our planning process; responses to these questions will assist us in planning our overall audit strategy and audit approach accordingly.

Engagement teams are reminded that the following questions must be asked of the audit committee:

- Are you aware of, or have you identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What are your views about fraud risks in the entity?
- How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?
- Is the audit committee aware of tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what are the responses to such tips and complaints?

Areas of audit emphasis

We design an overall audit strategy and an audit approach to address the significant risks identified during the planning process.

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

We determine performance materiality (from materiality) in order to assess risks of material misstatement and to determine the nature, timing and extent of audit procedures.

We determine an audit misstatement posting threshold (from materiality) in order to accumulate misstatements identified during the audit.

For the current period, the following amounts have been determined at $56,000,000.

We will reassess materiality based on period-end results or new information to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

Identification of significant risks

As part of our audit planning, we identify the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we establish an overall audit strategy and effectively target our audit procedures.

The *significant* accounts and disclosures identified during our audit planning are listed below:

Significant account(s)/disclosures(s)

Investments and related income
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive 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 prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive 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 prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive 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 prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive 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 prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive approach • 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
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
Control and substantive 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 • Search for unrecorded liabilities • Examine accrued liabilities for accuracy and completeness

Post retirement liability
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
Substantive approach • Obtain actuary report and review assumptions used by actuary expert • Communication with actuary and testing of data provided to the actuary • Review of disclosures

Housing York Inc.

Cash and Investments (including restricted amounts)
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• Confirmation with third parties • Review of bank reconciliations and reconciling items

Property holdings
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• Substantive test of details over additions

Subsidy and rental revenue
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• Perform substantive analytical procedures over subsidy and rental revenue • Revenue recognition, revenue restriction and presentation considerations

Accounts payable, accrued liabilities and expenditures
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• 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
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• 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

Risk of management override of controls

Although the level of risk of management override of controls will vary from entity to entity, professional standards presume the risk of management override of controls is nevertheless present in all entities and requires the performance of specific procedures to address this presumed risk.

Identified risk
Presumed risk of management override of control – Risk of fraud Significant risk: Required to be identified as a significant risk per professional standards
Summary of planned audit approach
We plan on performing the required procedures under professional standards. • Testing of journal entries • Performing a retrospective review of estimates

Fees and timing

Fees and assumptions

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management.

The fees are based on the assumptions described in the engagement letter.

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	December 2013
Conduct year-end audit field work • The Regional Municipality of York • Housing York Inc.	 March/ April 2014 March 2014
Provide audit opinion on financial statements	May 2014
Present the Audit Findings Report to the Audit Committee	June 2014

Recommended improvements

During the course of our audit, we may become aware of opportunities for improvements in financial or operational processes or controls. 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 discussions with you at the completion of the audit.

Appendices

Responsibilities of KPMG and Management

KPMG's Audit Quality Framework

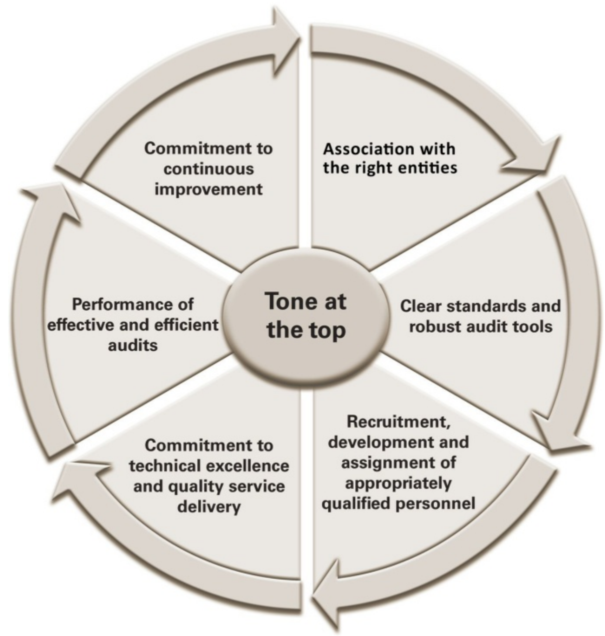
Current developments

Responsibilities of KPMG and Management

There have been no changes to the terms of our engagement previously outlined in our engagement letter and any subsequent amendment letters.

KPMG’s Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.



This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.

The seven key drivers of audit quality

Driver	What it does	What it means to you
Tone at the top	**Audit quality is part of our culture and our values and therefore non-negotiable** Allows the right behaviours to permeate across our entire organization and each of our engagements	**Assures you that:** • Our culture supports our promise to you of excellent service and a high quality audit—consistently • You’re receiving an independent, transparent, audit opinion • You’re receiving an effective and high quality audit that will help you maintain investor confidence in your financial statements. **Provides you with:** • An engagement team handpicked for your business needs – a team with relevant professional and industry experience • An audit engagement team whose qualifications evolve as your business grows and changes
Association with the right entities	**Ethics above all** Eliminates any potential independence and conflict-of-interest issues	
Clear standards and robust audit tools	**A solid rule book** Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG’s standards of quality	
Recruitment, development and assignment of appropriately qualified personnel	**People who add value** Helps us attract and retain the best people and reinforces the importance of developing their talents Assigns Partners’ portfolios based on their	

Driver	What it does	What it means to you
	specific skill sets	• An audit opinion that continues to meet your needs as a participant in the capital markets **Assists you with:** • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
Commitment to technical excellence and quality service delivery	**The right tools for the right job** Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes	
Performance of effective audits	**We understand that how an audit is conducted is as important as the final result.** A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality	
Commitment to continuous improvement	**Comprehensive and effective monitoring** We regularly solicit feedback from the audit committees of the entities we audit. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed entities are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accounting Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.	

The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of the entities we audit and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work.

Current developments

Public Sector Accounting Changes (PSAB)

New Standard on Financial Instruments

Highlights

A new standard has been issued establishing a standard on accounting for and reporting all types of financial instruments including derivatives.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2015 (applicable for the Region in fiscal year 2016), however earlier adoption is permitted. An entity early adopting this standard must also adopt the revised Foreign Currency Translation standard.

Implications

This standard will require the Region to identify any contracts that have embedded derivatives and recognize these on the 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.

Revised Standard on Foreign Currency Translation

Highlights

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2015 (applicable for the Region in fiscal year 2016), however 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 the statement of remeasurement gains and losses.

New Standard on Liability for Contaminated Sites

Highlights

A new standard has been issued establishing a standard for the recognition of liabilities for contaminated sites.

Effective date and transition

This standard is effective for fiscal years beginning on or after April 1, 2014 (applicable for the Region in fiscal year 2015), however earlier adoption is encouraged.

Implications

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 for the remediation, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.

We are currently working with management to determine the potential impact, if any, to the Region’s financial statements.