The Regional Municipality of York

Audit Planning Report
for year ending
December 31, 2019

KPMG LLP

Licensed Public Accountants

November 2019

kpmg.ca/audit

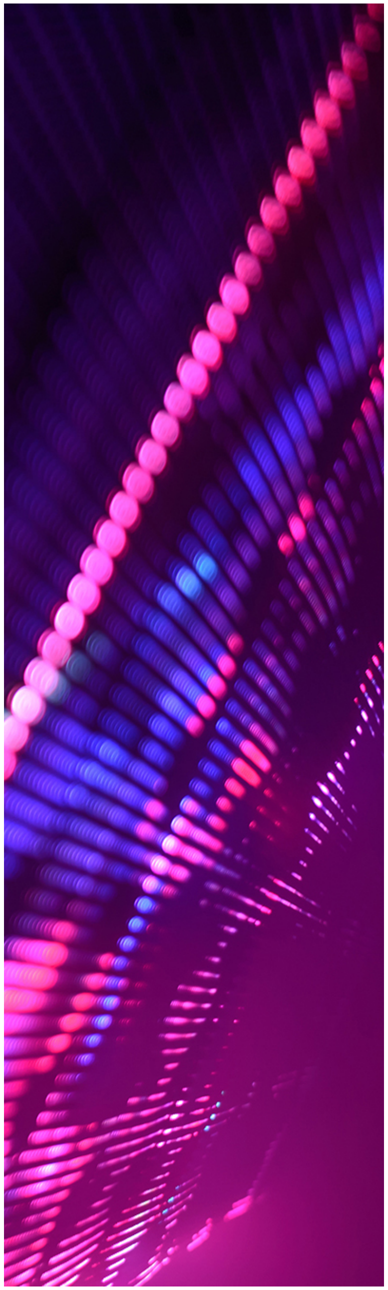
KPMG

Table of contents

The contacts at KPMG in connection with this report are:

KEVIN TRAVERS
Lead Audit Engagement Partner
Tel: 416-228-7004
ktravers@kpmg.ca

NICOLE HATELY
Audit Senior Manager
Tel: 416-549-7908
nhately@kpmg.ca



Executive summary

Audit and business risks

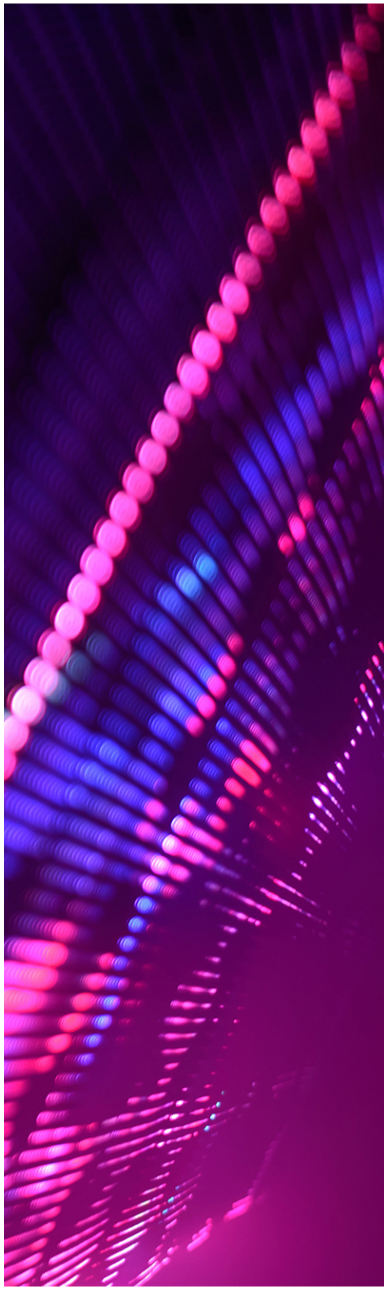
Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Implications of new PSAS standards. See pages 13 to 14.
- Other audit risks. See pages 4 to 11

Audit materiality

Materiality has been determined based on budgeted operating expenditures. We have determined materiality to be $66,000,000.

See page 12



Executive summary

Independence and Quality Control

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.

KPMG team

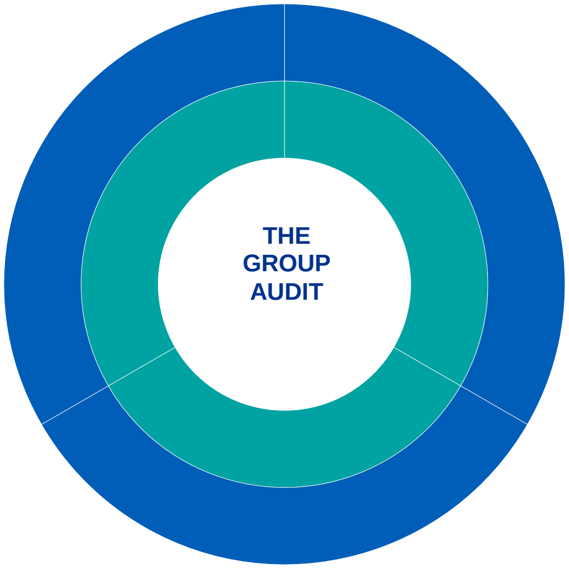
The KPMG team will be led by Kevin Travers and supported by Nicole Hately. Subject matter experts will be involved to ensure our approach is appropriate and robust.

Current developments

Please refer to pages 13 to 14 for relevant accounting changes relevant to the Region.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Audit Scope



Type of work performed	# of components	Legend
Individually financially significant - Housing York Inc. - York Region Rapid Transit - YTN Telecom Network Inc.	3	

Procedures performed by	Legend
Team – KPMG Vaughan Office	

Audit risks

Significant financial reporting risks	Why is it significant?
Fraud risk from revenue recognition	This is a presumed fraud risk, which has not been rebutted. The primary risk resides with manual journal entries for revenue transactions not in the normal course of business.

Our audit approach

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.

Audit risks

Significant financial reporting risks	Why is it significant?
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our audit approach

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 risks

Other areas of focus	Why are we focusing here?
Cash and cash equivalents	Significant account
Investments and related income	Significant account

Our audit approach

- We will obtain direct confirmations with third parties
- We will verify bank reconciliations and test significant reconciling items
- We will review presentation and disclosures

- We will obtain direct confirmations with third parties
- We will substantively test additions and disposals of investments
- We will verify the investment policy compliance
- We will review presentation and disclosures

Audit risks

Other areas of focus	Why are we focusing here?
Revenues	Significant accounts
Accounts receivable	Significant account
Deferred revenue – general Deferred revenue – obligatory reserve funds	Significant accounts

Our audit approach

- We will recalculate tax revenues using approved tax rates and assessment
- We will obtain confirmations from lower tier municipalities
- We will substantively vouch a sample of revenue transactions to supporting documents

---

- We will perform substantive testing on accounts receivable balances, including confirmations from lower tier municipalities
- We will assess the valuation of accounts receivable
- We will analyze analytical trends

- We will substantively test deferred capital grants, security deposits and other deferred revenue to supporting documents
- We will substantively test development charge collections and expenditures to supporting documents
- We will perform a substantive analytic for interest earned on development charges
- We will perform analysis on projects with budget overages

Audit risks

Other areas of focus	Why are we focusing here?
Expenses	Significant accounts
Accounts payable and accrued liabilities	Significant account
Employee benefit obligations	Significant account

Our audit approach

- We will substantively vouch a sample of expense transactions to supporting documents
- We will evaluate the operating effectiveness of controls for the payroll reconciliation and approval process
- We will substantively test payroll expenses

- We will examine accruals for accuracy and completeness
- We will substantively test significant payables and accruals to source documents
- We will perform a search for unrecorded liabilities

- We will obtain actuarial confirmations and review assumptions in the valuations
- We will review disclosures

Audit risks

Other areas of focus	Why are we focusing here?
Gross long-term liabilities	Significant account
Debt recoverable from area municipalities	Significant account
Contractual obligations and contingent liabilities	Significant disclosures

Our audit approach

- We will substantively test long-term liability additions and principal repayments to supporting documents
- We will obtain confirmations from lower tier municipalities
- We will discuss contractual obligations and contingent liabilities with appropriate personnel
- We will obtain a confirmation of all claims and possible claims

Audit risks

Other areas of focus	Why are we focusing here?
Tangible capital assets	Significant account
Prepaid expenses and inventory	Significant accounts
Reserve funds	Significant account

Our audit approach

- We will substantively test capital additions and disposals to supporting documentation
- We will review the amortization policy and perform a substantive analytic on amortization expense
- We will review construction in progress balances to ensure amounts are properly transferred to appropriate tangible capital asset classes and amortization expenses commences on a timely basis
- We will review management's impairment assessment

- We will perform substantive test of details on prepaid expenses and inventory

---

- We will obtain the reserve funds continuity schedule and substantively test inflows and outflows in the reserve funds
- We will perform substantive analytic on interest earned on the reserve funds

Audit risks

Other areas of focus (Housing York Inc.)	Why are we focusing here?
Cash and investments	Significant accounts
Property holdings	Significant account
Subsidy and rental revenue	Significant accounts
Accounts payable, accrued liabilities and expenses	Significant accounts
Mortgages payable	Significant account

Our audit approach

- We will obtain direct confirmations of cash and investment balances with third parties
- We will verify bank reconciliations and test significant reconciling items
- We will substantively test additions to property holdings
- We will perform substantive test of details and analytics over subsidy and rental revenue
- We will review revenue recognition, revenue restrictions and presentation considerations
- We will substantively test significant payables and accruals
- We will perform the search for unrecorded liabilities
- We will perform substantive analytic procedures on expenses
- We will obtain direct confirmations of mortgage balances with third parties
- We will assess compliance with covenants and verify disclosure of mortgages payable are appropriate

Materiality

Materiality determination	Comments	Amount
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. The corresponding amount for the prior year's audit was $64 million.	$66 million
Benchmark	Based on budgeted full accrual PSAB expenditures. This benchmark is consistent with the prior year. The corresponding amount for the prior year's audit was $2,231 million.	$2,326 million
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $3 million.	$3 million

Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to the Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

Current developments

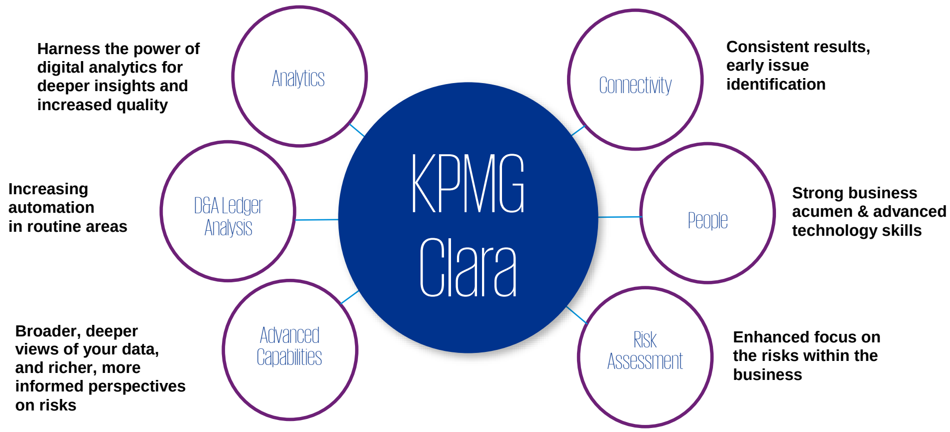
Standard	Summary and implications
PS 3430 Restructuring Transactions	The issued standard states "A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility". A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred. The standard states that assets and liabilities received in a restructuring transaction should be recognized at their carrying amount. The carrying amount for an asset or liability transferred is the amount reported in the statement of financial position of the transferor at the restructuring date, net of valuation allowance. The standard also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Region's December 31, 2019 year-end).
PS 3450 Financial Instruments	A standard has been issued establishing standards on accounting for and reporting all types of financial instruments including derivatives. Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the Region's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. Hedge accounting is not permitted. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard also 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. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region's December 31, 2022 year-end). Earlier adoption is permitted.
Revised Standard PS 2601 Foreign Currency Translation	A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency. This standard will require that exchange gains and losses arising prior to settlement are recognized in a new statement of re-measurement gains and losses. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region's December 31, 2022 year-end). An entity early adopting this standard must also adopt the new financial instruments standard.

PS 3280 Asset Retirement Obligations	The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets. The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. As a result of the new standard, the public sector entity would have to: • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled tangible capital assets to determine if any legal obligations exist with respect to asset retirements Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. The standard is effective for fiscal periods beginning on or after April 1, 2021 (the Region's December 31, 2022 year-end). Earlier adoption is permitted.
PS 3400 Revenue	A standard has been issued establishing standards which delineates revenue as either exchange transactions or unilateral transactions and the appropriate revenue recognition timing under each type. Exchange transactions are present where the transaction gives rise to one or more performance obligations on the part of the recipient. If no performance obligations are present, it would be described as unilateral. The standard is effective for fiscal periods beginning on or after April 1, 2022 (the Region's December 31, 2023 year-end). Earlier adoption is permitted.

The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Client Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts such as journal entries.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Highly talented and experienced team

Team member	Background / experience	Discussion of role
 **Kevin Travers** Lead Audit Engagement Partner ktravers@kpmg.ca	Kevin has been the lead audit engagement partner for the Regional Municipality of York for many years and in addition to the Region, he leads 4 other municipal audits. He is considered an authority on municipal financial reporting within Canada having authored and delivered many presentations / seminars / webinars on financial reporting developments and is also a reviewer for the Canadian Financial Reporting Award as administered by the Government Finance Officers' Association.	– Kevin will lead our audit for The Regional Municipality of York and be responsible for the quality and timeliness of everything we do. – He will often be onsite with the team and will always be available and accessible to you.
 **Nicole Hately** Audit Senior Manager nhately@kpmg.ca	Nicole has been a member of the Regional Municipality of York's audit team for the last 7 years, and led the team last year as the audit manager. She has in-depth knowledge of the Region's transactions and audit requirements.	– Nicole will work very closely with Kevin on all aspects of our audit for the Region. – She will be on site and directly oversee and manage our audit field team and work closely with your management team.

Key deliverables and milestones

Audit planning and planning meeting with management	Interim fieldwork	Year-end fieldwork	Closing meeting with management	Audit findings discussions and issuance of audit report on financial statements
October and November 2019	**November and December 2019**	**March and April 2020**	**April 2020**	**May or June 2020**

Appendices

- **Appendix 1: Audit quality and risk management**
- **Appendix 2: KPMG’s audit approach and methodology**
- **Appendix 3: Lean in Audit™**
- **Appendix 4: Required Communications**

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 most recent Audit Quality and Transparency Report.

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. We do not offer services that would impair our independence.

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.

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
– 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.

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

Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 3: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion 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.

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 planning report

This report.

Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.

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 of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.

Annual independence letter

At the completion of our audit, we will provide our independence letter to the Audit Committee.

CPAB Audit Quality Insights Report (October 2018) (formerly the "Big Four Firm Public Report")
CPAB Annual Inspections Results (March 2019)

kpmg.ca/audit

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”).

KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.