KPMG

The Regional Municipality of York

Audit Planning Report for the year ending December 31, 2023

KPMG LLP

Licensed Public Accountants

Prepared as of October 27, 2023

Presented on January 25, 2024

kpmg.ca/audit

KPMG contacts

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management, the Audit Committee, and Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Planning Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Scope

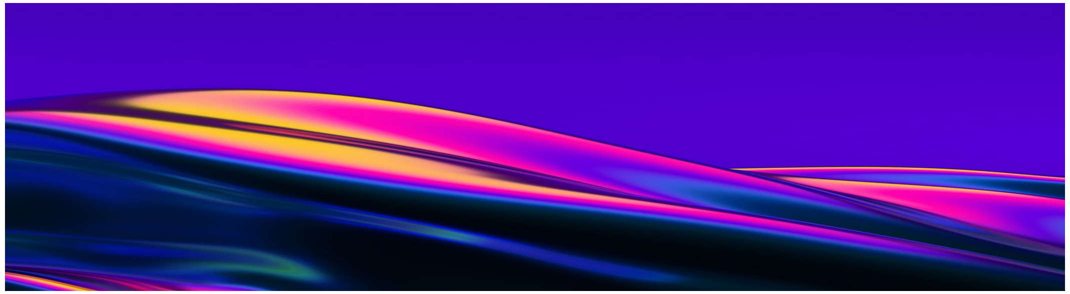
Our audit of the consolidated financial statements ("financial statements") of The Regional Municipality of York ("the Region") as of and for the year ending December 31, 2023, will be performed in accordance with Canadian generally accepted auditing standards (CASs).

Audit strategy

Materiality
Group: $85 million
Region: $80.75 million

Involvement of others

Updates to our prior year audit plan



Risk assessment

Risk of management override of controls

Presumption of the risk of fraud involving improper revenue recognition

Other areas of focus

- Cash and investments
- Tangible capital assets
- Revenue and accounts receivable
- Deferred revenues – general and obligatory reserve funds
- Gross long-term liabilities and debt recoverable from local municipalities
- Employee benefits and other liabilities
- Expenses – salaries and benefits
- Accounts payable, accrued liabilities and expenses
- Contingencies
- Consolidation (Region and all components)
- Asset retirement obligations (ARO)

Technology highlights

KPMG Clara

We plan to utilize technology to enhance the quality and effectiveness of the audit.

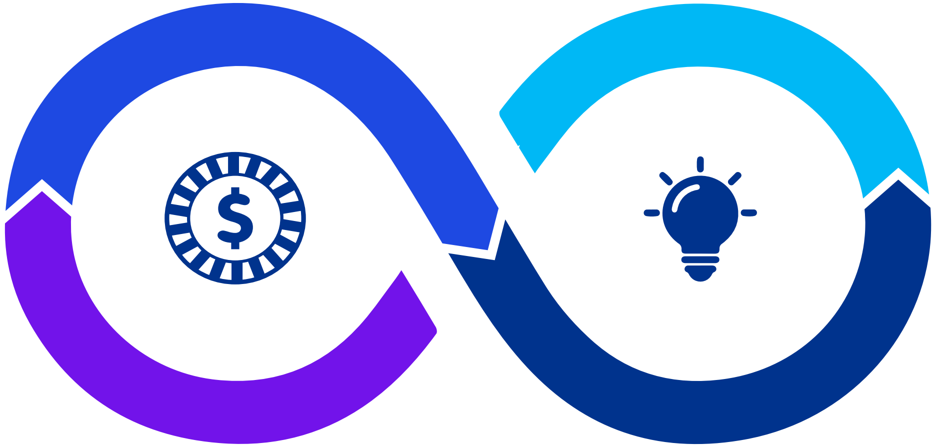
Summary of advanced technologies

KPMG Clara for Clients
Secure cloud based audit platform we use to plan, execute and manage the audit while providing management with access at every step.

KPMG Clara Workflow
KPMG workflow tool that drives execution of the audit by enabling easy access to relevant audit guidance, templates, and integrated engagement management

KPMG application software
One way we use KPMG application software (“IDEA") is to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for testing.

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

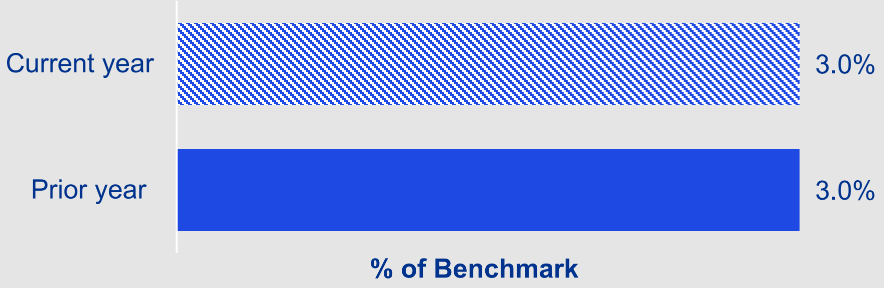
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Initial Group Materiality

Group Materiality

$85 million

(2022: $73 million)



Benchmark: Budgeted full accrual PSAS expenditures

$2.858 billion

(2022: $2.442 billion)

2023 budgeted revenues

$3.377 billion

(2022: $3.182 billion)

Group Performance Materiality

$63.75 million

(2022: $54.75 million)

Group AMPT

$4.25 million

(2022: $3.65 million)

Initial Component Materiality

Region Component Materiality

$80.75 million

(2022: $69.35 million)

Region Component Performance Materiality

$60.5 million

(2022: $52 million)

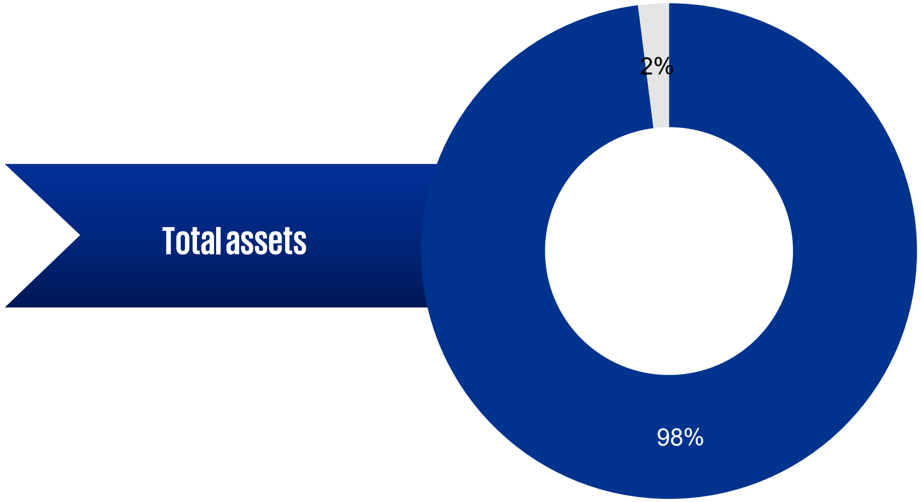
Region Component AMPT

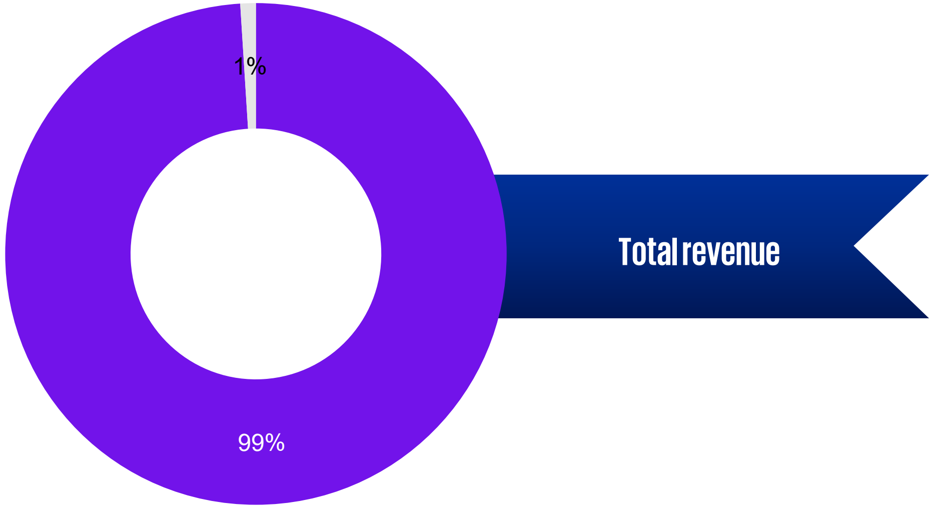
$4 million

(2022: $3.467 million)

Group audit - Scoping

Type of work performed	Total assets	Total revenue
Total full-scope audits	98%	99%
Total: Full-scope audit, audit of account balance(s) and/or disclosure(s), specified audit procedures	**98%**	**99%**
Excluded from direct testing (Note 1)	2%	1%
Total consolidated	**100%**	**100%**





Note 1: The following components are not significant for the purpose of issuing the auditors' opinion on the group audit of the consolidated financial statements of The Regional Municipality of York. These components are tested separately for statutory purposes:

- York Region Police Services Board
- Housing York Inc.
- York Region Rapid Transit Corporation
- YTN Telecom Network Inc.

Involvement of others

The following parties are involved in the audit of the financial statements:

Involved party	Nature and extent of planned involvement
KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures	**Actuarial Specialist – Employee Future Benefits:** • Evaluation of valuation of the employee future benefits.

Updates to our prior year audit plan

New significant risks

No new significant financial reporting risks identified

Other significant changes

Changes in accounting standards

- PS 3280 Asset Retirement Obligations
- PS 3450 Financial instruments
- Refer to appendix D for further explanation and for future changes in accounting standards.

Changes in accounting standards

Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the Region and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the Company's components of its system of internal control, including our business process understanding.

We use advanced technologies in performing our risk assessment procedures.

		Risk of fraud	Risk of error
●	Management override of controls	✓	
●	Presumption of the risk of fraud involving improper revenue recognition	✓	
●	Cash and investments		Base
●	Tangible capital assets		Base
●	Revenue and accounts receivable		Significant for revenue recognized from deferred revenue – obligatory reserve funds Base – others
●	Deferred revenues – general and obligatory reserve funds		Significant
●	Gross long-term liabilities and debt recoverable from local municipalities		Base
●	Employee benefits and other liabilities		Base
●	Expenses – salaries and benefits		Base
●	Accounts payable, accrued liabilities and expenses		Base
●	Contingencies		Base
●	Consolidation (Region and all components)		Base
●	Asset retirement obligations (ARO)		Base
●	Financial instruments		Base

● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER AREA OF FOCUS ● Significant risk due to error

Significant risks

Management Override of Controls

RISK OF
FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is 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. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our planned response

As this presumed risk of material misstatement due to fraud 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
- evaluating the business rationale of significant unusual transactions.

Significant risks

Presumption of the risk of fraud involving improper revenue recognition

RISK OF FRAUD

Presumption of the risk of fraud resulting from fraudulent revenue recognition

Why is it significant?

This is a presumed risk of material misstatement due to fraud. This risk has not been rebutted. Audit standards require us to assume there are generally pressures/incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition.

The primary risk of fraudulent revenue recognition resides with manual journal entries for revenue transactions not in the normal course of business, related to management's calculation of the deferred revenue –obligatory reserve funds.

Our planned response

Our audit methodology incorporates the required procedures in professional standards to address this risk.

Our audit approach consists of evaluating the design and implementation of selected relevant controls.

We test journal entries that meet specific criteria. These criteria are designed during the planning phase of the audit and are based on areas and accounts that are susceptible to manipulation through management override and we design search filters that allow us to identify any unusual journal entries.

As part of our audit approach to address the inherent risk of error in revenue recognition, we substantively test revenues (both recognized and amounts held as deferred at year end) and recalculate management's calculation of deferred revenue –obligatory reserve funds through auditing management's methodology.

Other areas of focus

Areas	Risk due to error	Audit approach
Cash and investments	Base	• Obtain year-end bank and investment reconciliations and substantive testing of significant reconciling items. • Obtain confirmations from third party financial institutions. • Ensure proper note disclosures within financial statements are in accordance with Public Sector Accounting Standards (PSAS).
Tangible capital assets	Base	• Substantive tests of details over additions (including contributed tangible capital assets) and disposals. • Perform recalculations of amortization expense in accordance with amortization policy. • Ensure amounts within construction in progress are properly transferred to correct capital asset classes and amortization expense commences on a timely basis. • Ensure proper note disclosures within financial statements are in accordance with PSAS. • We will also perform required procedures to assess the potential risks with respect to impairment of assets. Based on the nature of the Region's operations, it is not expected that this will be a significant risk during the audit.
Revenue and accounts receivable	Significant for revenue recognized from deferred revenue – obligatory reserve funds Base – others	• Audit revenue transactions to supporting documentation on a sample basis to assess whether revenue recognition is appropriate. • Obtain confirm for significant individual receivable balance.

Other areas of focus

Areas	Risk due to error	Audit approach
Deferred revenues – general and obligatory reserve funds	Significant	• Update our understanding of the activities over the initiation, authorization, processing, recording and reporting. • Obtain the Region-prepared calculation for the development charge balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve. • Audit a sample of deferred capital grants and other deferred revenue by vouching to supporting documents.
Employee future benefits liabilities	Base	• Reliance on actuaries (management specialist) engaged by the Region; update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates. • Assess method, data, and assumptions used by the actuary and management in the calculation of the employee benefits and other liabilities for reasonableness. • We will perform audit procedures in accordance with the relevant auditing standards and related disclosure requirements related to the estimates involved. • Perform inquiries with management to determine if this is the year of full valuation whereby new participant/member data is provided to the actuaries. If applicable, we will communicate with actuaries and test employment data provided to the actuaries. • Ensure proper note disclosures within financial statements are in accordance with Public Sector Accounting Standards (PSAS).

Other areas of focus

Areas	Risk due to error	Audit approach
Expenses – salaries and benefits	Base	• Test and evaluate design and implementation of selected controls over payroll. • Test of employment expenses for a sample of employees by verifying payroll records to employment contracts and collective agreements. • Substantive verification and recalculation of payroll-related accruals. • Obtain new or amended collective bargaining agreements. Assess if management has evaluated these agreements for implications of retroactive application. Such retroactive application can result in additional financial obligations for the Region that are required to be reported in the financial statements.
Accounts payable, accrued liabilities and expenses	Base	• Search for unrecorded liabilities. • Examine significant accrued liabilities for existence, accuracy and completeness. • Perform substantive tests of details on selected non-payroll expenditures.
Contingencies	Base	• Obtain Council meeting minutes for potential contingencies. • Direct communication with internal legal counsel (and external as necessary) to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded. • Significant findings review with management during planning and completion stages of the audit.

Other areas of focus

Areas	Risk due to error	Audit approach
Consolidation (Region and all components)	Base	• Cross-check management's consolidation of the reporting entity to audited statutory financial statements for the respective entities. • Test eliminating entries as prepared by management for accuracy and completeness.

Other areas of focus

Areas	Risk due to error	Audit approach
Asset retirement obligations (ARO)	Base	• Obtain management's final assessment of ARO, including support for the calculation of any recorded liability related to future costs associated with legal obligations that will be incurred upon retirement of a controlled tangible asset. • Obtain an understanding of the activities performed by management to identify the legal obligations associated with retirement of tangible capital assets. Ensure that all of the recognition criteria have been met to recognize an ARO in the financial statements. • Test the costs that have been included in ARO liability based on information available to management and provided by any external experts. • Ensure the presentation of ARO is appropriate within the financial statements and that the financial statements include appropriate note disclosure related to the adoption of the new standard.
Financial instruments	Base	• Obtain management's criteria assessment of measurement and recognition of financial instruments that is impacting financial statements presentation and disclosures as a result of adoption of the new standard. • Obtain and review management's support for calculation and presentation of new Statement of Remeasurement Gains and losses if applicable. • Ensure the presentation of financial instruments is appropriate within the financial statements and that the financial statements include appropriate note disclosure related to the adoption of the new standard.

Key milestones and deliverables

Oct – Nov 2023
Planning & Risk Assessment

- Audit planning discussion timing:
  - October 16, 2023

Nov – Dec 2023
Interim work

- Interim fieldwork timing:
  - November 20 – December 1, 2023

Feb – Apr 2024
Final Fieldwork & Reporting

- Final Fieldwork
  - March 4 – March 29, 2024
- Closing meetings: April 2024
- Approval of financial statements: April 2024

June - July 2024
Debrief

- Debrief meeting: June - July 2024

Appendices

A Other required communications

B KPMG Clara

C Audit quality

D Changes in accounting standards

E Audit assurance and insights

Appendix A: Other required communications

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2021 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results

Required inquiries

Professional standards require that during the planning of our audit, we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period. Please refer to the following inquiries:

- What are your views about fraud risk at the entity?
- How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the Entity and internal controls management has established to mitigate these fraud risks?
- Are you aware of, or have you identified any, instances of actual, suspected, or alleged 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?
- Is the entity in compliance with laws and regulations?
- Has the entity entered into any significant unusual transactions?

Appendix B: KPMG Clara

Streamlined client experience

And deeper insights into your business, translating to a better audit experience.

Secure

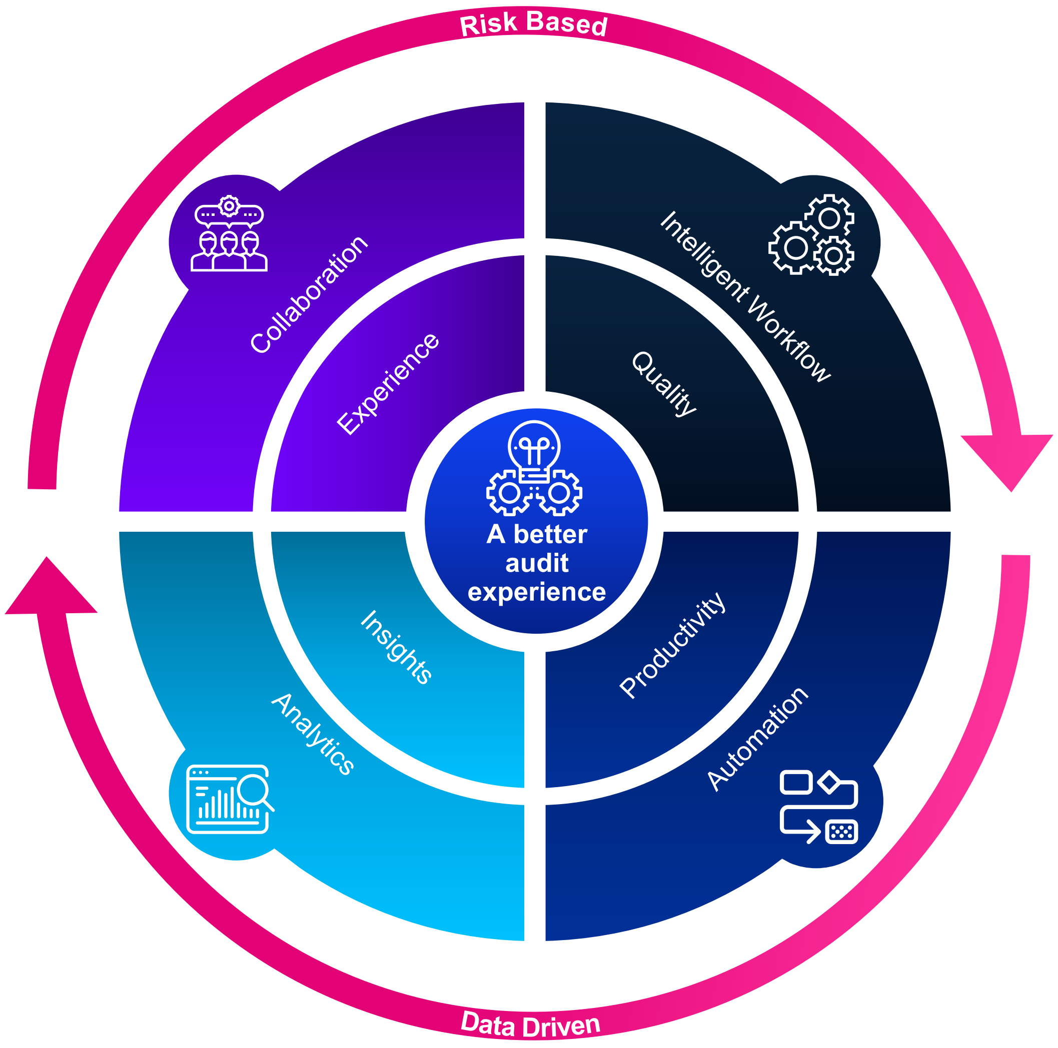
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



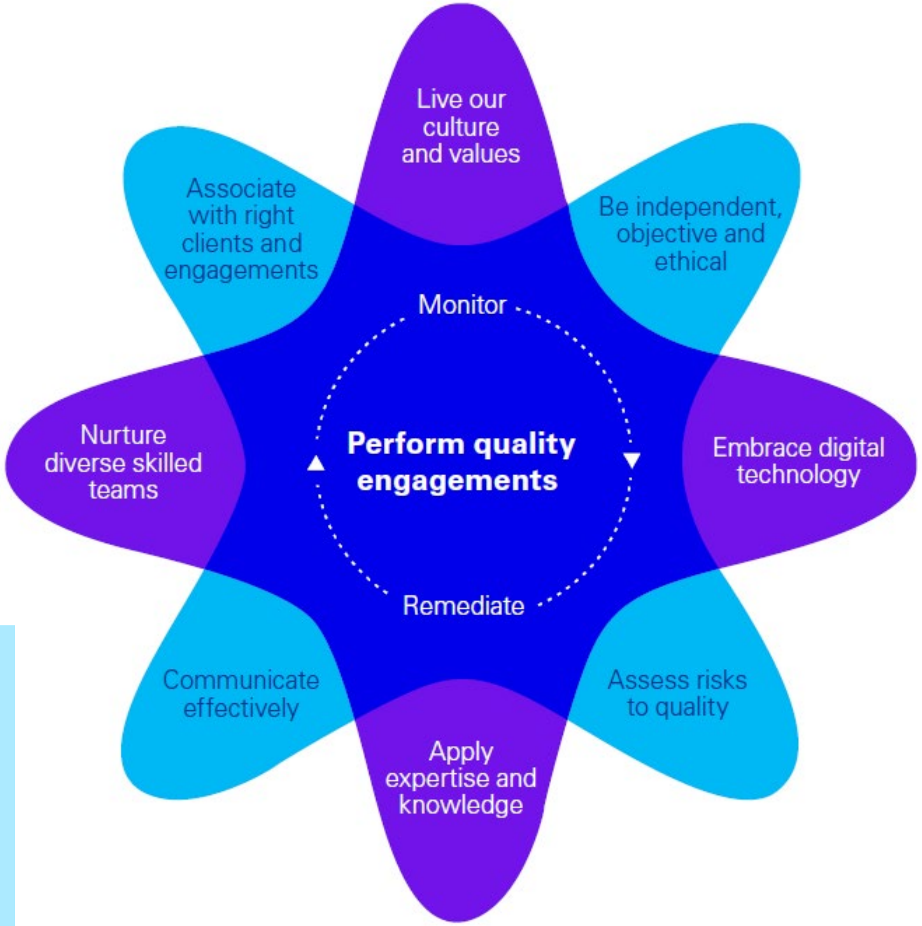
Appendix C: Audit quality: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

KPMG 2022 Audit Quality and Transparency Report



We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**

Appendix D: Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix D: Changes in accounting standards (continued)

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix D: Changes in accounting standards (continued)

Standard	Summary and implications

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix D: Changes in accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix E: Audit and assurance insights

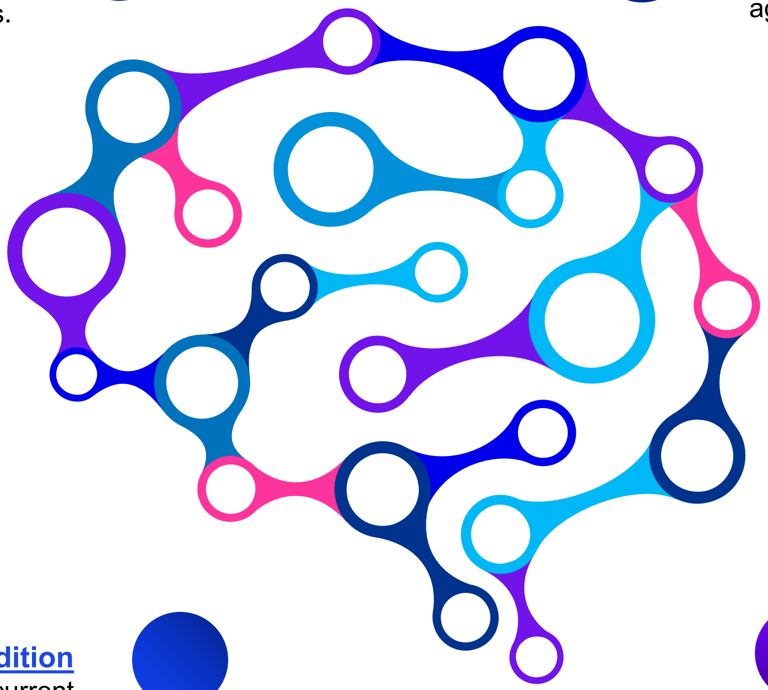
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



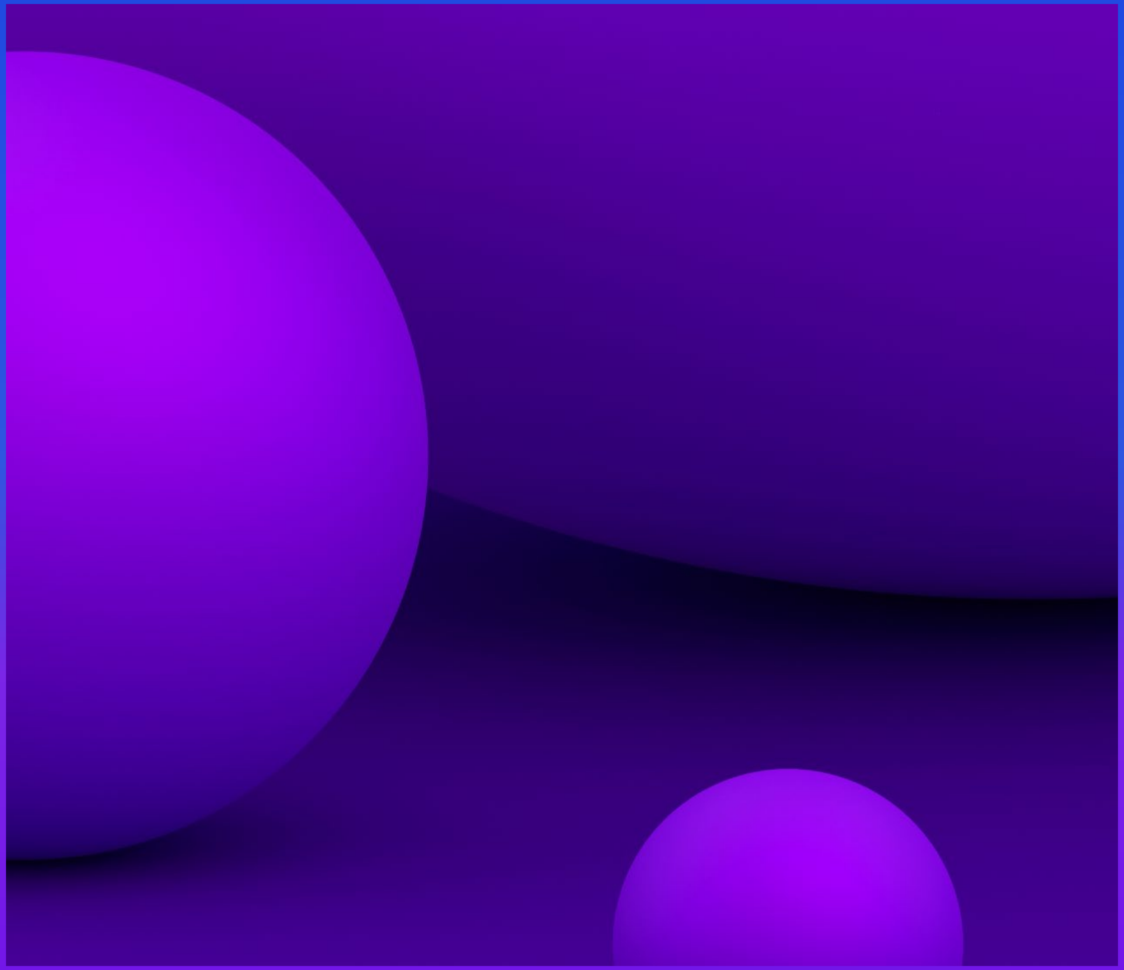
Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource center provides insights to help you identify the potential financial statement impacts to your business.

IFRS Breaking News
A monthly Canadian newsletter that provides the latest insights on international financial reporting standards and IASB activities.

KPMG



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