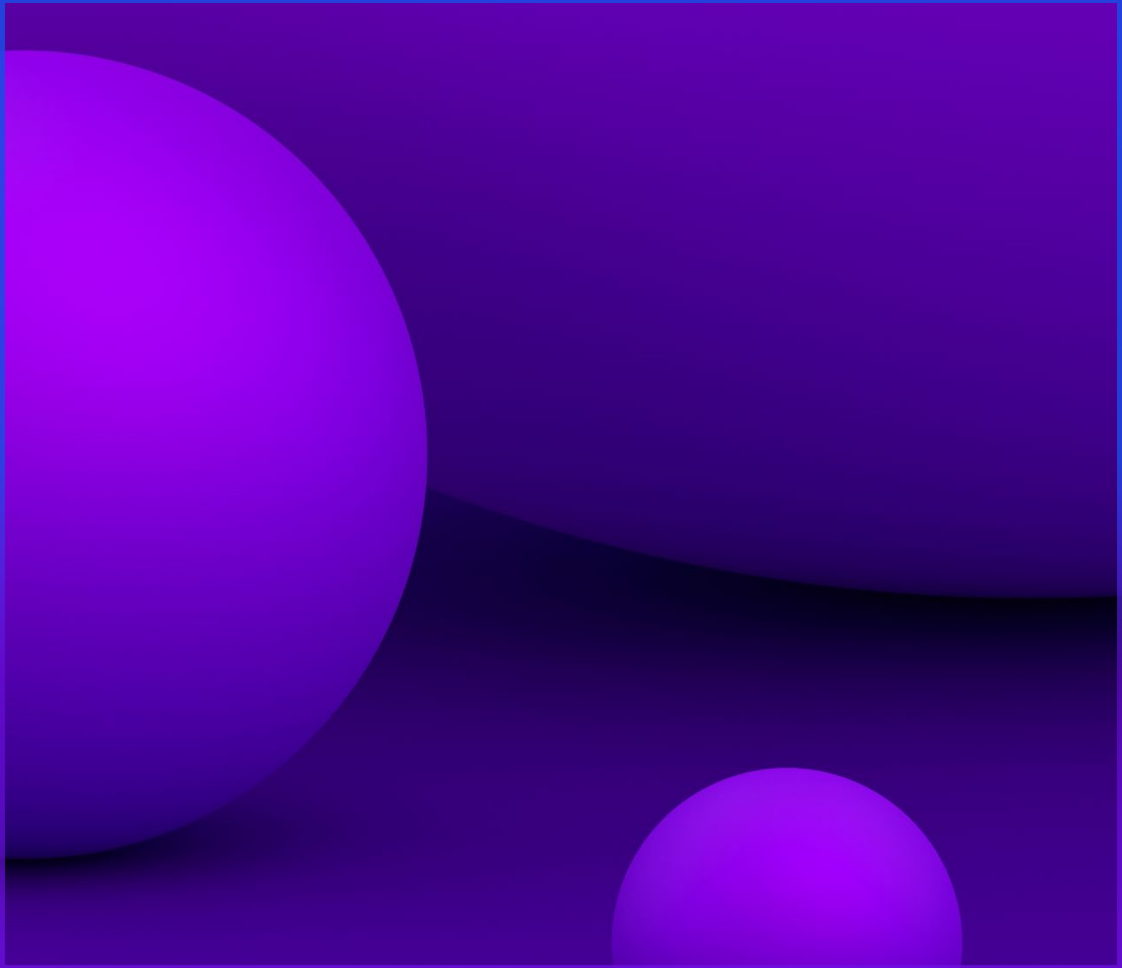
Attachment 1

KPMG

The Corporation of the City of Vaughan

Audit Planning Report for the year ended December 31, 2023



KPMG LLP

Licensed Public Accountants

Prepared as of January 9, 2024

Presentation on February 5, 2024

kpmg.ca/audit

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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 City 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

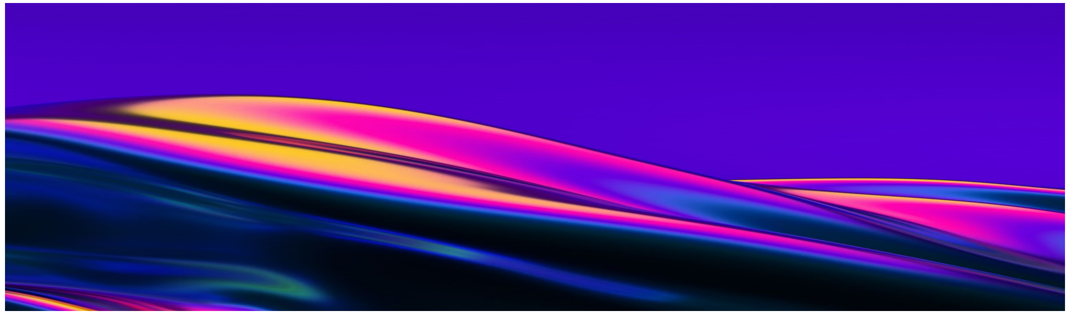
Scope

Our audit of the consolidated financial statements (“financial statements”) of the Corporation of the City of Vaughan (“the City”) as of and for the year ended December 31, 2023 will be performed in accordance with Canadian generally accepted auditing standards (CAS).

Audit strategy

Materiality
Group: $18.0 million
City: $16.2 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 risks of material misstatement

- Cash and investments
- Tangible capital assets
- Deferred revenues – obligatory reserve funds
- Employee future benefits (EFBs)
- Expenses – salaries and benefits
- Accounts payable, accrued liabilities and expenses
- Contingencies
- Asset retirement obligations (ARO)
- Financial instruments

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.

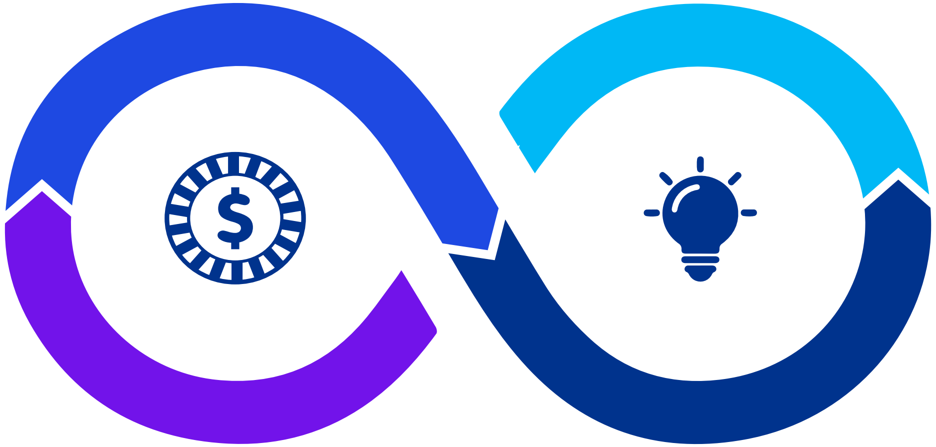
KPMG Clara Workflow

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:

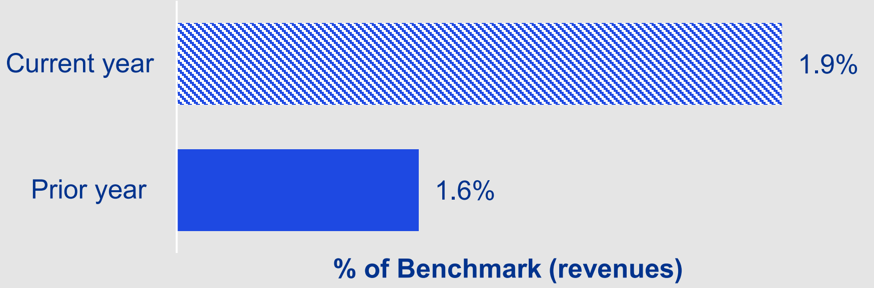
- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Initial Group Materiality

Group Materiality

$18.0 million

(2022: $15.0 million)



Total Normalized Estimated Revenues (benchmark)

$945 million

(2022 actual: $941 million)

Total Estimated Expenses

$574 million

(2022 actual: $581 million)

Group Performance Materiality

$13.5 million

(2022: $11.25 million)

Group Audit Misstatement Posting Threshold

$900,000

(2022: $750,000)

Initial Component Materiality: Non-consolidated City

Non-consolidated City Component Materiality

$16.2 million

(2022: $13.5 million)

Non-consolidated City Component Performance Materiality

$12.15 million

(2022: $10.125 million)

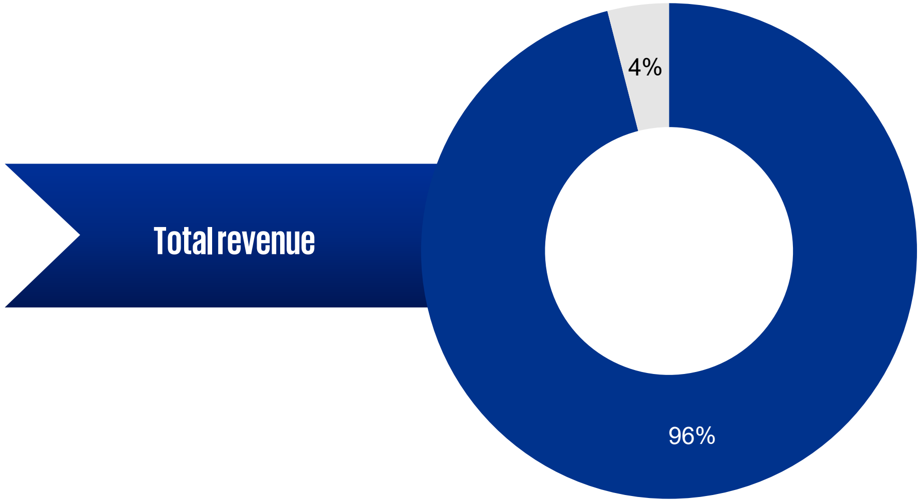
Non-consolidated City Component Audit Misstatement Posting Threshold

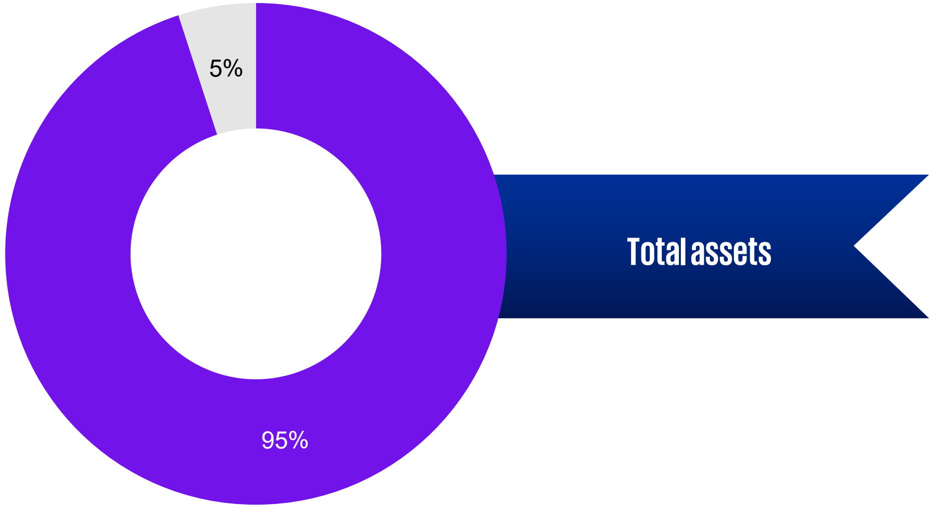
$810,000

(2022: $675,000)

Group audit - Scoping

Type of work performed	Total revenue	Total assets
Total full-scope audits	96%	95%
Total: Full-scope audit, audit of account balance(s) and/or disclosure(s), specified audit procedures	**96%**	**95%**
Non-significant components (Note 1)	4%	5%
Total consolidated	**100%**	**100%**





Note 1: The following components are not significant for the purpose of issuing the auditor’s opinion on the group audit of the consolidated financial statements of the Corporation of the City of Vaughan. These components are audited separately for statutory purposes:

- Vaughan Holdings Inc.,
- The Corporation of the City of Vaughan Public Library Board,
- Tourism Vaughan Corporation,
- Kleinburg Business Improvement Area,
- Hydro Vaughan Energy Corp.,
- 1446631 Ontario 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:** • The employee future benefits liability is a significant accounting estimate and management relies on an actuary for the valuation of its employee future benefits. We will use an employed KPMG specialist throughout the audit cycle in assessing the assumptions and estimates used in the funding valuation and year end extrapolated accrued benefit liability. • Refer to audit approach under the employee future benefit area of focus.

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 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 City and its environment (e.g. the sector, the wider economic environment in which the City operates, etc.), our understanding of the City'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	Risk level
●	Management override of controls	✓		Significant
●	Presumption of the risk of fraud involving improper revenue recognition	✓	✓	Significant
●	Cash and investments		✓	Base
●	Tangible capital assets		✓	Base
●	Deferred revenues – obligatory reserve funds		✓	Base
●	Employee future benefits (EFB)		✓	Base
●	Expenses – salaries and benefits		✓	Base
●	Accounts payable, accrued liabilities and expenses		✓	Base
●	Contingencies		✓	Base
●	Asset retirement obligations (ARO)		✓	Base
●	Financial instruments		✓	Base

● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER RISK OF MATERIAL MISTATEMENT

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

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.

We will also:

- evaluate the design and implementation and test operating effectiveness of selected relevant controls
- take a risk-based approach tailored to the City when designing substantive procedures and selecting specific transactions for testing
- continue to make use of technology to extract our risk-based sample from the entire population of journal entries
- continue to identify areas which may be subject to additional risk whether due to fraud or error in this regard.

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.

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

Our planned response

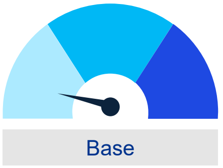
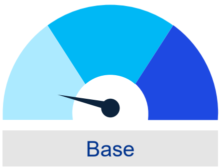
Our audit methodology incorporates the required procedures in professional standards to address this risk.

Our audit approach consists of evaluating the design and implementation and test operating effectiveness 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 risks of material misstatement

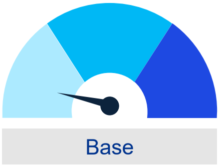
Areas	Risk due to error	Audit approach
Cash and investments Risk of material misstatement due to valuation of investments and disclosures.		• To assess any loss in value of the portfolio investments, and if such a decline is other than temporary. Perform audit procedures to assess whether a write-down is necessary. • Inspect year-end bank and investment reconciliations and substantive testing of significant reconciling items. • Substantive tests of details over additions and disposals of investments, in accordance with the newly adopted PS 3450 Financial instrument standard. • Obtain confirmations from third party financial institutions. • Evaluate financial statement note disclosures in accordance with Public Sector Accounting Standards (PSAS).
Tangible capital assets Risk of material misstatement related to existence and accuracy of tangible capital assets and accuracy of timing of revenue recognition, particularly related to funds intended for tangible capital assets additions and contributed assets.		• Substantive tests of details over additions (including contributed tangible capital assets) and disposals. • Inspect amortization policy and perform recalculations. • Examine construction in progress to ensure amounts are properly transferred to correct capital asset classes and amortization expense commences on a timely basis. • Evaluate financial statement note disclosure in accordance with PSAS. • We will agree fair value estimates of contributed tangible capital assets to supporting third party documentation or as estimated by the City; we will perform procedures to address the relevant auditing standards related to valuation estimates. • We will also perform required procedures to assess the potential risks with respect to impairment of assets. Based on the nature of the City's operations, it is not expected that this will be a significant risk during the audit.

Other risks of material misstatement

Areas | **Risk due to error** | **Audit approach**

Deferred revenues – obligatory reserve funds

Risk of material misstatement due to management assessment and judgment involved.

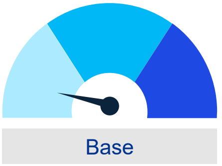


- Evaluate and test the design and operating effectiveness of selected controls over the initiation, authorization, processing, recording and reporting process activities.
- Examine the City-prepared calculation of deferred revenue balance and vouch receipts and expenditures on a sample basis. As part of our testing, we ensure recognition of revenue is based on project spending in accordance with the purpose of the obligatory reserve.
- Recalculation of interest allocation.
- Inquire with management if there were any concessions given to developers and perform audit procedures on the financial reporting impact, if relevant.

Employee future benefits (EFBs)

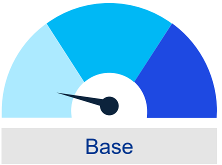
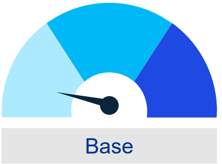
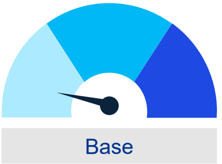
Risk of material misstatement related to accuracy and valuation of the estimate involved in employee future benefits.

Involvement of management's third party expert, the actuary, as well as KPMG's specialists.

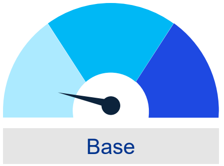
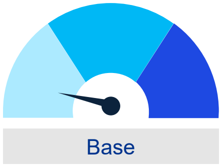


- Reliance on actuaries engaged by the City; update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.
- Assess method, data, and assumptions used by the actuary and management in the calculation of the EFB liability for reasonableness.
- We will perform audit procedures in accordance with the relevant auditing standards and related disclosure requirements for the estimates involved.
- Communicate with actuaries and test HR data provided to the actuaries, as applicable.
- Evaluate financial statement disclosures in accordance with PSAS.

Other risks of material misstatement

Areas	Risk due to error	Audit approach
Expenses – salaries and benefits Risk of material misstatement related to accuracy and occurrence of expenses.		• Test and evaluate the design and operating effectiveness of selected controls over payroll. • Test of employment expenses for a sample of employees by verifying payroll records to HR 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 City that are required to be reported in the financial statements.
Accounts payable, accrued liabilities and expenses Risk of material misstatement related to completeness of liabilities, and accuracy and occurrence of expenses.		• Test and evaluate the design and operating effectiveness of selected controls over payables and procurement cycle. • Perform a search for unrecorded liabilities. • Examine significant accrued liabilities for existence, accuracy and completeness. • Perform substantive tests of details on selected non-payroll expenditures.
Contingencies Risk of material misstatement related to completeness of contingencies and corresponding disclosures.		• Inspect 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 assessment with management during planning and completion stages of the audit.

Other risks of material misstatement

Areas	Risk due to error	Audit approach
PS 3280 Asset retirement obligations (ARO) Risk of material misstatement related to completeness of asset retirement obligations and related note disclosures.		• 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. • Examine the costs that have been included in ARO liability based on information available to management and provided by any external experts. • Evaluate the presentation of ARO in the financial statements and ensure that the financial statements include appropriate note disclosure related to the adoption of the new standard.
PS 3450 Financial instruments Risk of material misstatement related to completeness, existence, accuracy, and valuation of financial instruments and related note disclosures.		• 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 the new Statement of Remeasurement Gains and losses, as applicable. • Evaluate the presentation of financial instruments in the financial statements and ensure 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

- Planning and risk assessment procedures
- Fraud risk assessment
- Audit planning discussion:
  - December 7, 2023

Nov – Dec 2023
Interim work

- Interim fieldwork:
  - December 4 - 8, 2023

Mar – June 2024
Final Fieldwork & Reporting

- Final fieldwork
  - March 18 – April 5, 2024
- Closing meeting with management
  - April 2024
- Presentation of financial statements to the Audit Committee
  - May 27, 2024
- Approval of financial statements by City Council
  - June 25, 2024

July 2024
Debrief

- Debrief meeting
  - 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: 2022 Interim Inspections Results
- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim 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:

- How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?
- What are your views about fraud risks?
- Are you aware of or have you received 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 was your response to such tips and complaints?
- Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- What is the audit committee's understanding of the entity's relationships and transactions with related parties that are significant to the entity?
- Does any member of the audit committee have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?
- Has the entity entered into any significant unusual transactions?

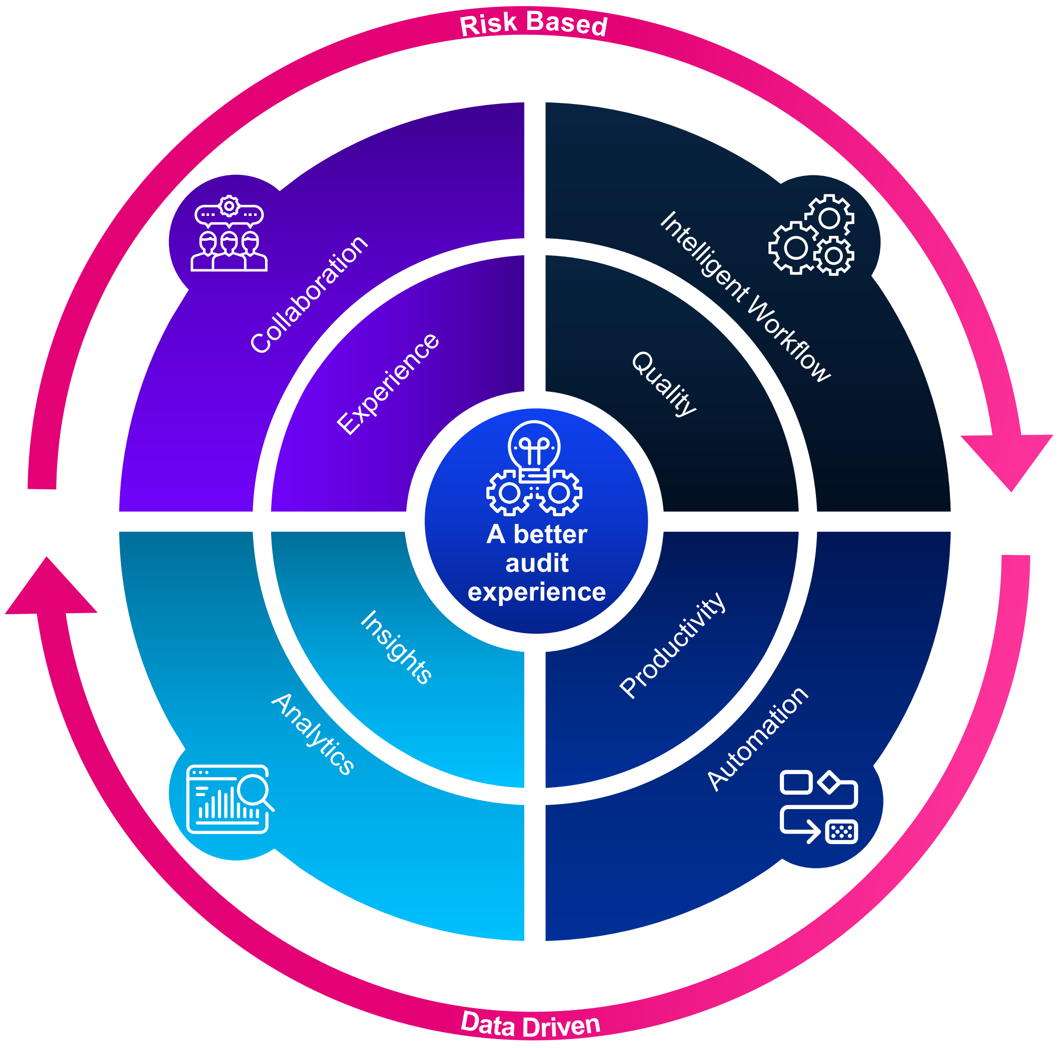
Appendix B: KPMG Clara

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.



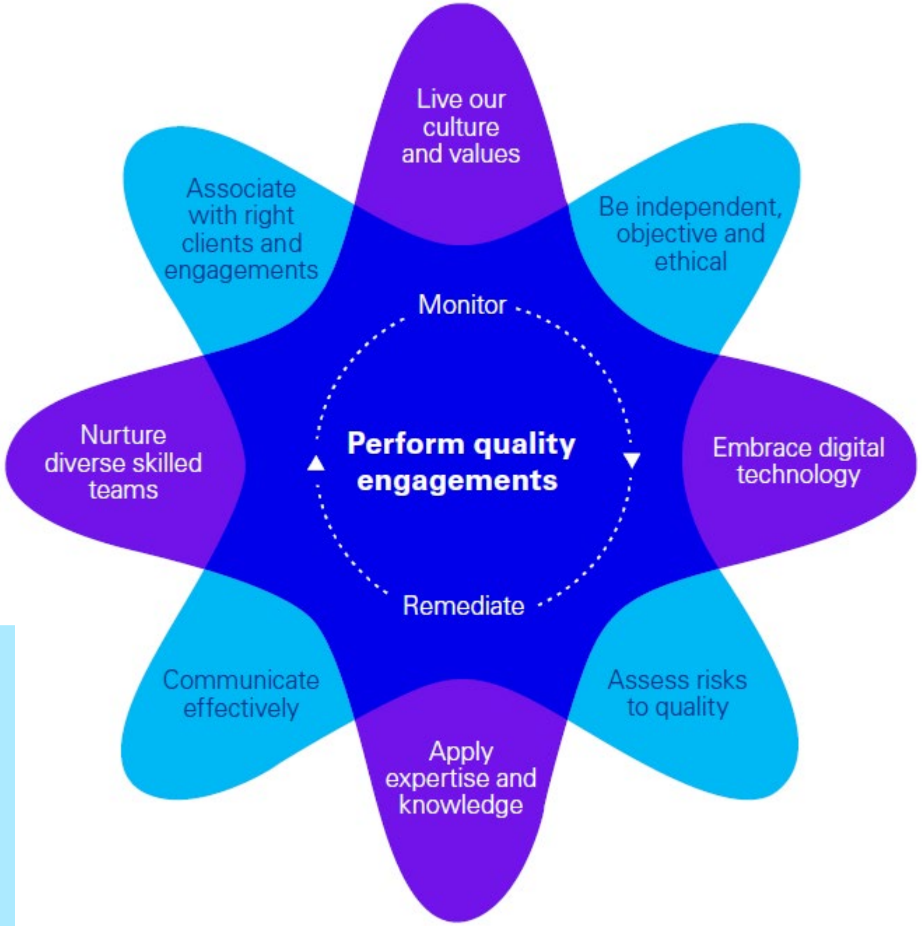
Appendix C: Audit quality: How do we deliver audit quality?

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

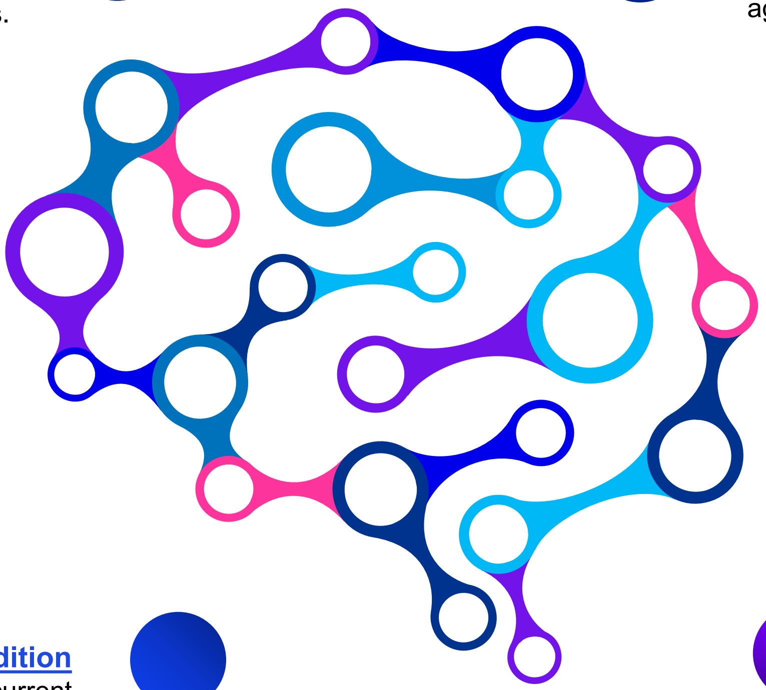
Our latest thinking on the issues that matter most to Audit Committees, Councils, board of directors and management.

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
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KPMG Climate Change Financial Reporting Resource Centre
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