



**CITY OF HAMILTON**

**CORPORATE SERVICES DEPARTMENT**  
**Financial Services Division**

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> December 09, 2013	
<b>SUBJECT/REPORT NO:</b> 2013 City of Hamilton External Audit Plan (FCS13088) (City Wide)	
<b>SUBMITTED BY:</b> Mike Zegarac Acting General Manager Finance & Corporate Services	<b>PREPARED BY:</b> Tony Del Monaco (905) 546-2424 ext. 3020
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That the 2013 City of Hamilton Audit Planning Report prepared by KPMG, attached as Appendix "A" to Report FCS13088 be approved.

**EXECUTIVE SUMMARY**

Council at its meeting of June 27, 2012, approved General Issues Committee Report 12-016 and Report FCS12001 "Selection of External Auditor for Fiscal Years 2012 to 2016" wherein KPMG was selected as the City's external auditor.

KPMG's audit approach and scope of the audit work for the City of Hamilton and its related entities for the 2013 fiscal year is provided in their Audit Planning Report for the year ended December 31, 2013, (refer to Appendix "A" to report FCS13088). KPMG's Audit Planning Report outlines their audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The audit standards

focus the audit on areas where there is greater risk of mis-statement. KPMG has tailored their audit of the City to several specific audit areas, including portfolio investments and related income, tangible capital assets, taxation revenue, user charges revenue, government grants and contributions, expenditures and payables including payroll and non-payroll purchases, employee future benefits and solid waste landfill closure liabilities.

KPMG will be discussing the audit work required on the financial statements for the Library, Housing and Business Improvement Areas with the respective boards or oversight bodies.

The 2013 external audit fees for all of the audits, as per Report FCS12001, of \$225,000 are within the limits of the approved 2013 Operating Budgets for the City and the entities included in the report.

***Alternatives for Consideration – Not Applicable.***

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

**Financial:** The 2013 external audit fees for all of the audits, as per Report FCS12001, of \$225,000 are within the limits of the approved 2013 Operating Budgets for the City and the entities included in the report.

**Staffing:** None.

**Legal:** None.

**HISTORICAL BACKGROUND** (Chronology of events)

Request for Proposal for External Audit Services C12-12-11 was issued on November 25, 2011, and closed on January 17, 2012. Council at its meeting of June 27, 2012, approved General Issues Committee Report 12-016 and Report FCS12001 "Selection of External Auditor for Fiscal Years 2012 to 2016" wherein KPMG was selected as the City's external auditor. With respect to the 2013 fiscal year, KPMG started their audit planning in October 2013 through a series of meetings and discussions with City management and management of related entities.

**POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS**

None.

**RELEVANT CONSULTATION**

The 2013 Audit Planning Report from KPMG and the City of Hamilton 2013 Year End Plan has been discussed with management of the City's Departments and Boards including:

- Corporate Services Department:
  - Acting General Manager of Finance & Corporate Services
  - Director of Financial Services
  - Acting Director of Financial Planning & Policy
  - Director of Taxation
  - Manager of Business Application Support, Accounts Payable & Accounts Receivable
  - Manager of Payroll & Pensions
  - Managers of Finance & Administration
  - Manager of Tax Accounting
  - Manager of Current Budgets & Fiscal Planning
  - Manager of Capital Budget & Development
  
- Hamilton Police Services – Chief Accountant
  
- Hamilton Public Library – Director of Finance & Facilities

The Finance and Administration staff of the Corporate Services Department co-ordinate the audit work with the City's operating departments and divisions.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

The annual audit planning report and external audit plan provides the committee with an opportunity to review the audit approach and expectations of the audit. KPMG will be available to answer questions about their report.

**ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

None.

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:**

**Strategic Priority #1**

A Prosperous & Healthy Community

*WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.*

**Strategic Objective**

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

**Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

**Strategic Priority #3**

Leadership & Governance

*WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.*

**APPENDICES / SCHEDULES**

Appendix “A” to Report FCS13088 - The City of Hamilton Audit Planning Report for the year ending December 31, 2013, as prepared by KPMG.

AUDIT

# The Corporation of the City of Hamilton

**Audit Planning Report**

For the year ending December 31, 2013

**KPMG LLP**

Licensed Public Accountants

December 9, 2013

[kpmg.ca](http://kpmg.ca)

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This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit, Finance and Administration 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.

## 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 were no specific changes to the operations of the Corporation of the City of Hamilton (the "City") that would have a significant impact that have been brought to our attention.

### Accounting standards

- The following previously discussed standards become effective this year:
  - PS3410 Government transfers
    - Transferring governments recognize an expense when the transfer has been authorized and all eligibility criteria have been met by the recipient
    - Recipient governments recognize revenue when the transfer is authorized and all eligibility criteria have been met, except when a transfer gives rise to a liability.
    - This standard could affect the timing of revenue recognition for certain government transfers.
  - PS3510 Taxation revenue
    - Taxation revenue is to be recorded by the government that imposes the tax, except in a purely flow through arrangement.
    - This standard is not expected to impact the City.
- Upcoming changes with effective dates ranging from December 31, 2014 to December 31, 2016 include Financial Instruments, Foreign Currency Translation and Liability for Contaminated Sites.
- Refer to the Appendices for further discussion on this matter.

### Auditing and other professional standards

- No significant changes with respect to auditing standards have occurred that will impact the 2013 audit plan.

## Our timetable

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

Audit, Finance and Administration Committee Interactions	Date
Present the Audit Planning Report and obtain comments	December 9, 2013
Make annual inquiries of the Audit, Finance and Administration Committee (see below)	December 9, 2013
Present our year-end Audit Findings Report, including independence communications	June 2014
Provide audit opinion on the consolidated financial statements	June 2014

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

### Annual inquiries of the Audit, Finance and Administration 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.

- 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, finance, and administration 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:

City Materiality	City Performance Materiality	City Audit Misstatement Posting Threshold
\$ 36,000,000	\$ 27,000,000, which has been set at 75% of materiality	\$ 1,350,000, which has been set at 5% of materiality

We will reassess materiality based on year-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.

No significant financial reporting risks have been identified during our audit planning. Our audit work will continue to focus on the following significant accounts and disclosures:

- Portfolio investments and related income
- Tangible capital assets
- Taxation revenue
- User charges revenue
- Government grants and contributions
- Expenditures and payables
- Employee future benefits (pension obligation; retirement benefits; long-term disability; sick leave and WSIB)
- Solid waste landfill liabilities

### 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.

<b>Identified risk</b>
Presumed risk of management override of control – Risk of fraud  Significant risk: Required to be identified as a significant risk per professional standards
<b>Summary of planned audit approach</b>
We plan on performing the required procedures under professional standards, which include testing journal entries and performing a retrospective review of estimates.

### Work performed on components of the group entity (subsidiaries, joint ventures, divisions, equity method investees)

Professional standards require that we obtain an understanding of the Corporation of the City of Hamilton’s organizational structure, including its components and their environments, that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit. Where component auditors will perform work on the financial information of such components, we are required to evaluate the extent to which we, as group auditors, will be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence for our group audit opinion.

The components upon which we will plan to perform audit procedures are listed below:

#### Significant components

<b>Identification of significant component</b>
<ul style="list-style-type: none"> <li>Hamilton Utilities Corporation</li> </ul>
<b>Involvement of KPMG member firms/other auditors (“component auditor”)</b>
Group auditor; KPMG is the component auditor.
<b>Type of work to be performed on component financial information / Planned role and responsibilities</b>
Statutory audit of component financial statements

### Other components

<b>Identification of other component</b>
<ul style="list-style-type: none"> <li>• The Hamilton Public Library Board</li> <li>• City Housing Hamilton Corporation</li> <li>• Hamilton Business Improvement Areas</li> </ul>
<b>Involvement of KPMG member firms/other auditors ("component auditor")</b>
Group auditor
<b>Type of work to be performed on component information / Planned role and responsibilities</b>
Statutory audit of component financial statements

### Use of the work of others

Our planned audit approach includes the use of the following:

- Use of management's expert – Actuary

## 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 fees are based upon our most recent proposal.

### 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 dates
Conduct interim audit field work	October 21 to November 1, 2013
Conduct year-end audit field work	March 24 to April 25, 2014
Provide audit opinion on financial statements	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

### **KPMG's Audit Quality Framework**

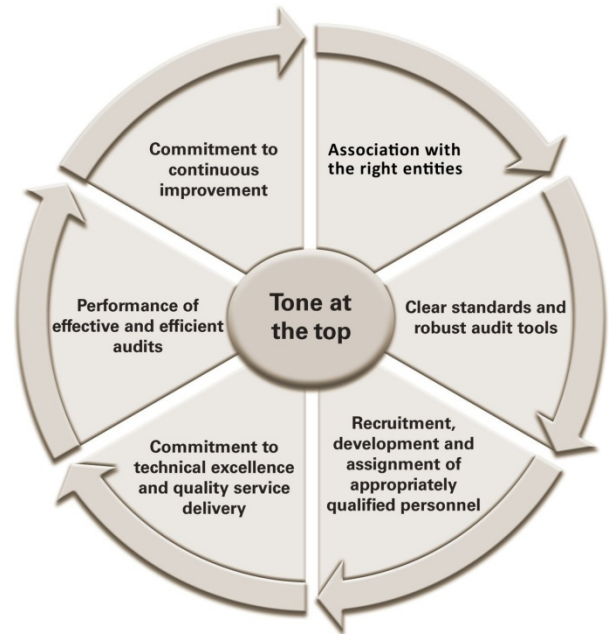
## KPMG's Audit Quality Framework

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
<b>Tone at the top</b>	<p><b>Audit quality is part of our culture and our values and therefore non-negotiable</b></p> <p>Allows the right behaviours to permeate across our entire organization and each of our engagements</p>	<p><b>Assures you that:</b></p> <ul style="list-style-type: none"> <li>Our culture supports our promise to you of excellent service and a high quality audit—consistently</li> <li>You're receiving an independent, transparent, audit opinion</li> <li>You're receiving an effective and high quality audit that will help you maintain investor confidence in your financial statements.</li> </ul> <p><b>Provides you with:</b></p> <ul style="list-style-type: none"> <li>An engagement team handpicked for your business needs – a team with relevant professional and industry experience</li> <li>An audit engagement team whose qualifications evolve as your business grows and changes</li> <li>An audit opinion that continues to meet your needs as a participant in the</li> </ul>
<b>Association with the right entities</b>	<p><b>Ethics above all</b></p> <p>Eliminates any potential independence and conflict-of-interest issues</p>	
<b>Clear standards and robust audit tools</b>	<p><b>A solid rule book</b></p> <p>Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality</p>	
<b>Recruitment, development and assignment of appropriately qualified personnel</b>	<p><b>People who add value</b></p> <p>Helps us attract and retain the best people and reinforces the importance of developing their talents</p> <p>Assigns Partners' portfolios based on their specific skill sets</p>	
<b>Commitment to technical</b>	<p><b>The right tools for the right job</b></p>	

Driver	What it does	What it means to you
<p><b>excellence and quality service delivery</b></p>	<p>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</p>	<p>capital markets</p> <p><b>Assists you with:</b></p> <ul style="list-style-type: none"> <li>Assessing the effectiveness and efficiency of the audit</li> <li>Performing your governance role with confidence.</li> </ul>
<p><b>Performance of effective audits</b></p>	<p><b>We understand that how an audit is conducted is as important as the final result.</b></p> <p>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</p>	
<p><b>Commitment to continuous improvement</b></p>	<p><b>Comprehensive and effective monitoring</b></p> <p>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.</p>	



### ***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.**

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