



AUDIT

The Corporation of the City of Hamilton

Audit Findings Report
For the year ended December 31, 2014

KPMG LLP, Licensed Public Accountants

kpmg.ca

May 13, 2015



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connection with this report are:

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the
only perspective that matters – yours.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the consolidated financial statements of The Corporation of the City of Hamilton as at and for the period ended December 31, 2014.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on December 15, 2014.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Audit risks and results

We discussed with you some **other areas of audit focus**. The other areas of audit focus included:

- Tax receivable valuation
- Solid waste landfill liabilities
- Government transfers & development charges revenue recognition
- Employee future benefits

See page 4

Audit adjustments and differences

We identified two adjustments which were subsequently corrected in the financial statements.

These misstatements were communicated to management.

The size and nature of the misstatements do not have a material effect on the financial statements or note disclosures. Accordingly, the misstatements have no effect on our auditors' report.

See Appendix 2 – Management Representation Letter

Executive summary (continued)

Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- obtaining updates for legal matters and subsequent events
- completing our discussions with the Audit, Finance and Administration Committee;
- obtaining evidence of the Council's approval of the financial statements; and
- receipt of the signed management representation letter.

We will update you on significant matters, if any arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

No significant deficiencies come to our attention.

Independence

We are independent with respect to the City and its related entities, within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation

* This Audit Findings 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 Findings 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 risks and results

Inherent risk is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of the other areas of audit focus for our audit, as identified in our discussion with you in the Audit Plan, include the following:

Other areas of audit focus

Our significant findings from the audit

US Steel tax allowance

An allowance has been recorded for the US Steel tax assessment appeal. During 2014, a settlement was reached between US Steel and MPAC and as a result, US Steel's taxes were reduced.

The reduction in taxes was applied against the allowance previously recorded. We reviewed the Assessment Review Board minutes and management's calculations of the refund and the related accounting entries.

No misstatements were identified.

Solid waste landfill liabilities

The City owns and operates one open landfill site and owns and monitors 12 closed landfill sites. The present value of the expected closure and post closure care costs of the open landfill site and the present value of expected monitoring and capital rehabilitations costs of the closed landfill sites have been reported as a liability on the consolidated Statement of Financial Position. The liability for these future expenses has been estimated by the City.

The City made use of an external expert to review the estimation methodology including mathematical calculations, estimates, expenditure types and remaining capacity of the open landfill site.

KPMG obtained a copy of management's calculation of the liability and the expert's report. We evaluated the assumptions used and checked the calculations. We relied on the work of management's expert.

We concur with management's assumptions and no misstatements were identified.

Audit risks and results (continued)

Other areas of audit focus

Our significant findings from the audit

Government transfers

We prepared a detailed trend analysis and comparison to budget of government grants and investigated any significant variances with the help of management to ensure funds were being appropriately recognized as revenue for the year.

We reviewed the terms of the facility agreement with TO2015 and management's analysis of the revenue earned. The government transfers received were compared to the related expenditures for the Hamilton Tim Horton's field to determine whether the funding had been earned in the year.

As a result of our review, we determined that the City had earned \$8.1 million more than management had recognized. This misstatement has been corrected by management and is included in Appendix II of the management representation letter.

Development charges

We reviewed the recognition of significant developer contributions and charges earned and agreed these funds to the related transfers. We ensured the charges and contributions were recognized in an appropriate manner, as expenditures were incurred.

Employee future benefits

The City provides certain employee benefits which will require funding in future periods. These benefits include retirement, post-employment and pension benefits. The liability of these future benefits has been determined by actuarial valuation.

We obtained a copy of the most recent actuarial valuation completed in 2014 and evaluated management's expert and their work for use as audit evidence.

We reviewed management's assumptions for reasonableness.

- Enquired of management on the process established for providing data to the actuary.
- Tested data provided to actuary on a sample basis.
- Compared discounts rates used to the long term borrowing rate for reasonableness.

We determined that the work of management's expert and management's assumptions was reasonable and could be used as audit evidence.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management's representation letter included in the Appendices. We also highlight the following:

Form, arrangement, and content of the financial statements

Application of accounting pronouncements issued but not yet effective.

Liability for Contaminated Sites, PS 3260, is effective for fiscal year 2015. We are working with management on the implementation of this standard. Management is in the process of identifying potential contaminated sites and are working on developing a process of analysis of the potential liability.

Other matters

Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Prior Period Misstatement and Recast of Comparative Period Results	Management identified two immaterial entities that were not included in the reporting entity in the past but should have been. These entities are managed by a third party on behalf of the City. Management has determined this error to be immaterial to the financial statements and have corrected the error retrospectively with appropriate disclosure. This adjustment has been communicated in note 1 to the financial statements.

Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as Corrected audit adjustments; or Uncorrected audit differences. These include disclosure adjustments and differences.

Although the uncorrected differences have no effect on our auditors' report, these uncorrected differences or the underlying matters regarding adjustments or differences (e.g., control deficiencies) could potentially cause future annual or interim financial statements to be materially misstated or have an implication on the financial reporting process.

Corrected audit adjustments

The management's representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Uncorrected audit differences

We did not identify differences that remain uncorrected

Appendices

Appendix 1: Required communications

Appendix 2: Representation letter

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

Appendix 5: Current developments

Appendix 1: 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:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report as attached.
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, copies of the representation letter are provided to the Audit Committee.
- **CPAB multi-firm report** – please refer to http://www.cpab-csrc.ca/Documents/Topics/PublicReports/CPAB_2014_PublicReport_EN_FNL.pdf for the CPAB 2014 Public Report.

Management representation letter

KPMG LLP
Chartered Professional Accountants
Commerce Place
21 King Street West, Suite 700
Hamilton, Ontario, L8P 4W7
Canada

June 10, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Hamilton ("the Entity") as at and for the period ended December 31, 2014.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 12, 2012, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
 - b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties and all related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

- 8) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.
- 9) We approve the uncorrected and corrected misstatements identified by the Entity relating to the financial statements for the year ending December 31, 2013 described in **Attachment II**.

Yours very truly,

THE CORPORATION OF THE CITY OF HAMILTON

By: Mike Zegarac, General Manager, Finance and Corporate Services

By: Rick Male, Director, Financial Services and Corporate Controller

By: Tony Del Monaco, Manager of Accounting Service

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian public sector accounting standards *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members (see paragraph .04).

In accordance with Canadian public sector accounting standards a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II – Summary of Audit Misstatements Schedule(s)

DRAFT

City of Hamilton
Summary of Corrected Audit Misstatements
For Year Ended December 31, 2014

Amounts in thousands

Description of misstatement	Accounts	Debit	(Credit)	Income Statement Effect - Debit (Credit)	Balance Sheet Effect - Debit (Credit)			
				Income Effect Debit (Credit)	Equity	Financial Assets	Non Financial Assets	Liabilities
To record Ontario Works Assistance Payments	Accounts payable Cash	17,656	(17,656)			(17,656)		17,656
To recognize grant revenue relating to the Pan Am Stadium	Deferred revenue - obligatory reserve funds Government grants	8,106	(8,106)	(8,106)				8,106
		25,762	(25,762)	(8,106)	-	(17,656)	-	25,762

City of Hamilton

Summary of Corrected Audit Misstatements

For Year Ended December 31, 2013

Amount thousands

<u>Correcting Entry Required at Current Period End</u>					<u>Income Statement Effect - Debit(Credit)</u>		<u>Balance Sheet Effect - Debit (Credit)</u>			
ID	Description of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward)	Income effect of correcting the current period balance sheet	Equity	Financial Assets	Non Financial Assets	Liabilities
			A		B	C=A (Only Income Statement accounts)				
1	New controlled entities identified (Confederation Park and Westfield Heritage Village)	Long term receivables		2,027				(2,027)		
		Accounts payable and accrued expenses	486							486
		Deferred revenue - general		15						(15)
		Tangible capital assets	8,432						8,432	
		Accumulated surplus		7,118			(7,118)			
		Government grants		27	(27)	(27)				
		User charges		1,639	(1,639)	(1,639)				
		Investment income	112		112	112				
		Other		859	(859)	(859)				
		Recreational and cultural services	2,655		2,655	2,655				
			11,685	11,685	242	242	(7,118)	(2,027)	8,432	471

Appendix 3: 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 <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- 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.
- 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.



- 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.
- We do not offer services that would impair our independence.
- 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; and
 - 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.

Appendix 4: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors'

report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Consenting to the use of the auditors' report

When specifically engaged in the engagement letter, we will provide our consent, in writing, to the use of our auditors' report, once we have completed all of the procedures required under professional standards and no unresolved matters exist.

If there are any unresolved matters arising from the performance of the above procedures, we will inform the Audit Committee and Council of such matters.

Appendix 5: Current developments

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications	Reference
New standard – Liability for Contaminated sites (effective January 1, 2015)	<p>A new standard has been issued, addressing liabilities for remediation related to sites, or parts of a site no longer in active or productive use. This is effective for the fiscal periods beginning on or after April 1, 2014.</p> <p>Implications: This standard requires the entity to record a liability for the continuing remediation efforts related to contaminated sites no longer in active or productive use. Many contaminated sites still require additional analysis to determine the extent of any potential liability which should be recorded. In addition to the lack of information on the contaminated sites, the measurement of environmental liabilities requires substantial professional judgment and can vary widely year to year. How an entity accounts for long term monitoring costs, for example, and the assumptions applied to index and discount future remediation expenditures can materially impact the amount of the liability reported.</p>	

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