The Corporation of City of Hamilton

Audit Findings Report for the year ended December 31, 2020

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

Prepared May 26, 2021

kpmg.ca/audit

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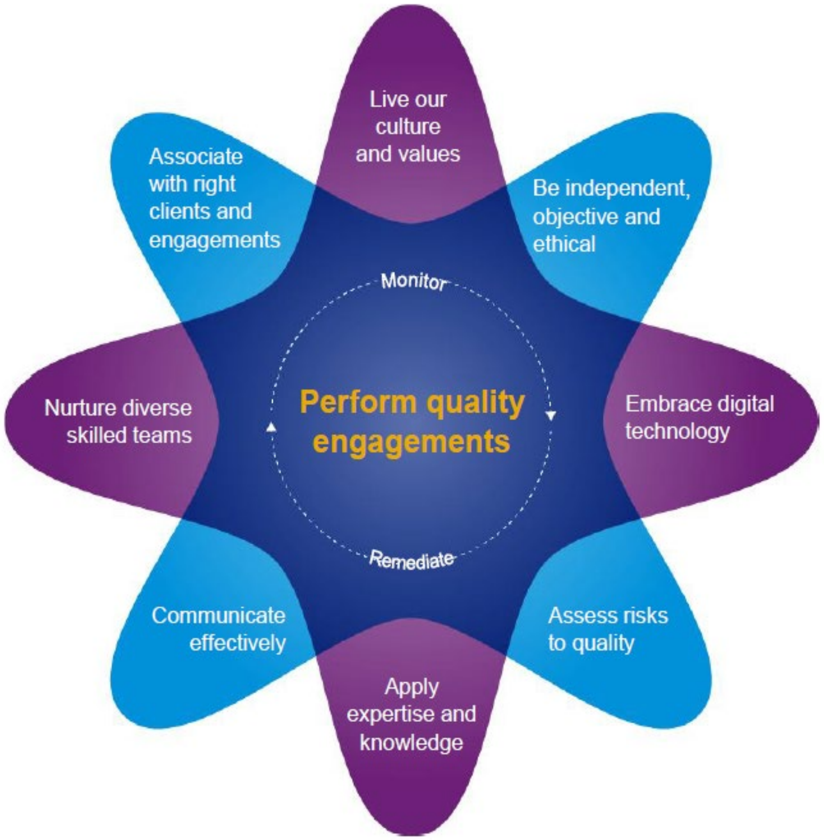
Transparency report

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 engagements**' 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.



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 controls;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity.**

Doing the right thing. Always.

Executive summary

Purpose of this report[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the Finance and Administration Committee on January 14, 2021.

What's new in 2020

There have been significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – See page 4
- New CAS auditing standard – See page 5

Changes from the audit plan

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

[1] This Audit Findings Report is intended solely for the information and use of Management, the Finance and Administration Committee 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 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.

Finalizing the audit

As of May 26, 2021, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing our discussions with the audit committee / general committee;
- Obtaining evidence of the Council's approval of the financial statements;
- Legal updates to the audit report date;
- Receipt of the signed management representation letter (to be signed upon approval of the financial statements;

We will update the Finance and Administration Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report, a draft of which is provided in the consolidated draft financial statements will be dated upon the completion of any remaining procedures.

Uncorrected differences

We did not identify differences that remain uncorrected.

See pages 14

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

Independence

We are independent with respect to the City of Hamilton (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation. We are independent and have extensive quality control and conflict checking processes in place.

What's new in 2020

COVID-19 pandemic

We have adapted our audit to respond to the key risks arising from COVID–19 by taking into consideration key changes in your business including those that impact financial reporting and internal control over financial reporting.

Audit effort

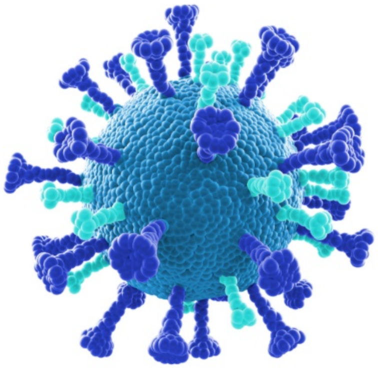
Our audit effort increased due to, amongst others, the incremental efforts outlined on this slide from risk assessment to specific audit procedures and review of disclosures. A further breakdown of our audit effort will be provided upon final completion of the audit.

Impact on Operations and Audit Procedure Response

We spent additional time to understand and document the impacts of COVID-19 on the 2020 results, modify our audit approach and perform additional audit procedures were required.

Risk assessment

We performed a more thorough risk assessment specifically targeted at the impacts of the COVID 19 pandemic, including an assessment of fraud risk factors. We performed increased inquiries with management in assessing liquidity risk and the City's ability to continue to meet its obligations as they fall due.



Working remotely

We used virtual audit rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. We used secure technologies to conduct walkthroughs. We increased our professional skepticism when evaluating electronic evidence received.

Direction and supervision of the audit

Our managers and partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit including enhanced risk assessment procedures. The managers and partners implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.

New auditing standards

The following new auditing standards that are effective for the current year had an impact on our audit.

Standard	Key observations
— **CAS 540, Auditing Accounting Estimates and Related Disclosures**	— The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”. Our assessment included the following accounts for consideration: - Development charges - Contaminated sites - Employee future benefits - Landfill liability - Legal claims - Accrued assessment appeals - Depreciation - Accrued payroll — The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team. — We performed more granular risk assessments based on the elements making up each accounting estimate such as the method, the assumptions used, the data used and the application of the method. — We considered the potential for management bias. — We assessed the degree of uncertainty, complexity, and subjectivity involved in making each accounting estimate to determine the level of audit response; the higher the level of response, the more persuasive the audit evidence was needed. — We involved professionals with appropriate skills and knowledge to assist us in auditing certain estimates as appropriate. — See pages 10 and 11 under Audit Risk and Results for estimates that related to significant risk or other areas of focus, which are a subset of all the estimates subject to the new standard.
— **Audit effort**	— Our audit hours have increased due to, amongst others, the above key observations.

Audit risks and results

We highlight our significant findings in respect of **significant financial reporting risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant financial reporting risks identified.

Significant financial reporting risk	New or changed?	Estimate?
Fraud risk from management override of control	No	No

Our response

- As this risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk.
- These procedures included the testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Significant findings

- We did not identify any issues or concerns regarding management override of controls.

Audit risks and results

We highlight our significant findings in respect of **significant financial reporting risks** as identified in our discussion with you in the Audit Plan, as well as any additional significant financial reporting risks identified.

Significant financial reporting risk	New or changed?	Estimate?
Fraud risk from revenue recognition (rebuttable)	No	No

Our response

- This risk has been rebutted due to the underlying nature of the revenues. Notwithstanding that this risk has been rebutted, we performed testing over revenues included testing of journal entries and other adjustments, substantively testing revenues (both recognized and amounts held as deferred at year end), and recalculating management's determination of deferred revenue – obligatory reserve funds through auditing management's methodology.

Significant findings

- Based on the results of our testing, we did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Revenue recognition and deferral policies including grants	No	No

Our response

- We performed substantive testing over the recognition of developer contributions and charges earned
- We obtained the deferred revenue continuity schedule and selected samples for testing to determine if the selected amounts had been recognized in the current year in accordance with the appropriate legislation or agreements that the revenues pertain to
- Based on our testing, we conclude that deferred revenue was recognized as revenue appropriately

Significant findings

- No exceptions were noted during testing

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Tangible capital assets	No	No

Our response

- Contributed assets are normally tangible capital assets that have been donated or transferred to the municipality. The City received $8.5M (2019 - $21.7M) of donated and contributed assets.
- PSAB 3150 Tangible Capital Assets indicates that contributed assets are to be measured at fair value which may be determined by using the market value or appraised value. If the fair value cannot be determined, the asset should be recorded at a nominal value.
- KPMG obtained a listing of all contributed assets and performed substantive testing by corroborating the fair values recorded by management to third party invoices and contracts.
- For non contributed assets we substantively vouched additions to their underlying invoices and assessed the reasonableness of the useful life and the residual value assigned to the asset. We examined whether the depreciation commenced on the date that the asset was available for use.
- We obtained a listing of disposals for fiscal 2020 and vouched to supporting documentation.
- We verified transfers between municipalities to ensure existence and accuracy.

Significant findings

- No exceptions were noted during testing

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Employee future benefits liability	No	Yes

Our response

- The City provides certain employee benefits which will require funding in future periods. These benefits include sick leave benefit plans, long-term disability, benefits under the Workplace Safety Insurance Board ("WSIB") Act and extended health and dental benefits for early retirees as well as pension benefits. The liability for these future benefits has been determined by actuaries engaged by the City.
- We obtained the current year's valuation update of the obligation from management's third party actuary and performed procedures to verify the significant assumptions and inputs
- We ensured management's reporting of the estimate was accurate based on the expert's valuation and that the appropriate disclosures were made within the financial statements
  a) Based on our testing, we conclude that EFB obligation was recognized appropriately
  b) We placed reliance on the actuary and evaluated their credentials

Significant findings

- No exceptions were noted during testing

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Landfill liability and contaminated sites	No	Yes

Our response

Landfill liability

- The City owns and operates one open landfill site and owns and maintains 12 closed landfill sites. The present value of the expected closure and post closure care costs of the open landfill site and present value of monitoring and capital rehabilitation costs of the closed landfill sites have been reported as a liability on the Consolidated Statement of Financial Position.
- All closure costs for the open landfill site and post closure care costs for the closed sites were based upon management estimates, adjusted by 2.5% inflation. The costs were discounted back to December 31, 2020 using a discount rate of 3.5%. Estimates have been based upon a post closure care period of 50 years.
- We reviewed and assessed management assumptions and reviewed the report prepared by management's expert.

Liability for contaminated sites

- We reviewed management's process for identifying potential contaminated sites and reviewed management's listing of contaminated sites and the analysis against the prescribed criteria to determine if a liability should be recorded.
- We gained an understanding and assessed the reasonability of the remediation estimates for contaminated sites deemed to be relevant to this standard and performed a recalculation of the present value of the determined liability.
- In 2008, the City commenced a 3 phase project to upgrade the waste water treatment plant at Woodward Avenue. During construction the City identified 75,000 tonnes of soil contaminated with polychlorinated biphenyl. The cost of remediating this dirt in order to continue construction at the site will cost the City an estimated total of $24.1 million. As at December 31, 2020, $8.7 million have been spent with an estimated $15.4 million still to be incurred. Majority of the remediation costs are expected to be completed by the end fiscal 2021. Under PS 3260 and PS 3200 the City is required to recognize an asset and an offsetting liability for the environment remediation costs to the Plant. This resulted in an audit adjustment which was corrected by management which increased accounts payable and accrued liabilities by $15.4 million and tangible capital assets by the same amount.

Significant findings

- No other exceptions were noted during testing

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Investment and related income	No	No

Our response

- All investment activities shall be in compliance with the regulations (Section 418 of the Municipal Act, 2001 and Ontario Regulation 438/97, Eligible Investments and Related Financial Agreement). There is a risk of material misstatement related to accuracy, valuation and ownership
- We obtained third party confirmations from the financial institutions holding the investments and ensured that management's records agreed to the value reported.
- We performed substantive analytical testing over investment income and noted the amount of related income earned in the current year was reasonable.

Significant findings

- No exceptions were noted during testing

Audit risks and results

We highlight our significant findings in respect of **areas of focus** as identified in our discussion with you in the Audit Plan, as well as any additional areas of focus identified.

Area of focus	New or changed?	Estimate?
Operating expenditures	No	No

Our response

- Risk surrounding the completeness, existence and accuracy of reported expenses and accruals.
- We completed various substantive audit procedures over operating expenditures, including payroll and employee benefits expenditures.
- We performed a detailed comparison of operating expenditures to budget and used the variances to determine the extent of testing to perform.

Significant findings

- No exceptions were noted during testing

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

We identified one adjustment that was subsequently corrected by management. The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

We also highlight the following:

Form, arrangement, and content of the financial statements	The financial statements are, in all material respects, in accordance with the applicable financial accounting framework, Public Sector Accounting Standards. The disclosures in the notes to the financial statements are appropriate. KPMG provides management with recommendations on financial statement presentation and disclosure.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation. As a result of the impact of COVID-19 the Accounting Standards Board have deferred many of the future accounting standard by one additional year.

Current developments and audit trends

Title	Details	Link
Public Sector Update – connection series	Public Sector Accounting Standards are evolving – Get a comprehensive update on the latest developments from our PSAB professionals. Learn about current changes to the standards, active projects and exposure drafts, and other items.	Contact your KPMG team representative to sign up for these webinars. Public Sector Minute Link

Public Sector Accounting Standards

The following are upcoming changes that will be effective in future periods. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations ("ARO")	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Financial Instruments	– accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2022

	– Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in 2020. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2023. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise 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.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The SOP proposes 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 P3 ends.

	– The SOP proposes the public sector entity recognize 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, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – Two consultation papers were released for comment in May 2018 and March 2019 both of which have closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. A final decision was expected at the March 2020 meeting. As of the date of this report, nothing has been released from PSAB.

Appendices

Content

Appendix 1: Other Required Communications

Report	Representations of management
Refer to the draft report in the consolidated draft financial statements.	A copy of the management representation letter is provided by management.

Appendix 2: Audit and Assurance Insights

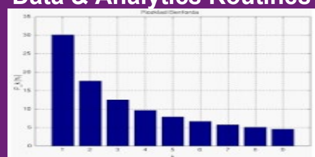
Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada.	**Learn more**
The business implications of coronavirus (COVID 19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	**Learn more**
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	**Learn more**
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center.	**Learn more**
Accelerate 2020	Perspective on the key issues driving the audit committee agenda.	**Learn more**
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	**Sign-up now**
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**

Appendix 3: Technology in the audit

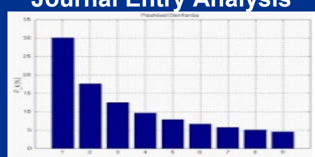
As previously communicated in our Audit Planning Report, we have utilized technology to enhance the quality and effectiveness of the audit.

Data & Analytics Routines



- We were able to effectively and efficiently select samples throughout the audits to maximize our assurance with the least amount of strain on staff resources.
- We selected samples for substantive testing using the KPMG Monetary Unit Sampling (KPMG MUS) program, which provides more comprehensive and accurate coverage over the tested population and extrapolation of errors, increasing audit quality.

Journal Entry Analysis



- We utilized our journal entry tool, IDEA to identify high-risk journal entries which we defined as part of our risk assessment. The tool provided us with auto-generated journal entry population statistics and focused our audit effort on journal entries that are riskier in nature.

KPMG Clara Client Collaboration

- KPMG Clara Client Collaboration (“KCCC”) allowed real time PBC tracking data with minimal team effort and automated follow-up.
- KCCC standardized and digitized our approach to client information, providing a streamlined process and better version control.

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