The Corporation of City of Hamilton

Audit Findings Report for the year ended December 31, 2021

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

Prepared May 23, 2022 for presentation on June 16, 2022.

kpmg.ca/audit

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Our refreshed Values

What we believe

Integrity
We do what is right.

Excellence
We never stop learning and improving.

Courage
We think and act boldly.

Together
We respect each other and draw strength from our differences.

For Better
We do what matters.

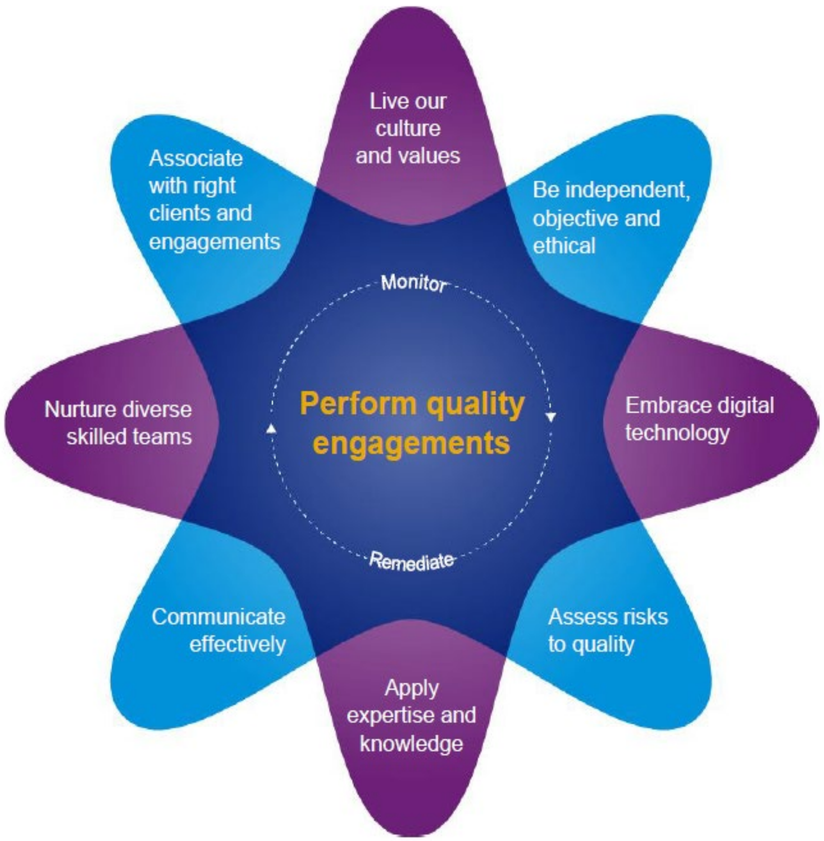
Transparency report

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.

Audit highlights

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, 2021. This Audit Findings Report builds on the Audit Plan we presented to the Finance and Administration Committee on January 24, 2022.

Status of the audit

As of May 12, 2022, 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, and
- Receipt of the signed management representation letter (to be signed upon approval of the financial statements).

We will update the Finance and Administration Committee, 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.

Significant changes from the audit plan

There were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

Going concern

No matters to report.

Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Significant financial reporting risks
  - Fraud risk from management override of control
  - Fraud risk from revenue recognition
- Other areas of focus
  - Revenue recognition and deferral policies, including grants
  - Tangible capital assets
  - Employee future benefits liability
  - Landfill liability and contaminated sites
  - Investment and related income
  - Operating expenditures

See pages 5 to 12.

[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.

Uncorrected audit misstatements

No matters to report. See page 13.

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

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.

Independence and quality control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

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

This is a presumed fraud risk under Canadian Auditing Standards. We have not identified any specific additional risks of management override relating to this audit.

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk.

These procedures included:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates, and
- evaluating the business rationale significant unusual transactions.

Data & Analytics tools were used to perform work over this area including journal entry testing designed to address high risk journal entries.

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	No	No

Our response

We have identified the following areas where this presumed fraud risk is relevant:

- Government grants
- Development charges

To address the relevant assertions associated with the significant risk, our audit approach 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 procedures to address relevant risks related to completeness, existence and accuracy of revenue recognized for the year. These procedures include:

- performing substantive testing over the recognition of developer contributions and charges earned,
- obtaining the detailed grant revenue listing and 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, and
- performing sampling procedures over grant related expenses to validate whether expenses incurred in the period are in compliance with restrictions imposed by third parties through an inspection of signed agreements and related invoices.

Significant findings

We have not identified any audit misstatements through the performance of these procedures.

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 $28.8 million (2020 - $8.5 million) 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.

We performed substantive audit procedures to address the relevant risks over classification, completeness and accuracy of tangible capital assets. These include:

- obtaining 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, vouching additions to their underlying invoices, assessing the reasonableness of the useful life and the residual value assigned to the asset, and examining whether the depreciation commenced on the date that the asset was available for use,
- obtaining a detailed listing of all disposals for fiscal 2021 and vouching to supporting documentation, and
- verifying transfers between municipalities to ensure existence and accuracy.

Significant findings

We have not identified any audit misstatements through the performance of these procedures.

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 (EFB) 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 (management's specialists) engaged by the City.

We performed substantive audit procedures to address the relevant risks over completeness and accuracy of the liability and related expenses. These include:

- evaluating actuaries' qualifications, competence and objectivity, and relying on their reports,
- obtaining current year's valuation update of the obligation from the third-party actuaries, and performing procedures to verify the significant assumptions and inputs, and
- ensuring management's reporting of the estimate was accurate based on the experts' valuations and that the appropriate disclosures were made within the financial statements.

Significant findings

Based on our testing, we conclude that EFB obligation was recognized appropriately. We have not identified any audit misstatements through the performance of these procedures.

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, 2021 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. We also evaluated qualifications, competence and objectivity of management's experts.

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.

Significant findings

We have not identified any audit misstatements through the performance of these procedures.

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).

We performed substantive procedure to address relevant risks related to accuracy, valuation and ownership. These procedures include:

- obtaining third party confirmations from the financial institutions holding the investments and ensured that management's records agreed to the value reported, and
- performing substantive analytical testing over investment income and noted the amount of related income earned in the current year was reasonable.

Significant findings

We have not identified any audit misstatements through the performance of these procedures.

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

We completed various substantive procedures to address relevant risks over completeness, existence and accuracy on operating expenditures, including payroll and employee benefits expenditures. These procedures include:

- performing a detailed substantive analytical procedure of operating expenditures, specifically trend analysis comparing actual current year results to (1) prior year results and (2) budget, and used the variances to determine the extent of testing to perform, and
- performing search for unrecorded liabilities to ensure all 2021 expenses and accruals have been properly recorded.

Significant findings

We have not identified any audit misstatements through the performance of these procedures.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Corrected audit misstatements

We did not identify any misstatements that were communicated to management and subsequently corrected in the financial statements.

Financial statement presentation and disclosure

Misstatements, including omissions, if any, related to presentation and disclosure items are in the management representation letter.

We also highlight the following:

Financial statement presentation - form, arrangement, and content	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.
Significant qualitative aspects of financial statement presentation and disclosure	There are no concerns at this time regarding significant qualitative aspects of financial statement presentation and disclosure.
Application of accounting pronouncements issued but not yet effective	See *Current developments and audit trends* in page 15 or refer to Note 2 of the financial statements.

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

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 *(for City's 2023 year-end)*. – 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 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 Statement Presentation	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (*for City's December 31, 2023 year-end*), and must be adopted simultaneously with PS3450*, Financial Instruments*, and PS2601, *Foreign Currency Translation*. – This standard introduces a new statement of remeasurement gains and losses which will report unrealized foreign exchange gains or losses, fair value remeasurements and other comprehensive income (OCI) from Government Business Enterprises (GBEs).

Financial Instruments	– This new standard is effective for fiscal years beginning on or after April 1, 2022 *(for City's December 31, 2023 year-end)*. – This standard provides guidance on recognition, measurement, presentation and disclosure of financial instruments and introduces fair value measurement for a number of financial instruments including derivatives.
Foreign Currency Translation	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (*for City's December 31, 2023 year-end)*. – This standard requires foreign exchange translation gains and losses to be reported in the statement of remeasurement gains and losses.
Portfolio Investments	– This new standard is effective for fiscal years beginning on or after April 1, 2022 *(for City's December 31, 2023 year-end)*. – This provides guidance on how to account for investments in organizations that do not form part of the government reporting entity. Such investments are normally in equity instruments or debt instruments issued by the investee.
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2023 *(for City's 2024 year-end)*. – 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.
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. – An Exposure Draft ("ED") was issued in November 2019 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The ED 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 to the future economic benefits and risks of the infrastructure asset, and it controls any significant residual interest in the infrastructure at the end of the P3's term. – The ED 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 initially measured at its fair value, as P3's are the result of a competitive bidding process, cost should be equal to the asset's fair value on day one of the transaction. A liability, when it exists, should be initially measured at the same amount as the infrastructure asset. Cost would be measured by discounting the expected cash flows by a discount rate that is the contract rate. – This section is effective for fiscal years beginning on or after April 1, 2023 *(the City's December 31, 2024 year-end)*.
Public Sector Guideline 8, Purchased Intangible	– This guideline is effective for fiscal years beginning on or after April 1, 2023 *(for City's December 31, 2024 year-end)*. – This enables public sector entities to recognize intangible acquired through an arm's length exchange transaction as an asset where they meet the asset definition and general recognition criteria in PS1000, *Financial Statement Concepts*.

Appendices

Content

Appendix 1: Other Required Communications

Audit Quality in Canada	Engagement terms
The reports available through the following links were published by the Canadian Public Accountability Board to inform audit committees and other stakeholders about the results of quality inspections conducted over the past year: • CPAB Audit Quality Insights Report: 2021 Interim Inspections Results • CPAB Audit Quality Insights Report: 2020 Annual Inspections Results	A copy of the engagement letter and any subsequent amendments has been provided to the audit committee.
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

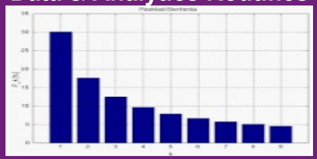
Our latest thinking on the issues that matter most to audit committees, Boards and Management.

Featured insight	Summary	Reference
Accelerate 2022	The key issues driving the audit committee agenda in 2022	Learn more
Audit Committee Guide – Canadian Edition	A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada	Learn more
Unleashing the positive in net zero	Real solutions for a sustainable and responsible future	Learn more
KPMG Audit & Assurance Insights	Curated research and insights for audit committees and boards.	Learn more
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	Learn more
KPMG Climate Change Financial Reporting Resource Centre	Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.	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
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
KPMG Learning Academy	Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.	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.

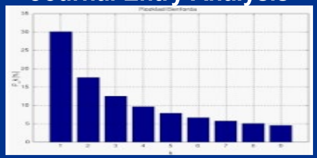
Data & Analytics Routines



— 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.

Appendix 4: Cyber Insurance Solution Suite

Cyber Insurance Solution Suite

Cyber Insurance, as a form of Risk Transfer, is a crucial element of any risk management strategy. For the past 10 plus years, cyber insurance has become a valued asset to many of you; helping you in times of need and operating within a space where even the most sophisticated businesses are compromised on a regular basis.

The Hard Market

With rising losses gripping the cyber-Insurance market, the conversation of obtaining and maintaining cyber insurance has become more troublesome than ever. Premiums are rising sharply, coverages are being pulled back, new restrictions and exclusions are being enforced, and for many of you the limit of insurance you once held has collapsed. All the above has placed a significant strain on your risk acceptance, your budgets, and your comfort.

What are Insurer's looking for?

Fortunately, nothing entirely unique. The following, while recognized by cyber insurers as being crucial to mitigating the volume of claims entering the market, are nothing more than best practices promoted by industry frameworks such as NIST CSF and ISO standards.

While this is not a golden ticket list, and cannot guarantee insurability, it has fast become a minimum standard Insurers expect before partnering with you on cyber insurance.

Factors Impacting Insurability

In addition to Annual Revenues, your Industry vertical, and your claims experience over the past 5 years, Insurers are now assessing your risk profile based on the following cyber security controls...

1. The uniform application and management of cyber security across your organization, and all entities to be insured under the same policy.
2. The implementation of MFA for all remote access to the network, including any third party access.
3. An Advanced EDR/EPP Solution implemented on all endpoints and servers.
4. Advanced email filtering capabilities, with sandbox/detonation and quarantine functionality.
5. Robust Patch & Vulnerability management, with regular scanning and tracking of vulnerabilities through to remediation.
6. Back-ups which are offline, with strict access controls, and subject to regular testing of recovery and integrity.
7. Identity Access Management Solution in place, enforcing policies and authentication standards.
8. A centralized SOC, including 24/7 monitoring of a SIEM solution that is configured to capture activity from across the network.
9. An Awareness Training program that incorporates regular phishing exercises.
10. Network Segmentation of critical and sensitive assets/environments.

How we can help

KPMG is dedicated to supporting our current and future clients through this landscape, to prepare you for the insurance process, and give you the best opportunity to present your business favorably to underwriters. Through our relationships in the market, KPMG has identified key areas of concern for underwriters that carry the most weight when assessing a risk. To partner with the insurance market, you must be able to stand up to these requirements.

Investment in cyber security is no longer a regulatory requirement for some, but a cyber insurance requirement for all. KPMG's Cyber Insurance Suite Solution has been designed to go beyond problem raising, by supporting clients with the identification and remediation of issues as well as advisory services to offer guidance when making the decision to purchase an insurance product.

Step 1
Assessment

Tailored to your wider business needs, a cyber maturity assessment will determine the status of your organization in satisfying the requirements of the cyber insurance market at a minimum, or as part of a wider best practice maturity assessment.

Step 2
Implementation

Having identified any gaps or concerns against the minimum standards, we will recommend and implement solutions to improve your posture and readiness for cyber insurance. Our team of professionals. supported by KPMG's alliance partners, will work with your team through the SDLC.

Step 3
Preparation

When the time comes to purchase or renew your insurance policy, we will work with you to develop the material you will present to underwriters, and discuss common questions they may ask, to ensure you are prepared for the presentation in order to present your business favorably.

Step 4
Review

With multiple lines of insurance renewing often at once, reviewing your options can be difficult. KPMG will work with you to review quotes being presented to inform your decision. We will consider coverages and restrictions in the wording, what is known to be available in the market, as well as additional value added services on offer to provide full visibility into what you are buying.

The market is constantly evolving, as does the world of information security and cyber risk. With these changes, the requirements of underwriters may also change. KPMG will endeavor to keep our clients informed of these changes in good time ahead of the insurance purchasing or renewal process.

In some cases, despite the control prowess our clients, there are some industries and businesses which will struggle more than others. Our KPMG specialists will ensure this is raised in our initial conversations, and develop a plan that includes a focus on internal security where risk transfer may be limited.

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