

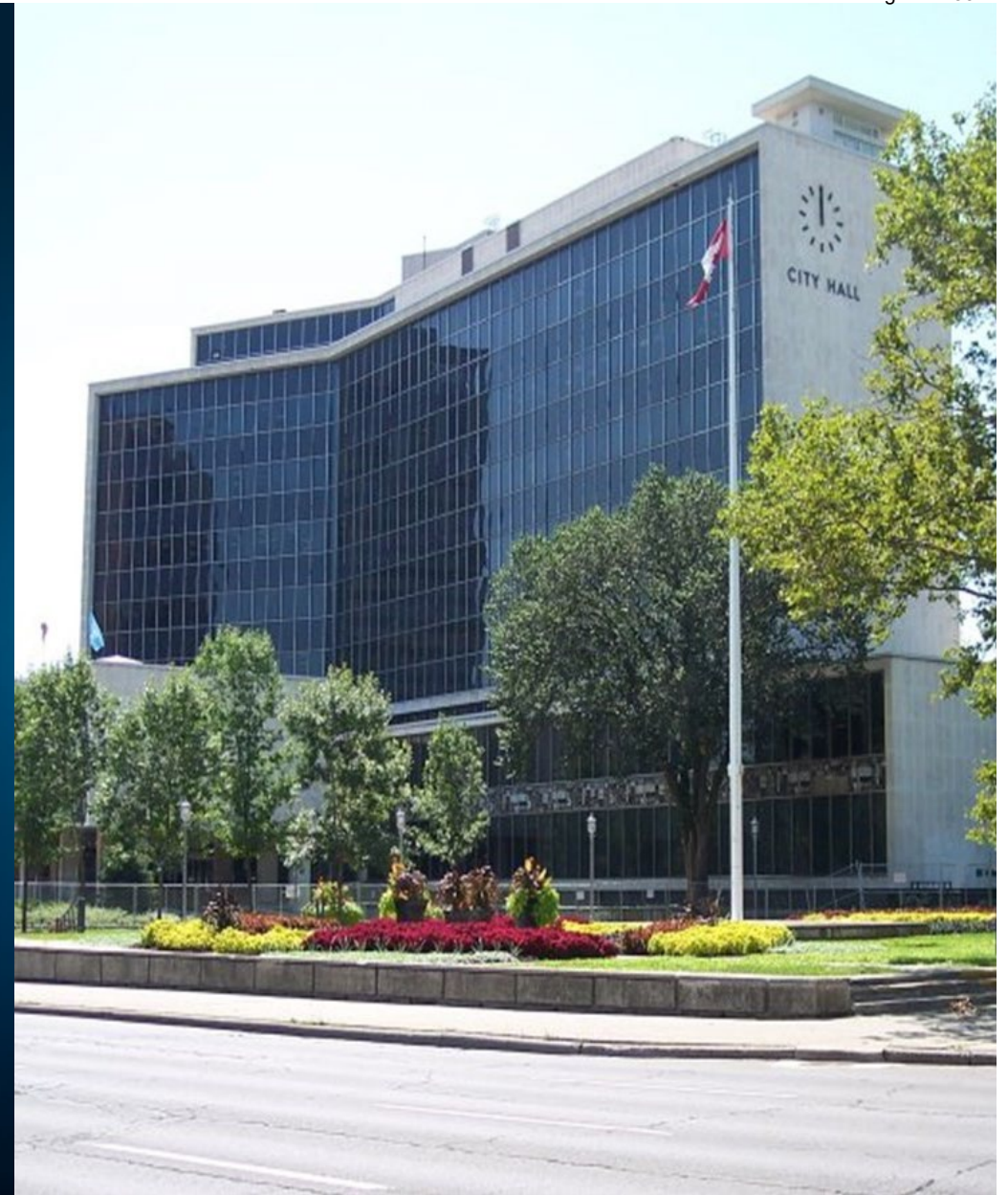


The Corporation of City of Hamilton

**Audit Planning Report
for the year ended December 31, 2022**

KPMG LLP

Prepared December 9, 2022 for presentation to the Audit,
Finance and Administration Committee on January 19, 2023
kpmg.ca/audit



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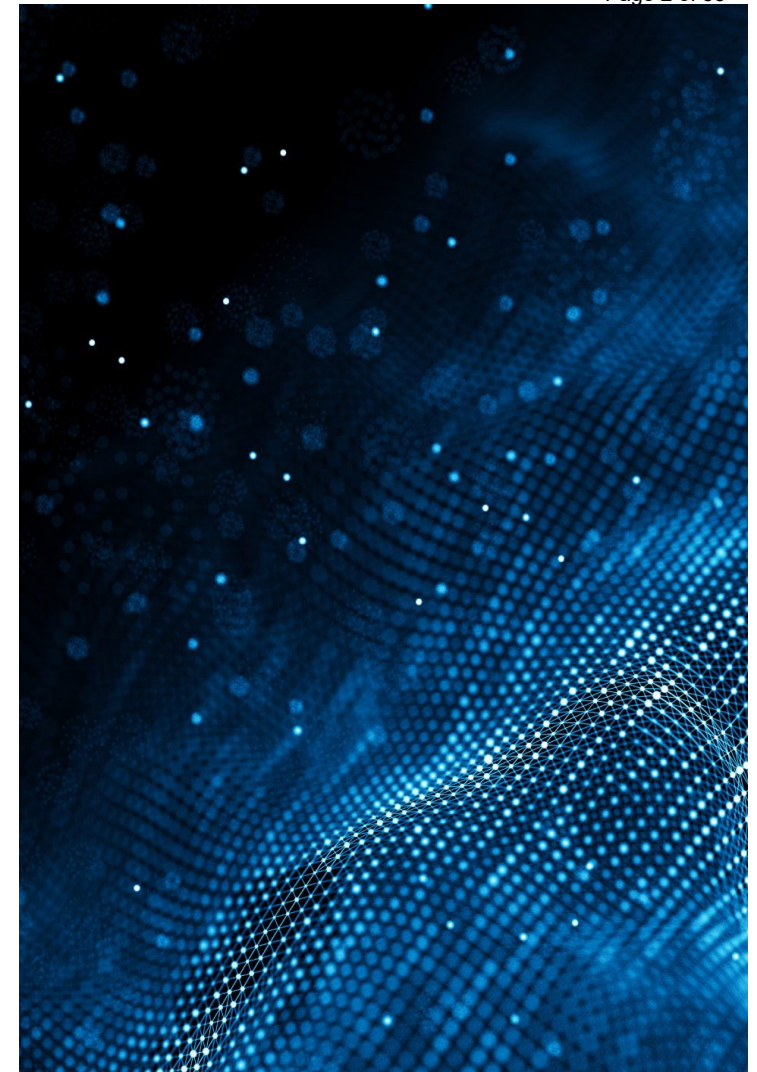


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This report to the Audit, Finance and Administration Committee is intended solely for the information and use of management and the Committee, and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Committee has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Digital use information

This Audit Planning Report is also available as a “hyper-linked” PDF document.

If you are reading in electronic form (e.g. In “Adobe Reader” or “Board Books”), clicking on the home symbol on the top right corner will bring you back to this page.



Click on any item in the table of contents to navigate to that section.

Audit Quality: How do we deliver audit quality?

Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contribute 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**.



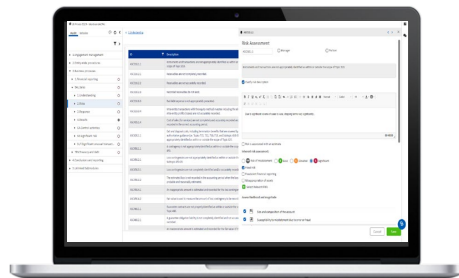
Doing the right thing. Always.



Our audit platform - KPMG Clara

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in innovative technologies and tools for engagement teams, such as KPMG Clara, our smart audit platform.

KPMG Clara workflow

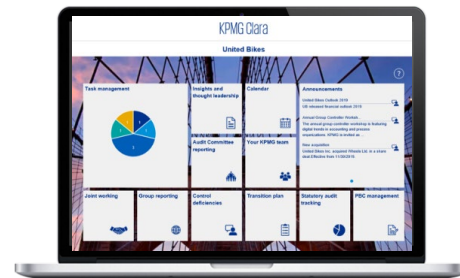


Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

[Learn more](#)

KPMG Clara for clients

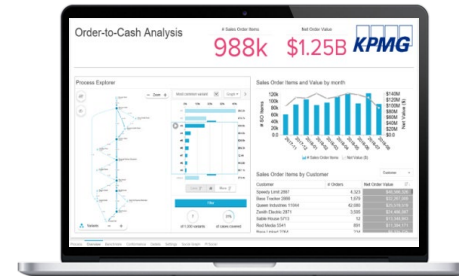


Real-time collaboration and transparency

Allows the client team to see the real-time status of the engagement and who from our KPMG team is leading on a deliverable.

[Learn more](#)

KPMG Clara analytics



Insights-driven efficient operations

Using the latest technologies to analyze data, KPMG Clara allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures.

[Learn more](#)

Advanced Technologies

To ensure quick and efficient access to data, we use one of our available data extractions tools such as **DataShare**. DataShare is a data extraction tool that enables easy and reliable data extraction from compatible accounting systems to support our audit work by fully automating the extraction process.



[Click to learn more](#)

Highlights

Scope of the audit

Our audit of the consolidated financial statements (“financial statements”) of The City of Hamilton (“the City”) as of and for the year ending December 31, 2022, will be performed in accordance with Canadian generally accepted auditing standards (CASs).



Significant risks



We have identified significant risks of material misstatement for the audits including:

- Risk of fraud over revenue recognition
- Risk of fraud related to management override of controls

See pages 12 to 13.

Required communications



See Appendix A: Other required communications

Other areas of audit focus



We have identified other areas of focus including:

- Government Grants
- Investment and Related Income
- Employee Future Benefits
- Landfill Liability & Contaminated Sites
- Tangible Capital Assets
- Operating Expenditures Including Payroll

See pages 14 to 18.

Materiality



Materiality has been established by considering various metrics that are relevant to the users of the financial statements, including total revenues and total expenses. Materiality has been determined based on prior period total revenues. We have determined group materiality to be \$64.4 million (PY \$50.3 million). See page 8.

We have reviewed the scope of work across segments and business across the group. Materiality will be set at lower thresholds where necessary to meet requirements of various funding agencies. See page 9.

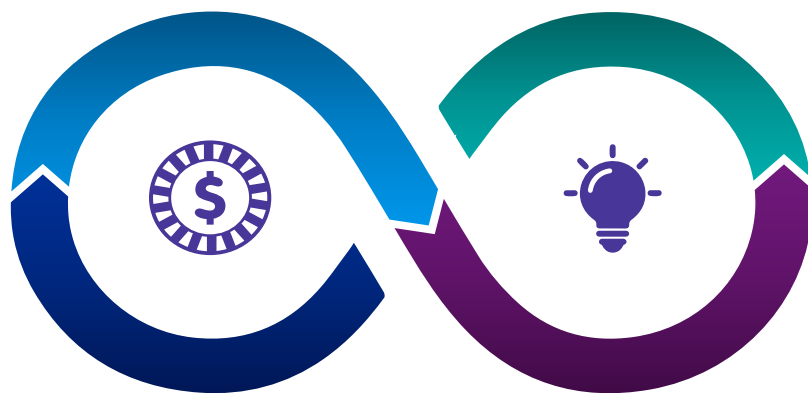
Newly effective auditing standards



Please refer to page 10 and Appendix C for auditing changes relevant to the City, specifically on CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*.



Materiality



We **initially determine materiality** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of **professional judgement**, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We **reassess materiality** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We **initially determine materiality** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

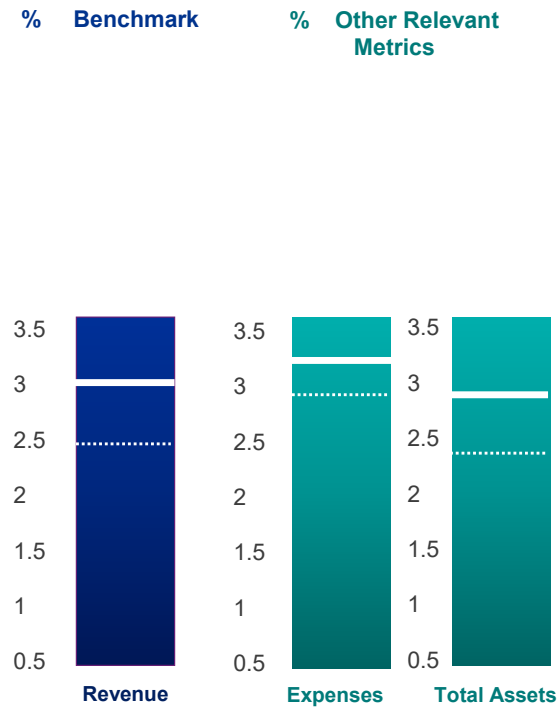
We also use materiality to evaluate the effect of:

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

Materiality – Consolidated Financial Statements

Materiality
\$64.4 million
(2021: \$50.3 million)

..... Prior year
— Current year



Total Revenue
\$2,146 million
(2020: \$2,015 million)
2022 estimated based on actual 2020-21 City of Hamilton financial statements

Total Expenses
\$1,923 million
(2020: \$1,761 million)
2022 estimated based on actual 2020-21 City of Hamilton financial statements

Total Assets
\$2,248 million
(2020: \$2,070 million)
2022 estimated based on actual 2020-21 City of Hamilton financial statements

Materiality - Components

KPMG will audit the following components that are consolidated into the City of Hamilton financial statements using their stand-alone materiality as separate financial statements are required:



Components

- CityHousing Hamilton Corporation
- Hamilton Utilities Corporation (“H.U.C.”)
- Hamilton Enterprises Holdings Corporation (“H.E.H.C.O”)
- Hamilton Renewable Power Inc. (“H.R.P.I.”)
- Hamilton Public Library Board
- Hamilton Business Improvement Areas (BIAs)
- Hamilton Farmers Market

Updates to our prior year audit plan

New significant risks



New significant risks



No new significant risks have been identified in the current year.

Other significant changes



Other significant changes



No significant changes to the audit plan.



Newly effective auditing standards



- **CAS 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement***
Please see Appendix C for a detailed description of the revised standard.

Newly effective auditing standards



Newly effective accounting standards



There are no new or amended accounting standards effective for the City's 2022 consolidated financial statements.

Please see Appendix B for all the upcoming standards and amendment changes that will be effective in future periods.

Newly effective accounting standards



Involvement of others

Involved party	Nature and extent of planned involvement	Involvement In
KPMG Actuarial Specialists	We involve actuarial specialists as part of our audit procedures to perform an assessment of the assumptions and methods used in the valuation of employee future benefits obligation and related disclosures.	Audit of financial statements

Significant risks

 Risk of fraud over revenue recognition		RISK OF  FRAUD
Estimate?	Significant risk	New or changed?
No	Yes	No

Relevant inherent risk factors affecting our risk assessment

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

- Government grants
- Development charges

Government grant revenue recognition is dependent on the terms of the grant and can be complex depending upon the terms. The City receives many different types of grants with different terms and conditions. Fraud could include misapplying expenditures to incorrect grant funded programs in order to maximize returnable funding. The nature of development charges and their use create complexity in the timing of revenue recognition.

Our audit approach

To address the fraud risk from revenue recognition, our audit approach will consist of the following:

- test of journal entries and other adjustments;
- substantively test revenues (both recognized and amounts held as deferred at year end); and
- recalculate management's determination of deferred revenue – obligatory reserve funds through auditing management's methodology.

Significant risks (continued)

 Risk of fraud over management override of controls		RISK OF  FRAUD
Estimate?	Significant risk	New or changed?
No	Yes	No

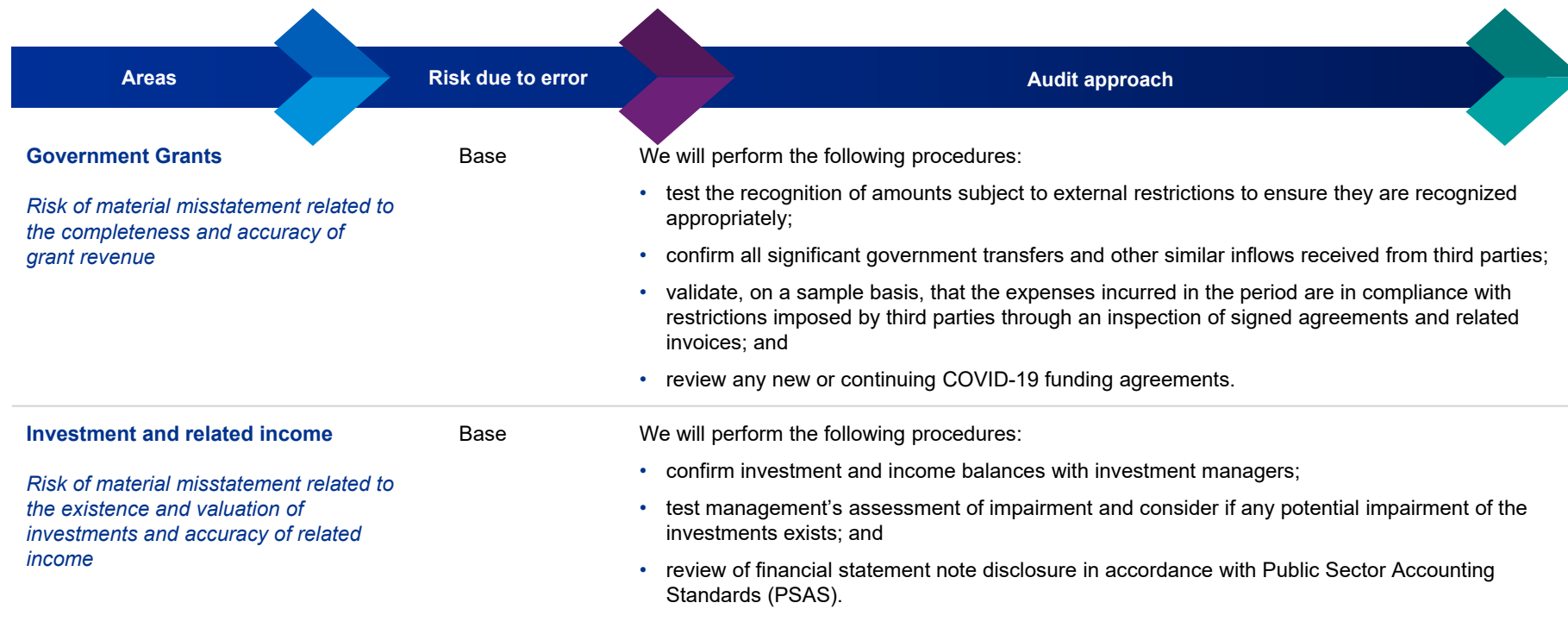
Relevant inherent risk factors affecting our risk assessment

Under CAS, there is a presumed risk of fraud of management override of controls. We have not identified any specific additional risks of management override relating to this audit. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.

Our audit approach

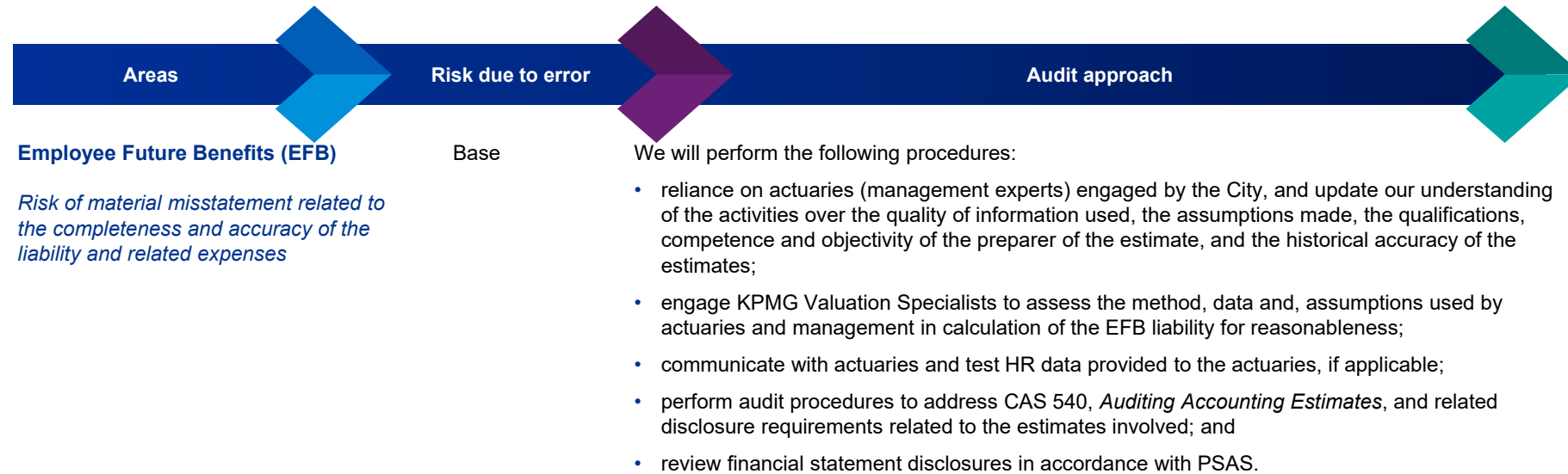
- Our audit approach will consist of the following steps to address this risk as required under professional standards:
- evaluate the design and implementation of controls surrounding journal entries and other adjustments;
 - determine criteria to identify high-risk journal entries and other adjustments; and
 - test high-risk journal entries and other adjustments made at the end of the reporting period.

Other areas of focus*

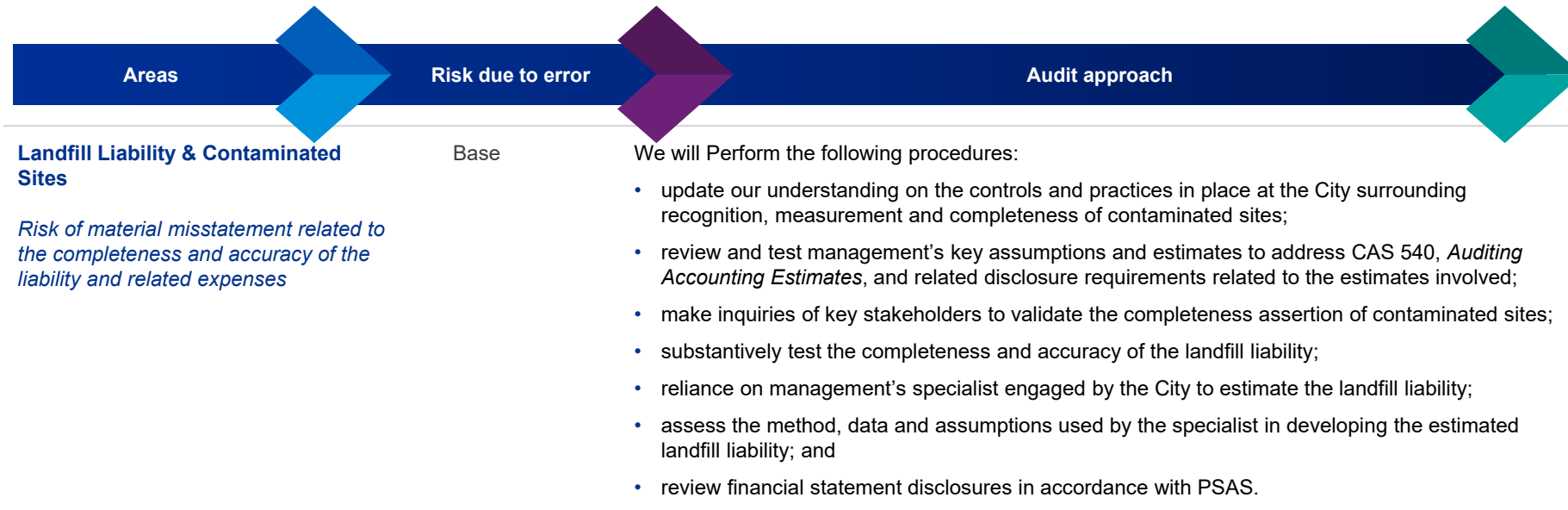


*Risk assessment may change as we work through implementation of the new auditing standard and we will communicate any changes in our audit findings report.

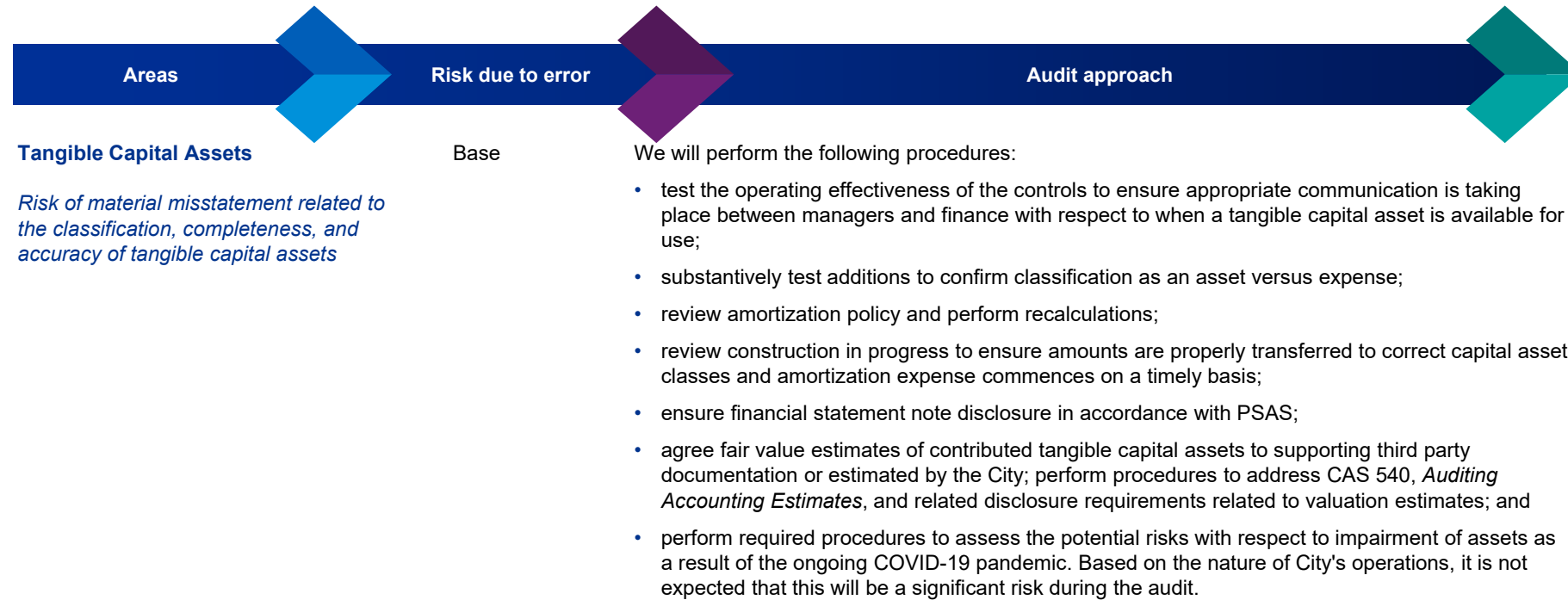
Other areas of focus (continued)



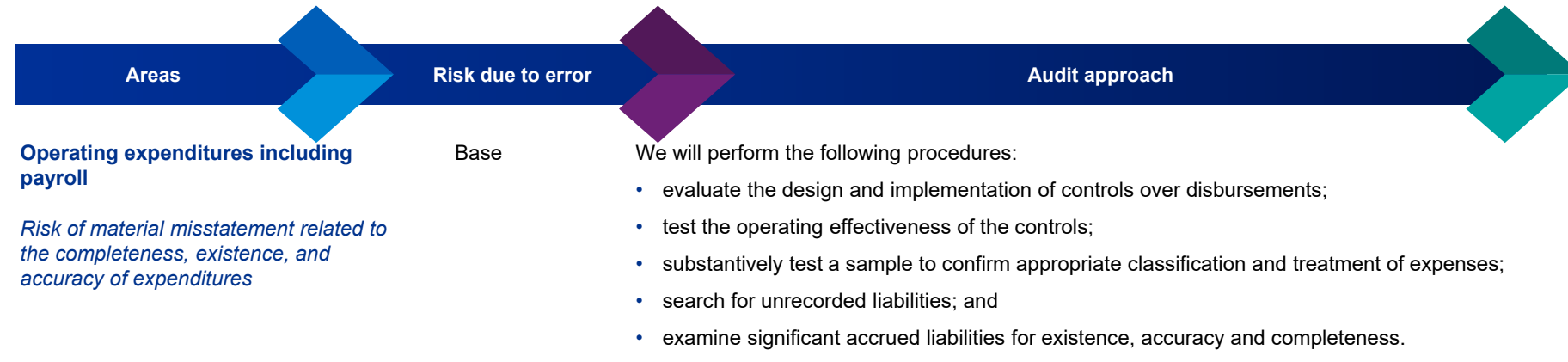
Other areas of focus (continued)



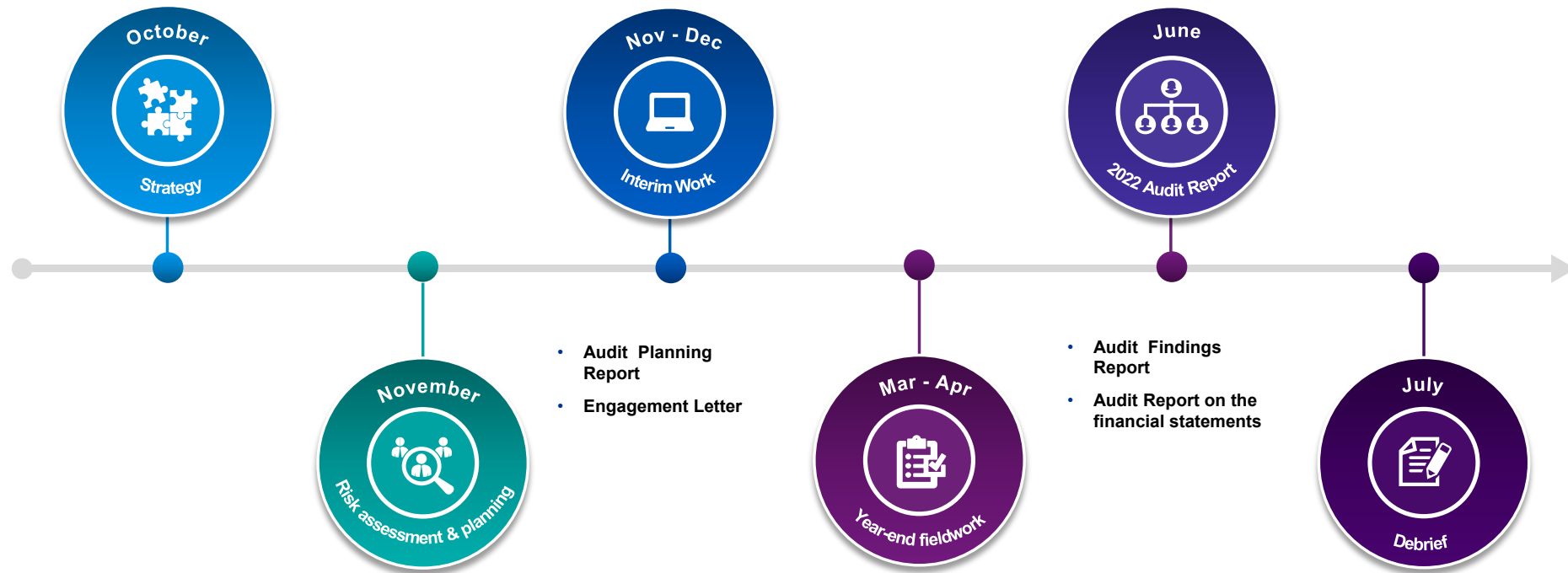
Other areas of focus (continued)



Other areas of focus (continued)



Key milestones and deliverables





Independence



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



Appendices



Other required communications



Audit and assurance insights



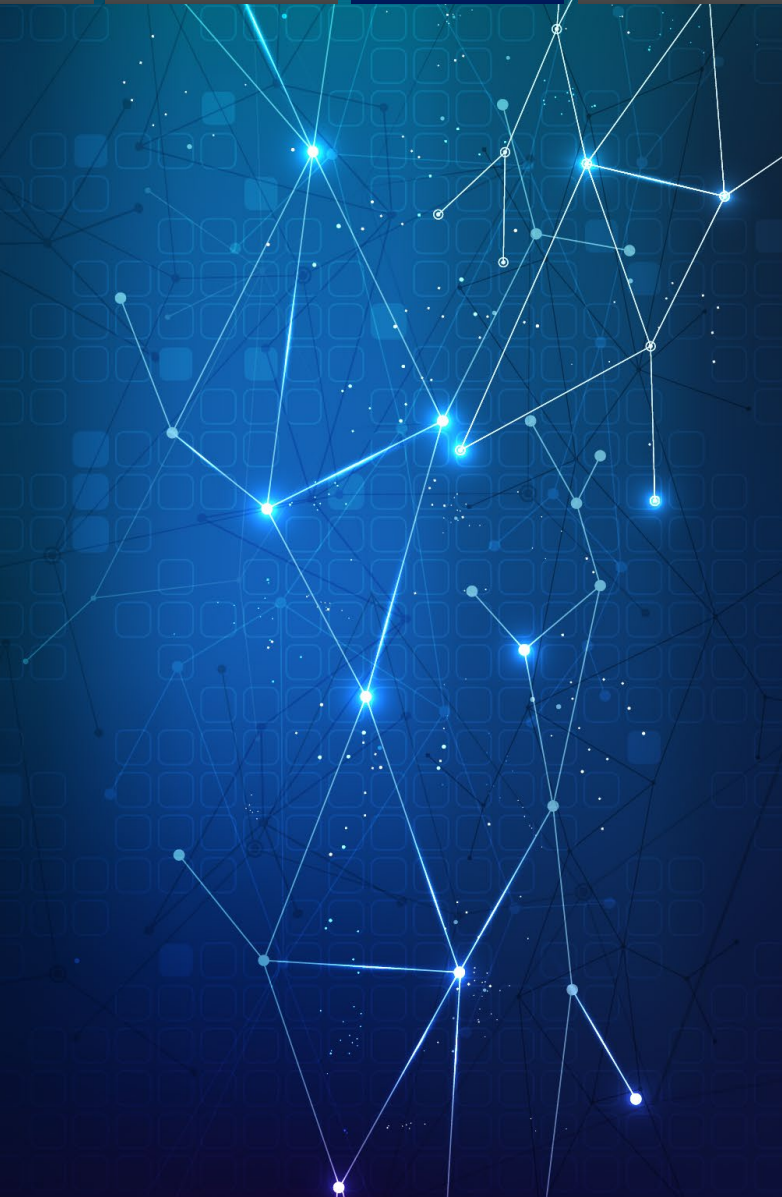
Changes in accounting standards



Insights to enhance your business



Newly effective auditing standards





Appendix A: Other required communications



CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- [CPAB Audit Quality Insights Report: 2021 Annual Inspections Results](#)
- [CPAB Audit Quality Insights Report: 2022 Interim Inspections Results](#)
- The 2022 Annual Inspection Results will be available in March 2023



Appendix B: Changes in accounting standards

Standard	Summary and implications
Asset retirement obligations	<ul style="list-style-type: none">• The new standard PS 3280 <i>Asset retirement obligations</i> 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. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets.• The asset retirement obligations (“ARO”) standard will 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 will be added to the historical cost of the asset and amortized over its useful life if the asset is in productive use.• As a result of the new standard, the public sector entity will:<ul style="list-style-type: none">• 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 ARO and obtain information to estimate the value of potential ARO to avoid unexpected issues.



Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
Financial instruments and foreign currency translation	<ul style="list-style-type: none"> • The new standards PS 3450 <i>Financial instruments</i>, PS 2601 <i>Foreign currency translation</i>, PS 1201 <i>Financial statement presentation</i> and PS 3041 <i>Portfolio investments</i> are effective for fiscal years beginning 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 public sector entity'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 Remeasurement 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. • PS 3450 <i>Financial instruments</i> was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	<ul style="list-style-type: none"> • The new standard PS 3400 <i>Revenue</i> is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.



Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none"> The new Public Sector Guideline 8 <i>Purchased intangibles</i> is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. Narrow scope amendments were made to PS 1000 <i>Financial statement concepts</i> to remove the prohibition to recognize purchased intangibles and to PS 1201 <i>Financial statement presentation</i> to remove the requirement to disclose purchased intangibles not recognized. The guideline can be applied retroactively or prospectively.
Public Private Partnerships	<ul style="list-style-type: none"> The new standard PS 3160 <i>Public private partnerships</i> is effective for fiscal years beginning on or after April 1, 2023. The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. The standard can be applied retroactively or prospectively.



Appendix B: Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.
Financial Statement Presentation	<ul style="list-style-type: none"> The proposed section PS 1202 <i>Financial statement presentation</i> will replace the current section PS 1201 <i>Financial statement presentation</i>. PS 1202 <i>Financial statement presentation</i> will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted. The proposed section includes the following: <ul style="list-style-type: none"> Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. Separating liabilities into financial liabilities and non-financial liabilities. Restructuring the statement of financial position to present total assets followed by total liabilities. Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. A new provision whereby an entity can use an amended budget in certain circumstances. Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.



Appendix B: Changes in accounting standards (continued)

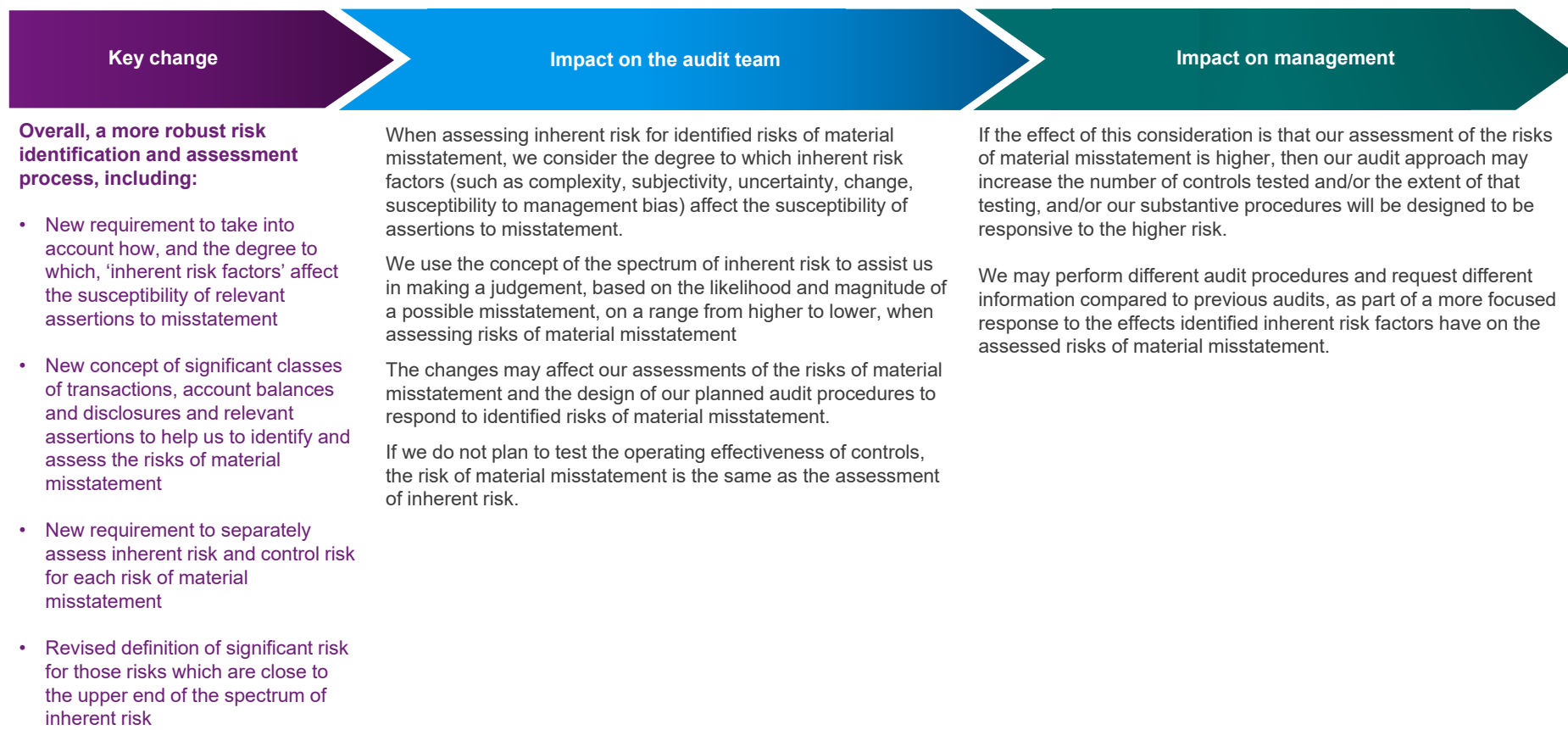
Standard	Summary and implications
Employee benefits	<ul style="list-style-type: none">• The Public Sector Accounting Board has initiated a review of sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>.• The intention is to use principles from International Public Sector Accounting Standard 39 <i>Employee benefits</i> as a starting point to develop the Canadian standard.• Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.• The proposed section PS 3251 <i>Employee benefits</i> will replace the current sections PS 3250 <i>Retirement benefits</i> and PS 3255 <i>Post-employment benefits, compensated absences and termination benefits</i>. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively.• This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.• The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix C: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other International Standards on Auditing.



Appendix C: Newly effective auditing standards (continued)



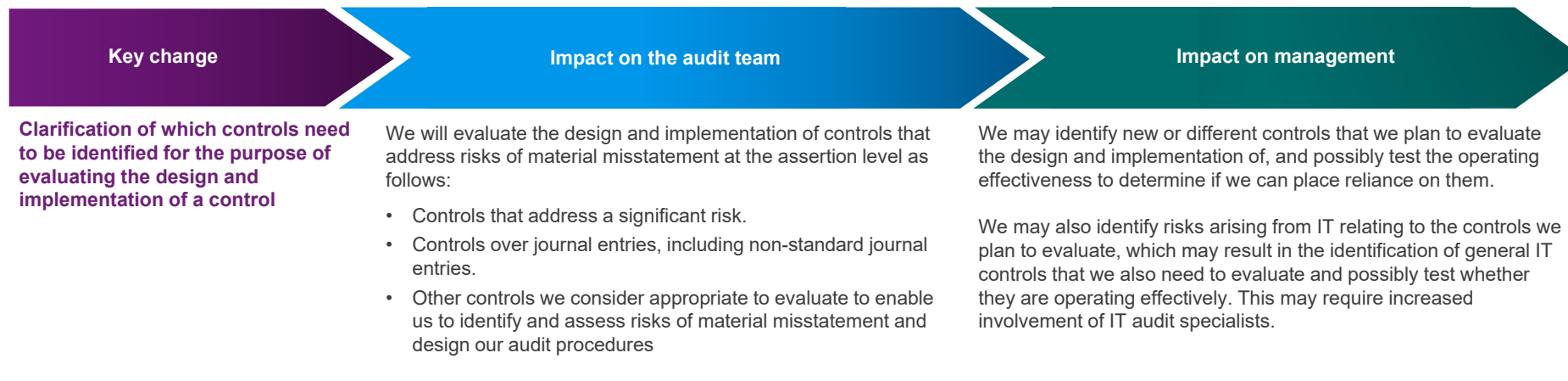
Appendix C: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
<p>Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement</p>	<p>When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p>	<p>In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.</p>
<p>Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process</p>	<p>We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.</p>	<p>In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.</p>

Appendix C: Newly effective auditing standards (continued)

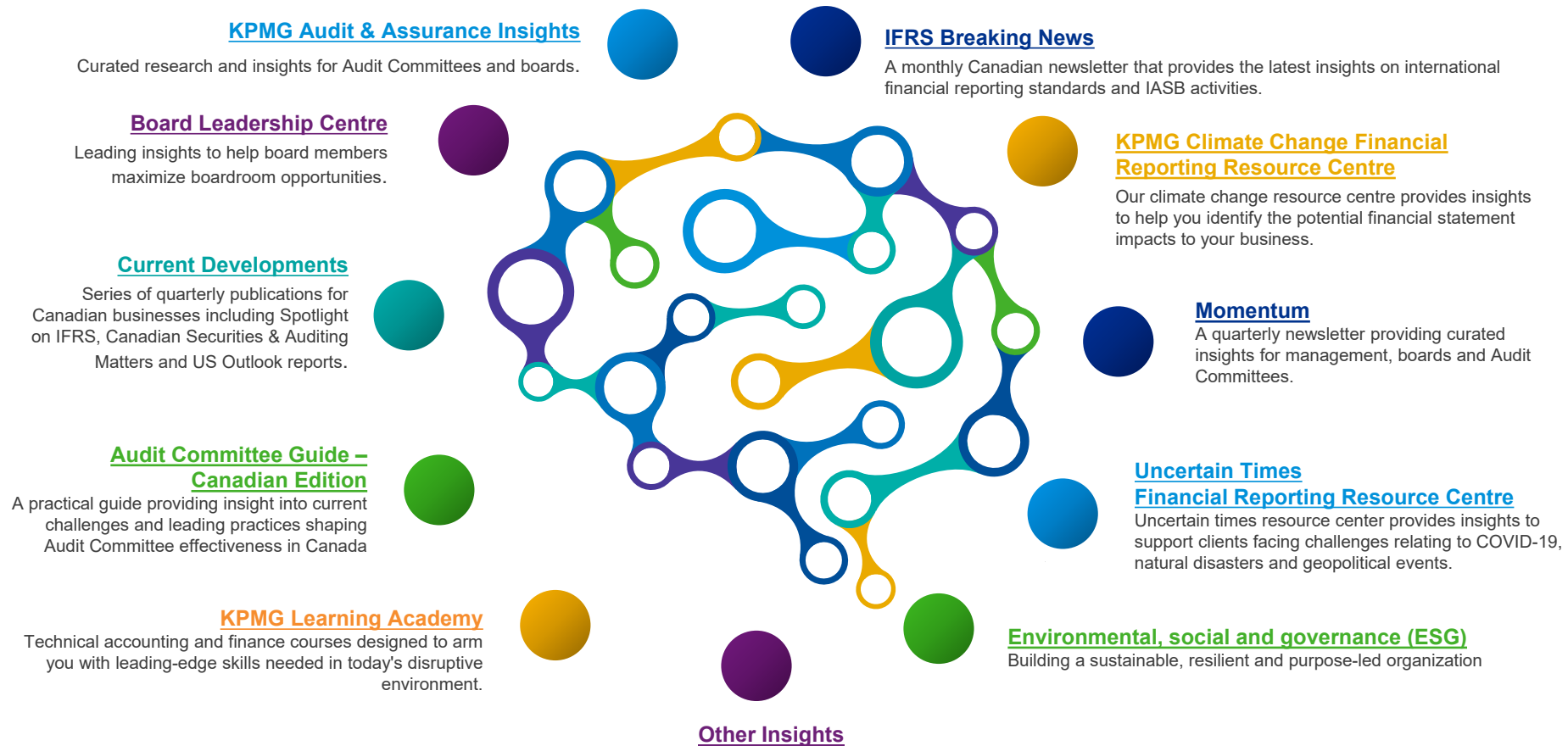
Key change	Impact on the audit team	Impact on management
<p>Modernized to recognize the evolving environment, including in relation to IT</p>	<p>New requirement to understand the extent to which the business model integrates the use of IT.</p> <p>When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit.</p> <p>Based on the identified controls we plan to evaluate, we are required to identify the:</p> <ul style="list-style-type: none"> IT applications and other aspects of the IT environment relevant to those controls related risks arising from the use of IT and the entity's general IT controls that address them. <p>Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.</p>	<p>We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals.</p> <p>Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response.</p> <p>Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.</p>
<p>Enhanced requirements relating to exercising professional skepticism</p>	<p>New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.</p>	<p>We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.</p>

Appendix C: Newly effective auditing standards (continued)



Appendix D: Audit and assurance insights

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



Appendix E: Insights to enhance your business

We have the unique opportunity as your auditors to perform a deeper dive to better understand your business processes that are relevant to financial reporting.

[Learn more](#)

Lean in Audit

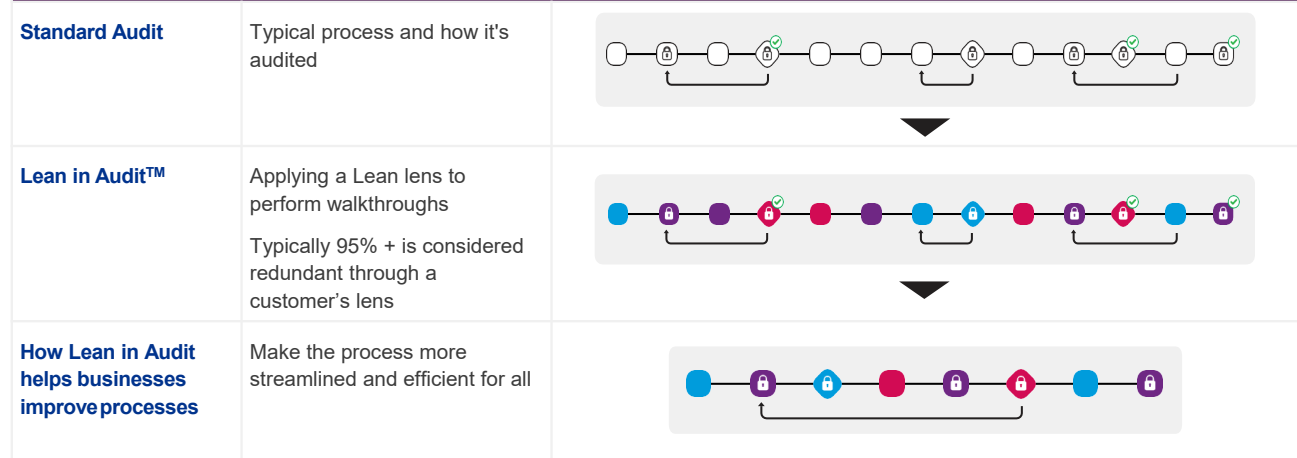
Lean in Audit™ is KPMG's award-winning methodology that offers a new way of looking at processes and engaging people within your finance function and organization through the audit.

By incorporating Lean process analysis techniques into our audit procedures, we can enhance our understanding of your business processes that are relevant to financial reporting and provide you with new and pragmatic insights to improve your processes and controls.

Clients like you have seen immediate benefits such as improved quality, reduced rework, shorter processing times and increased employee engagement.

We look forward to using this approach on your audit this year and will work with you to select the appropriate process(es).

How it works



● **Value:** what customers want (**maximize**)
 ● **Necessary:** required activities (**minimize**)
 ● **Redundant:** non-essential activities (**remove**)

🔒 Process controls
 ✔ Key controls tested



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KPMG member firms around the world have 227,000 professionals, in 145 countries.

