KPMG

The Corporation of City of Hamilton

External Financial 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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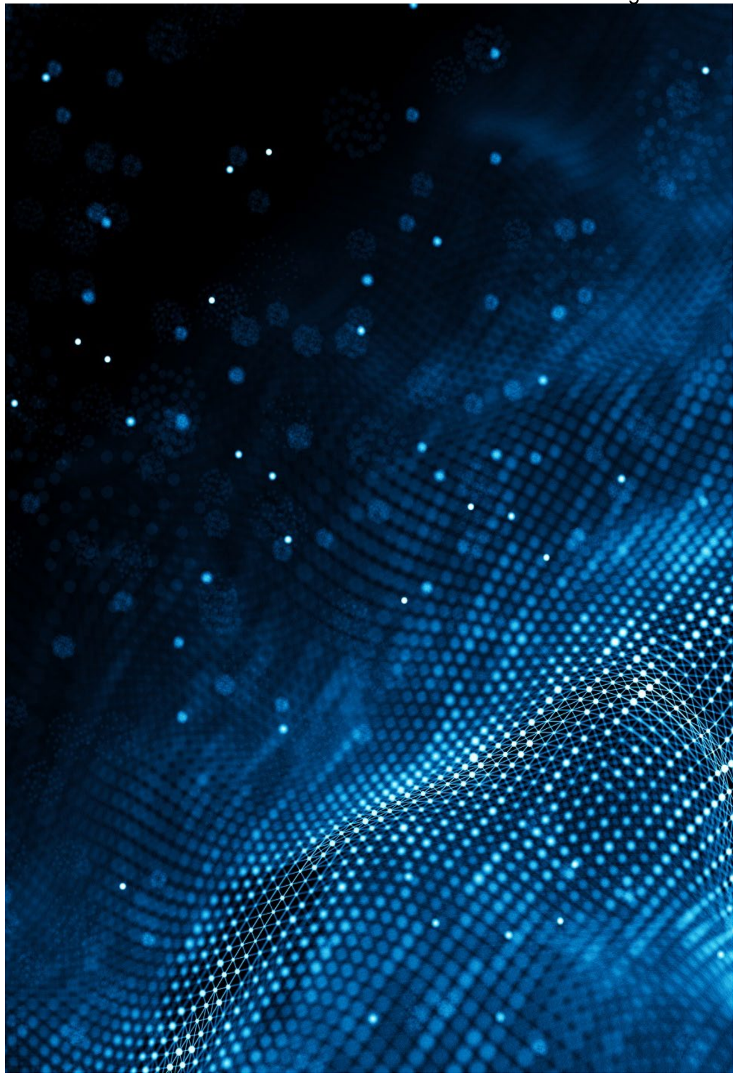


Highlights

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 auding 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 - Consolidated Financial Statements

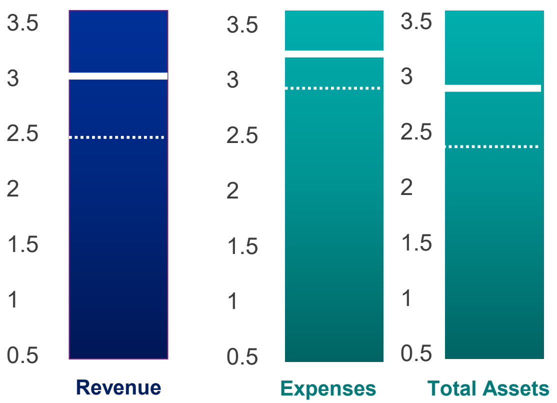
Materiality

$64.4 million

(2021: $50.3 million)

Prior year
Current year

% **Benchmark** % **Other Relevant Metrics**



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

Appendix B: Changes in accounting standards

Standard	Summary and implications

Asset retirement obligations	• The new standard PS 3280 *Asset retirement obligations* 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:
	  • 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	• The new standards PS 3450 *Financial instruments*, PS 2601 *Foreign currency translation*, PS 1201 *Financial statement presentation* and PS 3041 *Portfolio investments* 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 *Financial instruments* was amended subsequent to its initial release to include various federal government narrow-scope amendments.
Revenue	• The new standard PS 3400 *Revenue* 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 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.

A **risk of material misstatement** exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur

Affects both preparers of financial statements and auditors

Applies to audits of financial statements for periods beginning on or after 15 December 2021

See here for more information from CPA Canada

We design and perform risk assessment procedures to obtain an understanding of the:

- entity and its environment;
- applicable financial reporting framework; and
- entity's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- the design of audit procedures that are responsive to the assessed risks of material misstatement.

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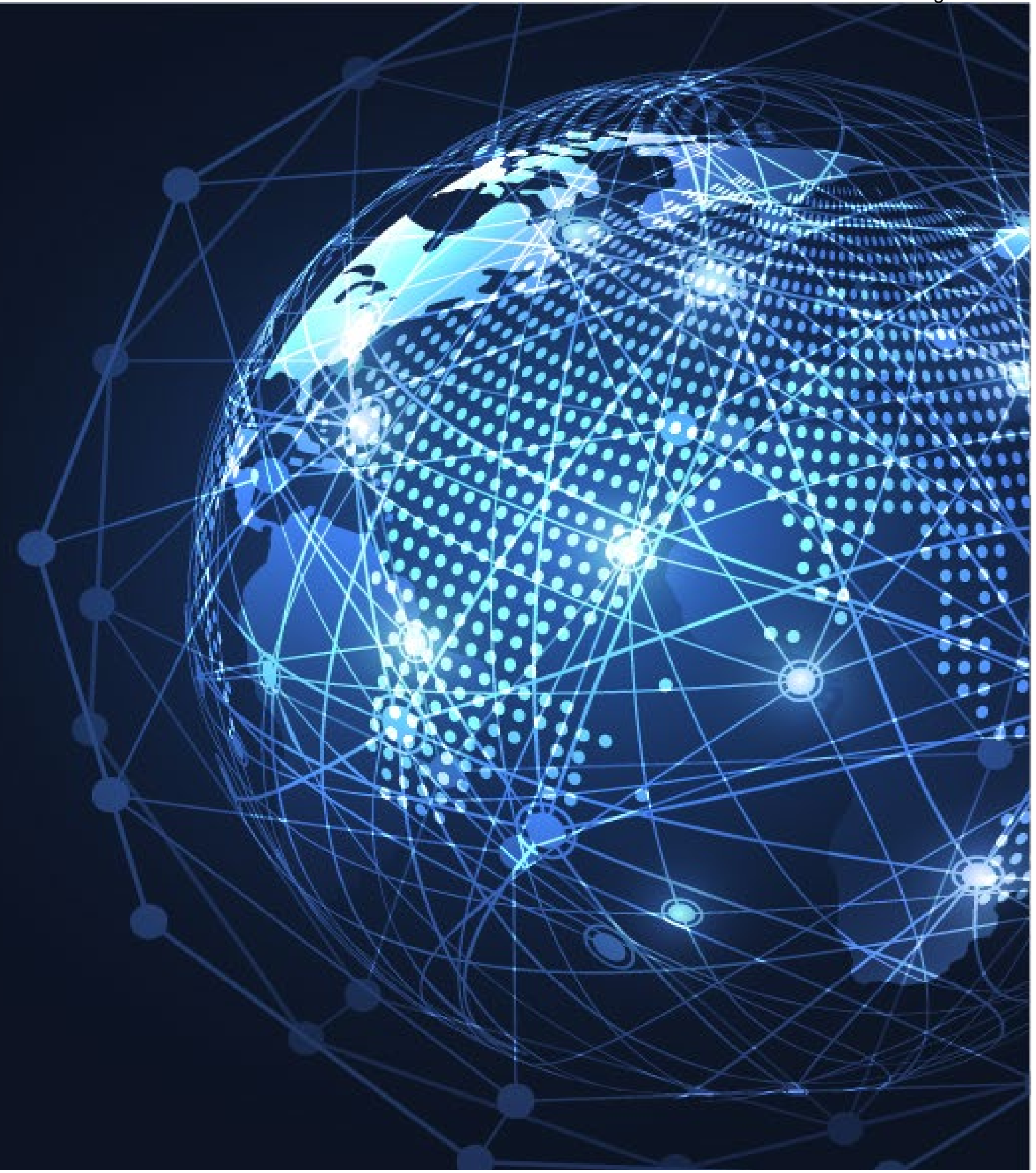

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