



The City of Hamilton

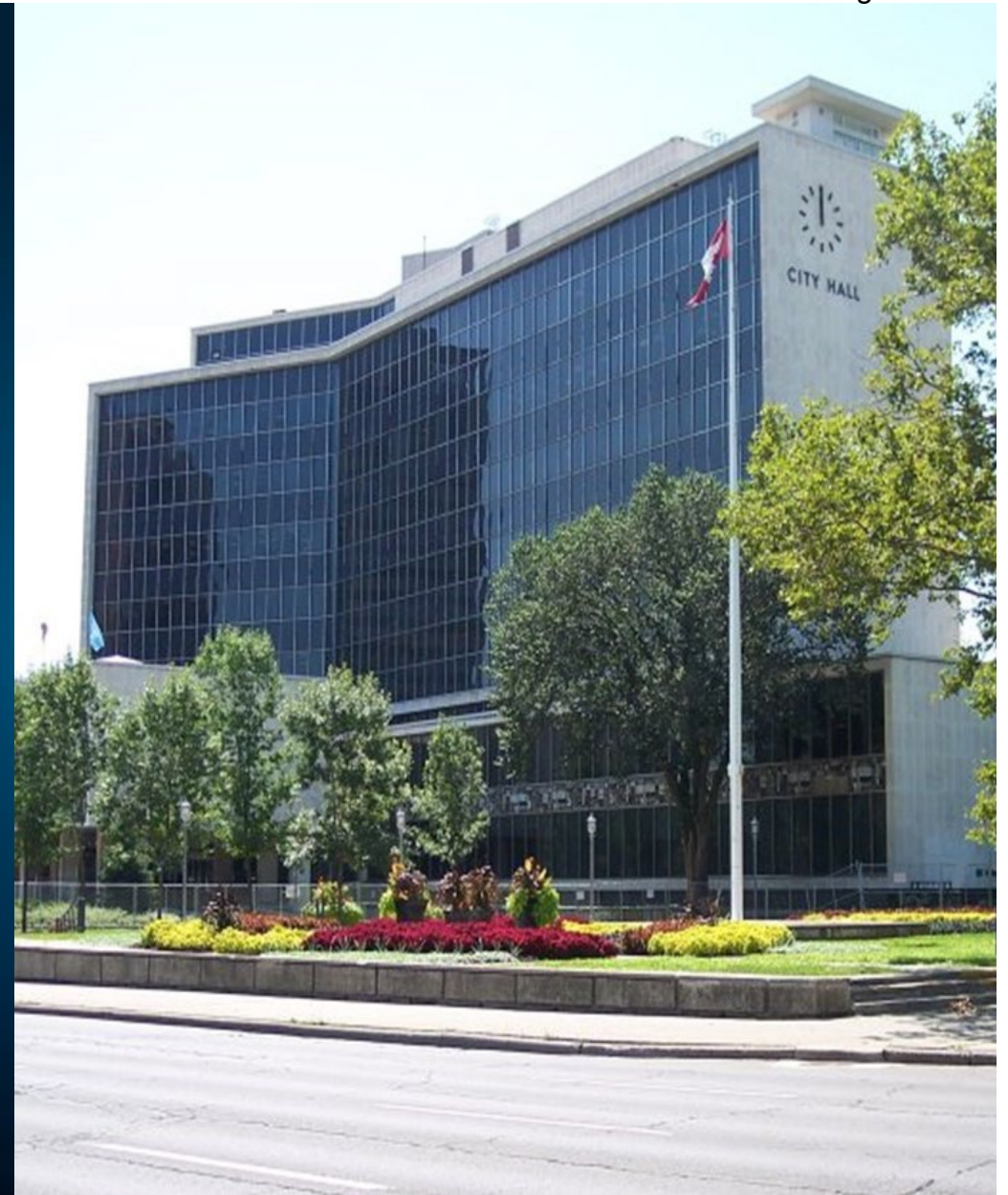
**Audit Findings Report
for the year ended
December 31, 2022**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Prepared May 26, 2023 for presentation on June 15, 2023.

kpmg.ca/audit



KPMG contacts

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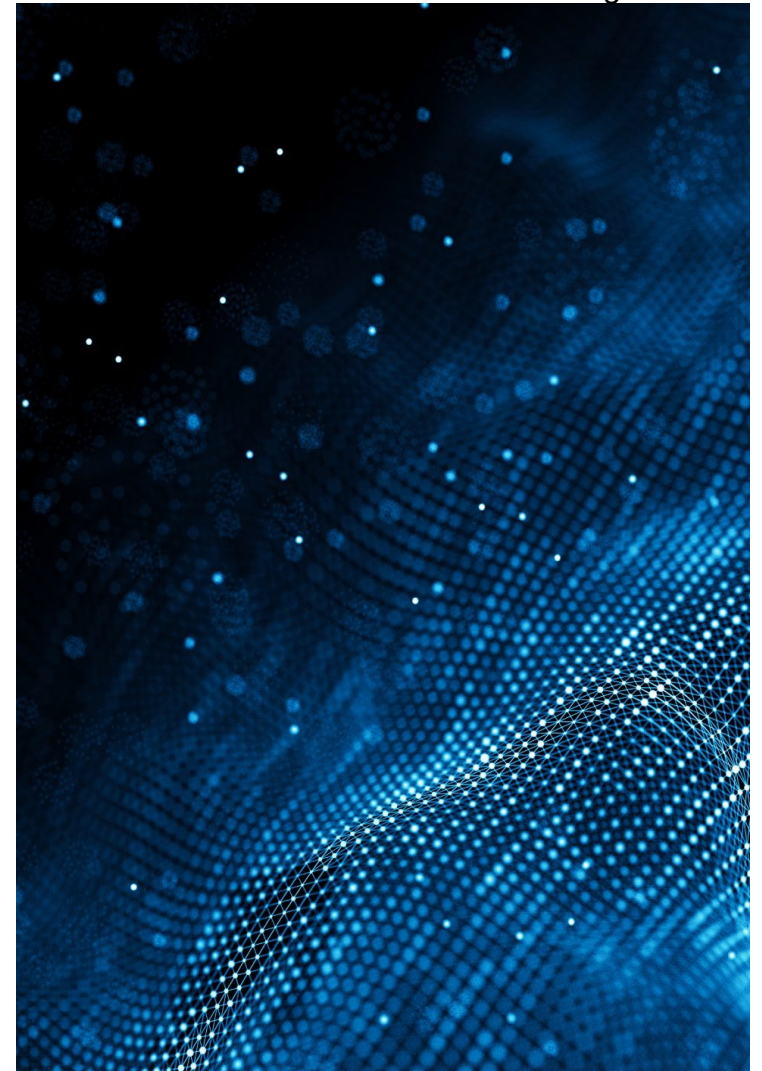
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Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements ("financial statements"), with the exception of certain remaining outstanding procedures, which are highlighted on the next slide of this report.

Significant changes to our audit plan

We have updated the materiality for the consolidated financial statements from \$64.4 million to \$62.5 million. Per our re-evaluation, FY22's total actual revenue* is lower than FY21's total revenue which was the benchmark used for the initial materiality calculation for our audit plan.

Aside from the above, there were no significant changes to our audit plan which was originally communicated to you in the audit planning report.

**This relates to the preliminary total revenue on the initial trial balance received for the year-end audit fieldwork.*

Audit risks and results – significant risks

No significant findings identified for the risk of material misstatement due to fraud from fraudulent revenue recognition and risk of material misstatement due to fraud resulting from management override of controls.

Audit risks and results – other findings

No findings noted specifically in the following areas outlined in our planning report:

- recognition of government grants into revenue
- Investments and related income
- Landfill liabilities (estimate)
- Recognition and disposals of tangible capital assets
- Operating expenditures including payroll

Uncorrected audit misstatements

A disclosure difference was identified and communicated to management that remains uncorrected in the consolidated financial statements. We have outlined the impact in the Uncorrected Audit Misstatements schedule attached to the management Representation Letter.

Professional standards require that we request of management and the Audit, Finance and Administration Committee that all identified audit misstatements be corrected. We have already made this request of management.

Corrected audit misstatements

No matters to report

Control deficiencies

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

Accounting policies and practices

No matters to report.

Other financial reporting matters

No matters to report.

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, Finance and Administration Committee approved protocols.

Audit risks and results – going concern assessment

No matters to report.

Significant unusual transactions

No matters to report.

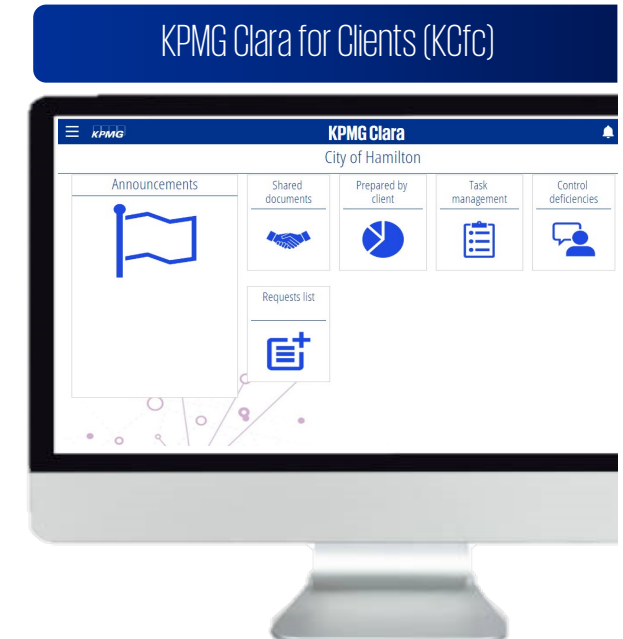
Status of the audit

As of May 23, 2023, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completion of consolidated financial statements tie out
- Completing our discussions with the Audit, Finance and Administration 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 Audit, 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 auditor's report, a draft of which is provided in Appendix: Draft Auditor's Report, will be dated upon the completion of any remaining procedures.



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Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:



Employee Future Benefits

Area of audit focus and rationale

Estimate?

Employee Future Benefits (EFB) Liability are a material balance and as such is an area of audit focus, Yes consistent with prior years.

As at December 31, 2022, the amount of EFB Liability is \$411.5 million (2021 – \$396.7 million).

Our response

- Our procedures included:
 - Evaluating actuaries' (management experts) qualifications, competence and objectivity, in order to support reliance on the external reports, and obtaining all valuation updates for the 2022 obligation from the third-party actuaries, and performing procedures to verify the significant assumptions and inputs,
 - Engaging KPMG Actuarial Specialists to assess the method, data and, assumptions used by actuaries and management in calculation of the EFB liability for reasonableness,
 - Communicating with actuaries and test HR data provided to the actuaries, if applicable,
 - Performing audit procedures to address CAS 540 *Auditing Accounting Estimates*, and related disclosure requirements related to the estimates involved, and
 - Reviewing financial statement disclosures in accordance with Public Sector Accounting Standards (PSAS).

Our findings

Based on the results of the audit procedures performed in collaboration with our internal KPMG Actuarial Specialists we assessed a higher discount rate than that reported by the City's actuary (approx. 4%) for the Post-Retirement Plan and Sick Leave Plan. Using our expected rate, a lower accrued benefit obligation (\$13.5 million) and lower actuarial loss (\$13.5 million) was determined. This adjustment is limited to the notes disclosed in the financial statements and has no impact on Statements of Financial Position or Operations. The City left this disclosure adjustment uncorrected.

No other significant findings to communicate. The estimate is reasonable.

Other findings and results

We highlight **other findings**, including such findings in other areas of focus as identified in the Audit Plan as follows:



Key Control Processes

Area of audit focus and rationale	Estimate?
<p>As communicated in our audit plan, Canadian Auditing Standard 315, <i>Identifying and Assessing the Risks of Material Misstatement</i>, became effective for this audit period.</p> <p>This standard 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.</p> <p>As a result, our risk assessment and documentation of understanding of the City's processes has become more detailed than in previous years, particularly in terms of required documentation. The impact of this standard is largely related to us as your auditors and has not resulted in a substantial change to our audit plan compared to prior periods as our previous risk assessment process was already robust and comprehensive.</p>	<p>No</p>

Our response


In order to satisfy the requirements of this new standard, we have revised our process documentation and walkthroughs of all core business processes, supported by inquiry of relevant City of Hamilton team members related to each process and observation where applicable. This was particularly relevant for information technology, and various financial reporting related processes.

Examples of the additional risk assessment we have documented in our audit file include inquiries with management specific to their own internal fraud risk assessment processes and documentation of the communication between management and those charged with governance.

We have also documented not only the risks we have identified and responded to within the audit, but also those which we considered but deemed to be immaterial and do not warrant an audit response.

Other financial reporting matters


We also highlight the following:



Financial statement presentation - form, arrangement, and content



No matters to report.




Concerns regarding application of new accounting pronouncements



Asset Retirement obligations (ARO)

- The new standard PS 3280 Asset retirement obligations is effective for fiscal years beginning on or after April 1, 2022. This new 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. 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.
- The City has been working with an external consultant to assist with the City's PS 3280 ARO compliance. The City is currently wrapping up Phase 1 of the project which included reviewing all City (and consolidated entity) assets and using a risk based approach assigning all assets ARO risk ratings (low to very high). Phase 1 will not be complete until end of May 2023. Phase 2 will focus on developing costing estimates based on asset types and doing some on site hazardous materials testing\costing then utilizing the risk rating to develop ARO liability totals, process documentation, etc. The planned timeline for final ARO evaluation, costing, documentation is end of September 2023.



Significant qualitative aspects of financial statement presentation and disclosure



No matters to report.



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