



# The City of Hamilton

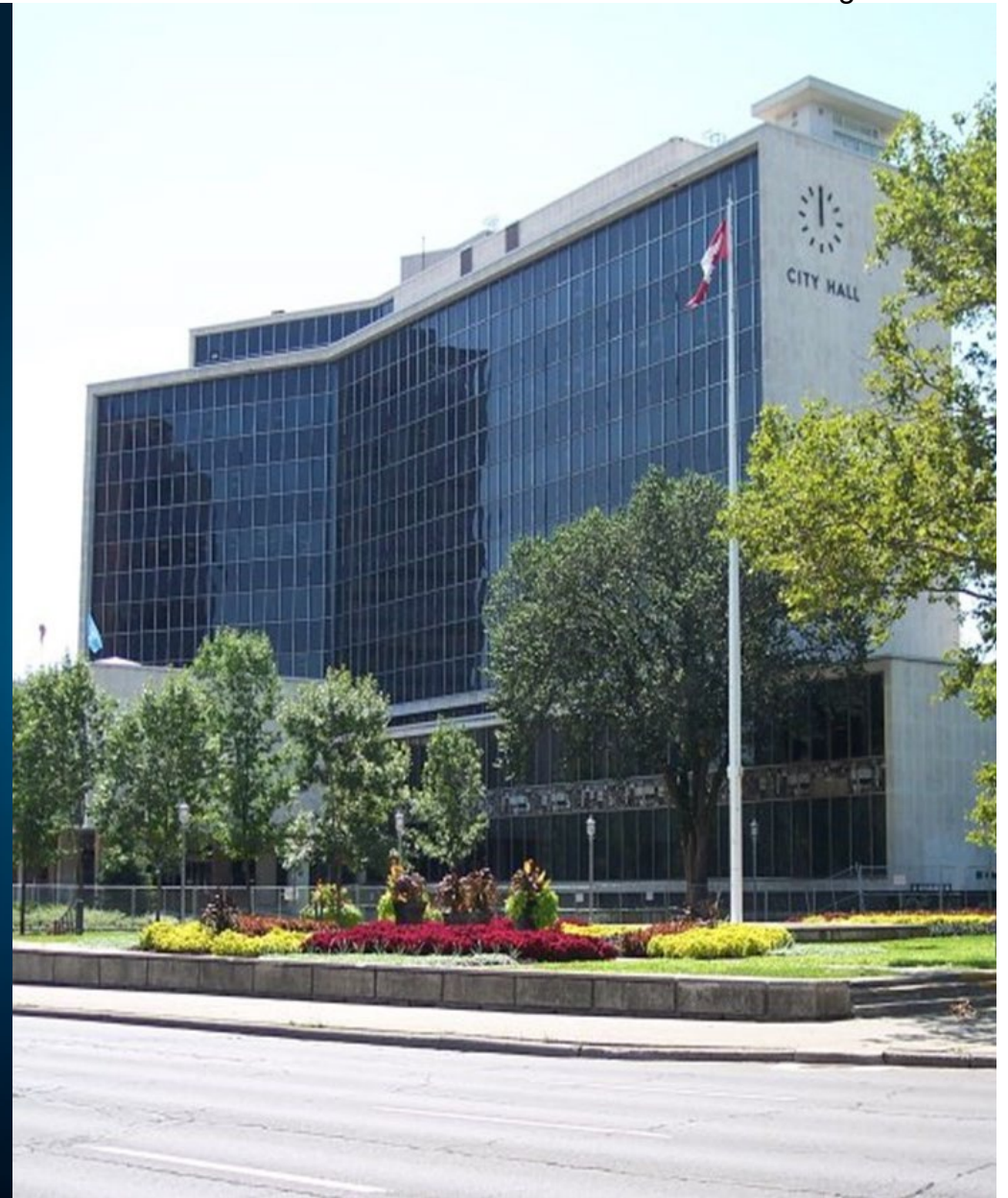
**Audit Findings Report  
for the year ended  
December 31, 2022**

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Prepared May 23, 2023 for presentation on June 15, 2023.

[kpmg.ca/audit](https://kpmg.ca/audit)



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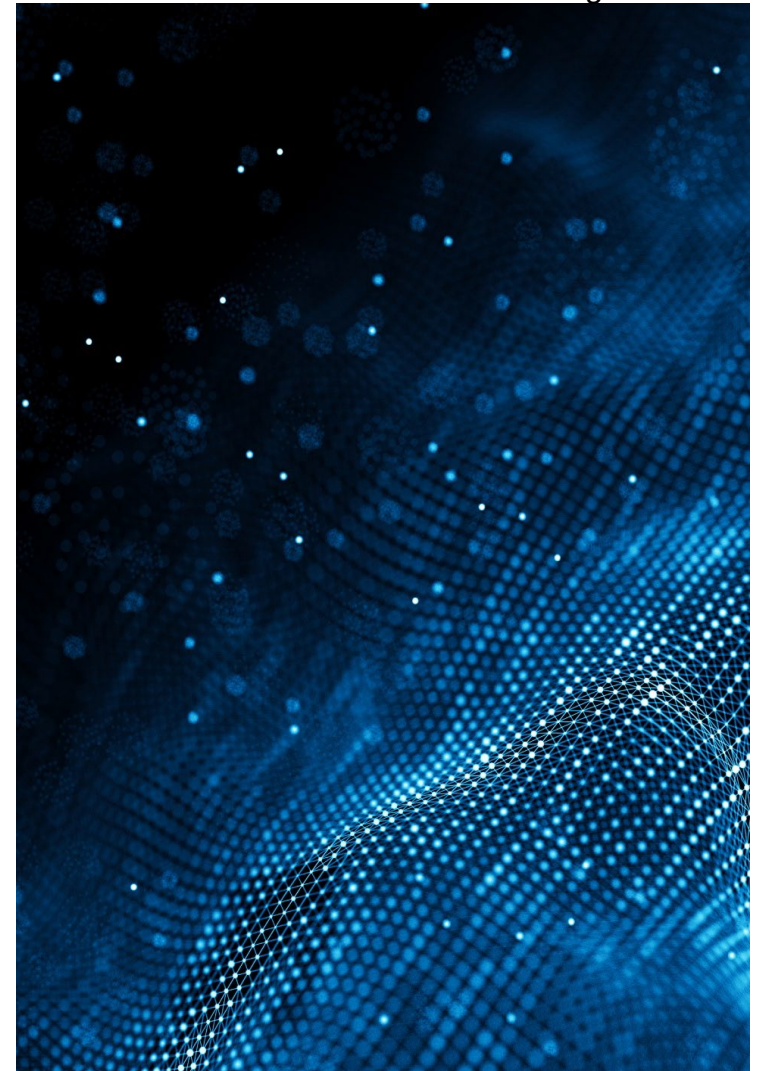


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The purpose of this report is to assist you, as a member of Management, or the Audit, Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements as at and for the period ended December 31, 2022. This report builds on the Audit Plan we presented to the Audit, Finance and Administration Committee. This report is intended solely for the information and use of Management, and the Audit, 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 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.

## Digital use information

This Audit Findings 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 slide.



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



# 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 slide 6 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

Significant findings related to significant risks are discussed on slides 7 – 8.

## Audit risks and results – other findings

Other findings are discussed on slides 9 – 15.

## Audit risks and results – going concern assessment

No matters to report.

## 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 included in the Appendix as well as the summary included on slides 16 – 17.

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.

## Significant unusual transactions

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. See slide 18 for certain required communications regarding control deficiencies.

## Accounting policies and practices

No matters to report.

## Other financial reporting matters

No matters to report.

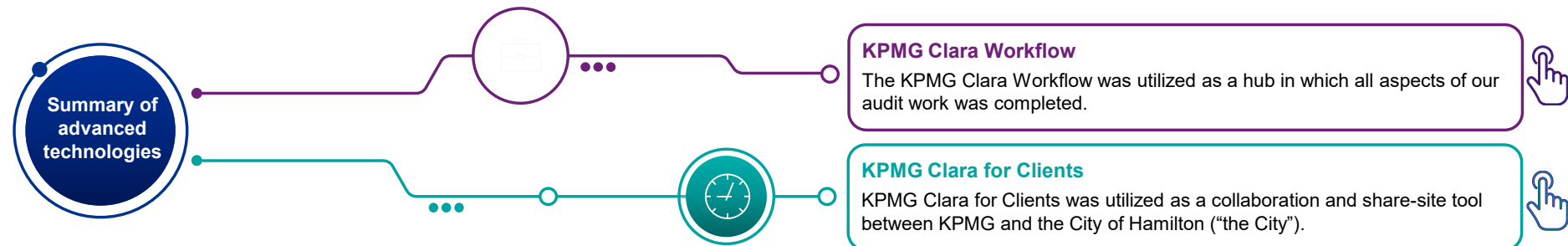
## Independence and quality control

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.



# Technology highlights

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





# 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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# Significant risks and results

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



## Risk of material misstatement due to fraud resulting from fraudulent revenue recognition

### Significant risk

### Estimate?

The risk of material misstatement due to fraud resulting from fraudulent revenue recognition is a No presumed risk for all entity's under Canadian Auditing Standards ("CAS").

We have identified two specific areas which highlight this risk over the course of our audit – Government Grants and Development Charges.

### Our response

- To address these areas of risk, we have taken a substantive approach towards our audit of Government Grants and Development Charges. Our procedures 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

We did not identify any issues related to fraud risk associated with revenue recognition.



# Significant risks and results

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



## Risk of material misstatement due to fraud resulting from management override of controls

### Significant risk

### Estimate?

The risk of material misstatement due to fraud resulting from management override of controls is a No presumed risk for all entity's under CAS.

We have not identified any specific areas which highlight this risk over the course of our audit.

### Our response

- We have performed several procedures in order to respond to these presumed, non-rebuttable risks and the overall risk of management override of controls in general:
  - Testing of journal entries and other adjustments, using analytical capabilities to identify high-risk journal entries specific to the City. This includes entries posted by users who have authorization approvals, post-closing entries, etc.,
  - Performing a retrospective review and substantive testing over all significant estimates which involve management's judgment, and
  - Evaluating the business rationale for any material or significant unusual transactions and substantively testing them as applicable.

### Significant findings

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





# Other findings and results

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



## Government Grants

Area of audit focus and rationale	Estimate?
<p>Government Grants are a material balance and, as such, an area of audit focus, consistent with prior years.</p> <p>As at December 31, 2022, the amount of Government Grants is \$511.7 million (2021 – \$536.3 million).</p>	No

### Our response

- Our procedures included:
  - performing substantive testing over the recognition of all significant government transfers and other similar inflows received from third parties
  - 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.
- There were no new material COVID-19 funding agreements for 2022.

### Our findings

Based on the results of the procedures performed over government grants, we have no significant findings to communicate. No outliers or misstatements were identified as a result of our procedures.



# Other findings and results

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



## Investments and Related Income

### Area of audit focus and rationale

### Estimate?

Portfolio Investments are a material balance and as such is an area of audit focus, consistent with prior years. No

As at December 31, 2022, the amount of portfolio investments is \$1.34 billion (2021 – \$1.17 billion).

### 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*).
- Our procedures included:
  - Obtaining third party external confirmation over recorded investments from the applicable financial institutions,
  - Performing substantive analytical procedures over investment income, and
  - Reviewing financial statement note disclosure in according with PSAS.

### Our findings

Based on the results of the procedures performed over investments, we have no significant findings to communicate. No impairments, outliers or misstatements were identified as a result of our procedures.



# 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. See slides 16-17 for additional details.

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:



## Landfill Liability and Contaminated Sites

Area of audit focus and rationale	Estimate?
<p>Landfill Liability is a material balance and involves the use of estimates and judgments, and as such is an area of audit focus, consistent with prior years.</p> <p>As at December 31, 2022, the amount of Solid Waste Landfill Liability is \$83.5 million (2021 – \$78.3 million).</p>	Yes

### Our response

#### Landfill liability

- The City owns and operates one open landfill site 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.
- We reviewed management's liability estimates and obtained support for underlying elements, including inflation (2.69%) and discount rates (3.69%) utilized. Estimates have been based upon a post closure care period of 50 years.
- We reviewed and assessed management's 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 and performed a walkthrough of 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.

### Our findings

Based on the results of the procedures performed over Landfill Liabilities and Contaminated Sites, we have no significant findings to communicate. No outliers or misstatements were identified as a result of our procedures. 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:



## Tangible Capital Assets

Area of audit focus and rationale	Estimate?
<p>Tangible capital assets are a material balance and as such is an area of audit focus, consistent with prior years.</p> <p>As at December 31, 2022, the amount of donated and contributed assets is \$18.9 million (2021 – \$28.8 million).</p>	No

### Our response

- Our procedures included:
  - Testing the operating effectiveness of the controls to ensure the City's internal approval and notification process is taking place between managers and finance with respect to when a tangible capital asset is available for use,
  - Substantive testing of contributed and donated assets in the year, including corroborating the recorded fair values, in accordance with PSAB 3150 *Tangible Capital Assets*, to external third party invoices, contracts and agreements,
  - Substantive testing of non-contributed assets, including the vouching of additions to 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, testing of disposals and vouching to supporting documentation, and
  - Verifying transfers between municipalities.

### Our findings

Based on the results of the procedures performed over tangible capital assets, we have no significant findings to communicate. No outliers or misstatements were identified as a result of our procedures.



# Other findings and results

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



## Operating Expenditures including payroll

Area of audit focus and rationale	Estimate?
<p>Operating Expenditures are a material balance and as such is an area of audit focus, consistent with prior years.</p> <p>As at December 31, 2022, the amount of non-payroll operating expenditures is \$1.1 billion (2021 – \$1.1 billion).</p> <p>As at December 31, 2022, the amount of payroll expenditures is \$902.1 million (2021 – \$862.4 million).</p>	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. Our procedures included:
  - Testing the operating effectiveness of controls over disbursements to ensure that the appropriate approval process is being followed on expenditures.
  - Performing 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 a search for unrecorded liabilities to ensure all 2022 expenses and accruals have been properly recorded.

### Our findings

Based on the results of the procedures performed over tangible capital assets, we have no significant findings to communicate. No outliers or misstatements were identified as a result of our procedures.



# 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>	No

## 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.



# Uncorrected audit misstatements

Uncorrected audit misstatements include financial presentation and disclosure omissions.



## Impact of uncorrected audit misstatements – Not material to the financial statements

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which discloses the impact of all uncorrected misstatements considered to be other than clearly trivial.

KPMG believes the assumptions used to measure the Employee Future Benefit obligations for financial reporting disclosures need to be reassessed and revised if expectations about the future changes. The market conditions at year end for each of the past few years have been significantly different and, as such, we would expect the assumptions to be reconsidered at each measurement date and updated appropriately. See slide 17 for additional details.

Based on both qualitative and quantitative considerations, management have decided not to correct certain misstatements and represented to us that the misstatements—individually and in the aggregate—are, in their judgment, not material to the financial statements. This management representation is included in the management representation letter.

We concur with management's representation that the uncorrected misstatement is not material to the financial statements and has no impact on the year-end balances as the misstatement is classified as a financial statement disclosure difference. Accordingly, the uncorrected misstatement has no effect on our auditor's report.





# Individually significant uncorrected audit misstatements

## Uncorrected audit misstatements greater than \$3,125,000 individually:

Financial Statement Disclosure Impact (Employee Future Benefits – Note 10)		
Description of individually significant disclosure misstatement	Actuarial Accrued Benefit Obligation (Decrease) Increase	Actuarial Gain (Loss) (Increase) Decrease
Sick Leave Benefit Plan	(4,571,000)	4,571,000
Retirement Benefits	(8,925,000)	8,925,000
<b>Total individually significant misstatements</b>	<b>(13,496,000)</b>	<b>13,496,000</b>
<b>Disclosure Difference:</b>		
<p><b><u>PS3250.041</u> states each key actuarial assumption would be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation. For each actuarial valuation, assumptions need to be reassessed; they would be revised if expectations about the future change. All assumptions are based on the presumption that the plan will continue in effect in the absence of evidence to the contrary.</b></p> <p><b>Assumption used to measure the Employee Future Benefit obligations for financial reporting need to be reassessed and revised if expectations about the future changes. The market conditions at year end have significantly changed from prior years and as such, we would expect the assumptions to be reconsidered at the measurement for any material changes. Using a consistent methodology to that of the City's external actuary we identified that the discount rate used to determine the accrued benefit obligation was not updated to reflect current market conditions. Our independent assessment determined that a discount rate of 4.00% (current rate is 3.50% for the Non-Pension Post Retirement Benefits Plan and 3.25% for the Sick Leave Plan) is more reflective of market conditions as at December 31, 2022. This adjustment has no impact on the statements of Financial Position or Operations and only impacts the note disclosure.</b></p>		



# Control deficiencies

## Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.



## A deficiency in internal control over financial reporting

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.



## Significant deficiencies in internal control over financial reporting

A significant deficiency in internal control over financial reporting 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



## Initial selections of significant accounting policies and practices

There were no new significant accounting policies and practices selected and applied during the period.



## Description of new or revised significant accounting policies and practices

No matters to report.



# 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 be complete by approximately 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.



# 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 contributes to its delivery.

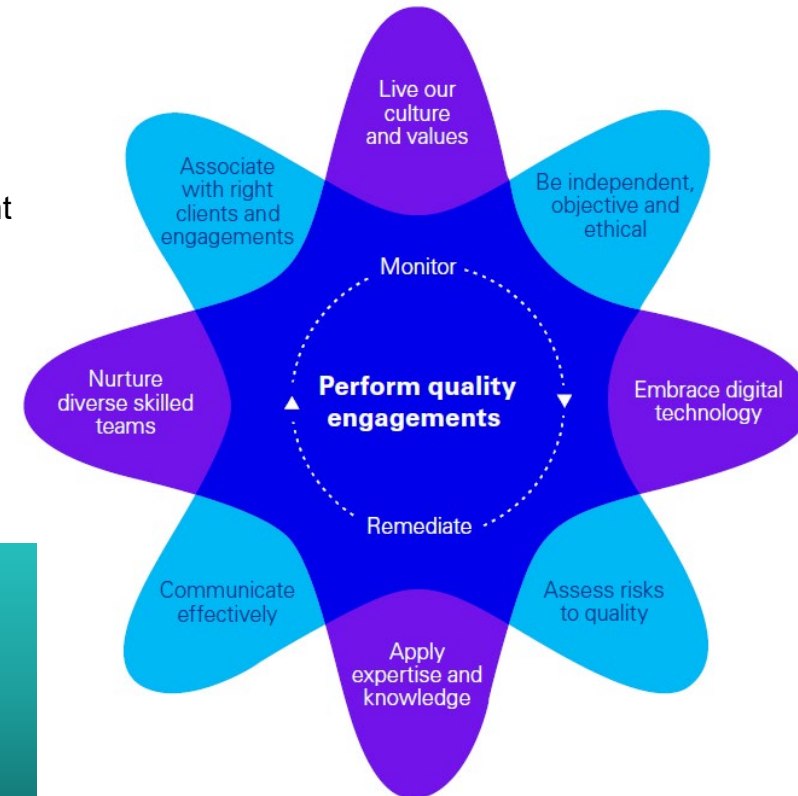
**Perform quality engagement** sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

[!\[\]\(7bc43b319a082987e20f7bf78f4bab80\_img.jpg\) KPMG 2022 Audit Quality and Transparency Report](#)

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**.



# Appendices



Draft auditor's report



Management representation letter



Audit and assurance insights



Technology



Environmental, social and governance (ESG)



# Appendix A: Draft auditor's report



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## INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Hamilton

We have audited the consolidated financial statements of the Corporation of the City of Hamilton ("the City"), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2022, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





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### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in the Financial Report 2022

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in the Financial Report 2022 as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.



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### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going



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concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants,

Hamilton, Canada

Date

# Appendix B: Management representation letter

**(Letterhead of Client)**

KPMG LLP  
21 King St. W.  
Suite 700  
Hamilton, ON L8P 4W7

Date

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Hamilton ("the Entity") as at and for the period ended December 31, 2022.

*General:*

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 9, 2022, including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:
    - the names of all related parties and information regarding all relationships and transactions with related parties;
    - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
  - c) providing you with unrestricted access to such relevant information.
  - d) providing you with complete responses to all enquiries made by you during the engagement.

- e) providing you with additional information that you may request from us for the purpose of the engagement.
- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that we, and others within the entity, did not intervene in the work the internal auditors performed for you.

*Internal control over financial reporting:*

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

*Fraud & non-compliance with laws and regulations:*

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
    - management;
    - employees who have significant roles in internal control over financial reporting; or
    - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements or illegal acts, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

*Subsequent events:*

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

*Related parties:*

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

*Estimates:*

- 8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

*Going concern:*

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

*Misstatements:*

- 11) The effects of the uncorrected misstatements described in [Attachment II](#) are immaterial, both individually and in the aggregate, to the financial statements as a whole.

*Non-SEC registrants or non-reporting issuers:*

- 12) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

*Approval of financial statements:*

- 13) Mike Zegarac and Shelley Hesmer have the recognized authority to take, and have taken, responsibility for the financial statements.

Yours very truly,

THE CORPORATION OF THE CITY OF HAMILTON

\_\_\_\_\_  
By: Mike Zegarac, General Manager, Finance and Corporate Services

\_\_\_\_\_  
By: Shelley Hesmer, Director, Financial Services, Taxation and Corporate Controller (Acting)



## ***Attachment I – Definitions***

### ***Materiality***

Certain representations in this letter are described as being limited to matters that are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.]

### ***Fraud & error***

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

**Attachment II – Summary of Audit Misstatements Schedule****Uncorrected audit misstatement:**

<b>Financial Statement Disclosure Impact (Employee Future Benefits – Note 10)</b>		
<b>Description of individually significant disclosure misstatement</b>	<b>Actuarial Accrued Benefit Obligation (Decrease) Increase</b>	<b>Actuarial Gain (Loss) (Increase) Decrease</b>
Sick Leave Benefit Plan	(4,571,000)	4,571,000
Retirement Benefits	(8,925,000)	8,925,000
<b>Total individually significant misstatements</b>	<b>(13,496,000)</b>	<b>13,496,000</b>



# Appendix C: Audit and assurance insights

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

## KPMG Audit & Assurance Insights

Curated research and insights for audit committees and boards.

## Board Leadership Centre

Leading insights to help board members maximize boardroom opportunities

## Current Developments

Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

## Audit Committee Guide – Canadian Edition

A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.

## Accelerate 2023

The key issues driving the audit committee agenda in 2023.

## Momentum

A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

## 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.

# Appendix D: Technology – Continuous improvement powered by transformation

## Our investment: \$5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

## Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

## Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.





# Appendix D: Technology – KPMG Clara – Bringing the audit to one place



## Streamlined client experience

And deeper insights into your business, translating to a better audit experience.



## Secure

A secure client portal provides centralized, efficient coordination with your audit team.



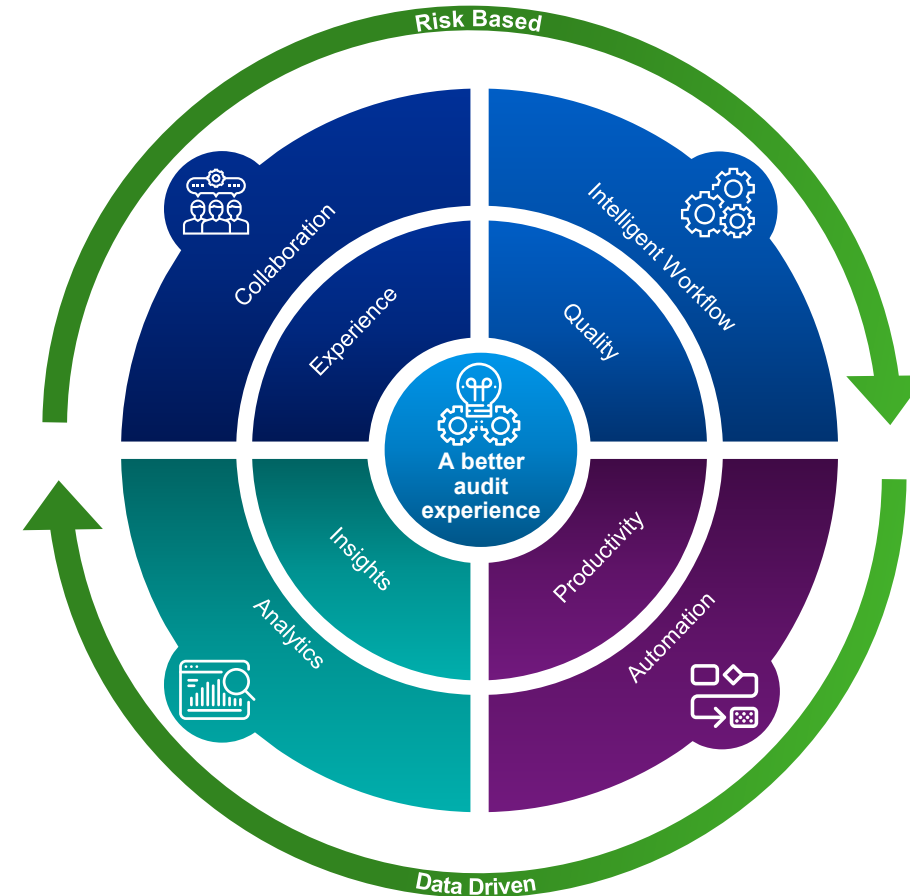
## Intelligent workflow

An intelligent workflow guides audit teams through the audit.



## Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.





# ESG needs to be on the government agenda

## 01

### ESG and climate risk\* are linked to access to funding

An entity's climate resiliency and ESG management is impacting access to funding. Government grants, for example, will be increasingly tied to ESG initiatives and performance.

\*Climate risk is an element of ESG

## 02

### E&S and climate risk factors are impacting service delivery models

Service delivery models are being impacted by ESG and climate transition requirements in the face of higher operating risks and costs, e.g. capex planning for low carbon technologies and solutions.

## 03

### ESG is linked to the cost of capital

More financial institutions have incorporated ESG factors into the risk analysis of governments, highlighting that climate is a near term financial and strategic risk. Cost of capital can be further impacted by ESG risk ratings from leading ratings agencies (S&P, Sustainalytics, MSCI).

## 04

### Talent expectations and attraction

Stakeholder expectations of governments now include diversity in gender and ethnicity as well as expertise in ESG or climate areas, e.g. human rights and emissions. Employees are increasingly seeking purpose from their work and looking to leadership and an entity's values to reflect this..

## 05

### Regulatory requirements on ESG and climate risk disclosure

Failing to manage and disclose ESG and climate risks is beginning to carry litigation risk and link to executives' fiduciary duty. Both SEC and ISSB have proposed disclosure rules for climate risk and emissions. Now is the time for entities to address management and reporting gaps.

Sources: 10 Business Myths on Climate Change (2021) – KPMG UK;<sup>2</sup>  
ESG: The board's perspective (2021) – KPMG India

# Municipalities: ESG Considerations

According to the [World Economic Forum](#), cities, which house almost 60% of the world’s population are also responsible for two-thirds of the world’s energy consumption, and consequently produce more than 70% of the world’s emissions. The role of cities tackling ESG issues will continue to increase, meaning municipal development and management should consider ESG principles. Technology and ESG-related municipal bonds can play a key role in achieving net-zero targets.

Some important ESG considerations for municipalities	Examples of how KPMG helps municipalities with ESG
<ul style="list-style-type: none"> <li>• <b>GHG emissions/carbon footprint quantification</b> (typical municipal sources include industrial activity, transportation, buildings, airplane movement, etc.)</li> <li>• <b>Climate/decarb action &amp; integration into city planning</b> (e.g., policy &amp; regulation, city masterplans, funding/financing, monitoring, etc.)</li> <li>• <b>Infrastructure resiliency to physical impacts from climate change</b> (i.e., floods, drought, wildfires, extreme heat and wind, etc.)</li> <li>• <b>Private (small to medium sized) enterprise partnerships to integrate ESG initiatives with local agendas and local action</b></li> <li>• <b>Education, communication &amp; engagement with municipal stakeholders</b> (i.e., investors, customers, residents, government, businesses, etc.)</li> <li>• <b>Efficient waste management &amp; circular economy</b></li> <li>• <b>Socio-economic impacts on healthcare, education, employment, safety, public services</b></li> <li>• <b>Efficient water management</b></li> <li>• <b>Modern traffic infrastructure, transportation efficiency, electrification</b></li> <li>• <b>Responsible energy use and management</b></li> <li>• <b>Sustainable sourcing of products/services</b></li> <li>• <b>Land use &amp; biodiversity</b></li> <li>• <b>Policies and regulations</b> (to promote local social cohesion and the inclusivity of vulnerable groups, to reduce emissions across different sectors such as mobility, energy, water and waste; today’s customers want their local government agencies to take the lead on environmental sustainability actions<sup>1</sup>)</li> <li>• <b>Workforce of the future (including diversity, equity, inclusion)</b></li> </ul>	<ul style="list-style-type: none"> <li>• ESG discovery, ESG framework and strategy, targets &amp; roadmap development to address socio-economic challenges and ensure effective governance</li> <li>• Peer benchmarking (including metrics, targets &amp; reporting of key peers), industry best practices, and stakeholder expectations</li> <li>• Emission quantification and decarbonization pathways, e.g., policies and regulations, key technologies, levers &amp; tipping points</li> <li>• ESG reporting suites and disclosure readiness</li> <li>• Readiness for ESG assurance, and assurance on ESG metrics and reports</li> <li>• Board and management training</li> <li>• Supply chain assessment from ESG lens</li> </ul>

<sup>1</sup>Sources: [World Economic Forum](#) & [KPMG’s Future of Local Government ESG Initiatives](#)





[kpmg.ca](https://kpmg.ca)

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

