CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Treasury Services Division

TO: Chair and Members
Audit, Finance and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: December 10, 2012

SUBJECT/REPORT NO:
2012 City of Hamilton External Audit Plan (FCS12107) (City Wide)

SUBMITTED BY:
Roberto Rossini
General Manager
Finance & Corporate Services Department

PREPARED BY:
Brian McMullen 905-546-2424 ext 4467

SIGNATURE:

RECOMMENDATION

That the 2012 City of Hamilton Audit Planning Report prepared by KPMG, attached as Appendix “A” to Report FCS12107, be approved.

EXECUTIVE SUMMARY

Council at its meeting of June 27, 2012 approved General Issues Committee Report 12-016 and Report FCS12001 Selection of External Auditor for Fiscal Years 2012 to 2016 wherein KPMG was selected as the City’s external auditor.

KPMG’s audit approach, scope of the audit work for the City of Hamilton and its related entities for the 2012 fiscal year is provided in their Audit Planning Report for the year ended December 31, 2012. Their Audit Planning Report outlines KPMG’s audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The 2012 audit standards focus the audit on areas where there is greater risk of mis-statement. KPMG has tailored their audit of the City to several specific audit areas, including tangible capital assets, taxation revenue, user charges...
revenue, government grants and contributions, expenditures and payables including payroll and non-payroll purchases, employee future benefits and solid waste landfill closure liabilities.

KPMG will be discussing the audit work required on the financial statements for HECFI, Library, Housing, Tourism and Business Improvement Areas with the respective boards or oversight bodies.

The 2012 external audit fees for all of the audits, as per Report FCS12001, of $225,000 are within the limits of the approved 2012 Operating Budgets for the City and the entities included in the report.

Alternatives for Consideration – Not Applicable.

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation only)

Financial: The 2012 external audit fees for all of the audits, as per Report FCS12001, of $225,000 are within the limits of the approved 2012 Operating Budgets for the City and the entities included in the report.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND** (Chronology of events)

Request for Proposal for External Audit Services C12-12-11 was issued on November 25, 2011 and closed on January 17, 2012. Council at its meeting of June 27, 2012 approved General Issues Committee Report 12-016 and Report FCS12001 Selection of External Auditor for Fiscal Years 2012 to 2016 wherein KPMG was selected as the City’s external auditor. KPMG started their audit planning in August 2012 through a series of meetings and discussions with City management and management of related entities.

**POLICY IMPLICATIONS**

None.
RELEVANT CONSULTATION

The 2012 Audit Planning Report from KPMG and the City of Hamilton 2012 Year End Plan has been discussed with management of the City’s Departments and Boards including:

- Corporate Services Department:
  - General Manager of Finance & Corporate Services
  - Director of Financial Services
  - Director of Financial Planning & Policy
  - Director of Taxation
  - Manager of Business Application Support, Accounts Payable & Accounts Receivable
  - Manager of Payroll & Pensions
  - Managers of Finance & Administration
  - Manager of Tax Accounting
  - Manager of Current Budgets & Fiscal Planning
  - Manager of Capital Budget & Development
- Hamilton Police Services – Chief Accountant
- HECFI – Corporate Controller & Manager of Accounting
- Hamilton Public Library – Director of Finance & Facilities

The Finance and Administration staff of the Corporate Services Department co-ordinate the audit work with the City’s operating departments and divisions.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The annual audit planning report and external audit plan provides the committee with an opportunity to review the audit approach and expectations of the audit. KPMG will be making a presentation to Committee and will be available to answer questions about their report.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

There are no alternatives for consideration.

Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork
CORPORATE STRATEGIC PLAN  (Linkage to Desired End Results)


Financial Sustainability

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost-effective manner:

- The 2012 External Audit Plan is prepared to ensure that the audit of the financial statements is performed according to audit standards. The Audit Planning Report from the external auditors reinforces the responsibilities of the elected officials and management in ensuring that the organization’s financial resources are being protected and economic well-being is enhanced. The audit of the financial statements ensures an independent review of the management’s fiscal accountability of the City’s resources to the ratepayers.

APPENDICES / SCHEDULES

Appendix “A” to Report FCS12107 The City of Hamilton Audit Planning Report for the year ending December 31, 2012 as prepared by KPMG.
AUDIT

The Corporation of the City of Hamilton

Audit Planning Report
For the year ending December 31, 2012

KPMG LLP, Chartered Accountants, Licensed Public Accountants

kpmg.ca
Dear Audit, Finance and Administration Committee members,

Audit planning is the cornerstone of an effective, efficient and high quality audit. In developing our audit plan, we have worked with management to obtain a common understanding of the issues and related financial reporting risks facing the Corporation of the City of Hamilton and have designed our audit to focus on those areas of risk.

As members of the Audit, Finance and Administration Committee, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

Audit quality

Audit quality is receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review “KPMG's Audit Quality Framework”, summarized in the appendices of this report.

We believe this audit plan embodies our commitment to audit quality.
**Reaching out to audit committees**

KPMG’s Audit Committee Institute (ACI) provides information, resources, and knowledge-sharing opportunities to help audit committees and directors strengthen the integrity of their financial reporting process and the quality of their corporate governance practices. The ACI’s Audit Committee Roundtables are held across the country twice yearly. You are cordially invited to attend. For information on ACI’s audit committee resources and roundtable registration, please visit www.kpmg.ca/auditcommittee.

We sincerely hope this Audit Planning Report is of assistance to you, and we look forward to discussing it in detail and answering any questions you may have at the upcoming Audit, Finance and Administration Committee meeting.

Yours sincerely,

Barry F. Frieday
Lead Partner, City of Hamilton

Lois Ouellette
Engagement Partner, City of Hamilton

John Pryke
Engagement Partner, Related Entities

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At KPMG, we are passionate about earning your trust. We take deep personal accountability, individually and as a team, to deliver exceptional service and value in all our interactions with you. Ultimately, we measure our success from the only perspective that matters—yours.
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Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose of carrying out and discharging your responsibilities and exercising oversight over our audit of the consolidated financial statements.

What has changed from last year

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- Transfer of management of the HECFI facilities to Global Spectrum / Live Nation and the Carmen’s Group
- Senior Management changes
- Debt issuance and swap agreement
- Pan Am games agreement

Accounting standards

- No changes for current year
- Upcoming changes with effective dates ranging from December 31, 2013 to December 31, 2016 include Government Transfers, Tax Revenue, Financial Instruments, Foreign Currency Translation and Liability for Contaminated Sites.
- Refer to the appendices for further discussion on this matter.

Auditing standards

- No changes for current year

Annual inquiries related to risks of fraud:

Canadian Auditing Standards require that we ask you questions in connection with your oversight of management’s process for identifying and responding to the risks of fraud:

- What are your views about fraud risks in the entity?
- How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?

1 This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit, Finance and Administration Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning 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.
• Are you aware of, or have you identified any instances of, actual, suspected or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

**Scope of the audit**

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the consolidated financial position, its consolidated results of operations, consolidated changes in net financial assets, and consolidated cash flows of the Corporation of the City of Hamilton in accordance with Canadian public sector accounting standards.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

**Our responsibilities**

• Our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter included in the appendices to this report.

**Materiality**

• We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.

• For the current period, materiality of $25,600,000 has been determined.

• We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

• We will communicate uncorrected misstatements to you, other than those that are clearly trivial.

• Should uncorrected misstatements remain, in accordance with professional standards, we will:
  — request of management and of the Audit, Finance and Administration Committee that all uncorrected misstatements be corrected.
  — communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.

**Equity method investees (“components”) in consolidated financial statements**

Professional standards require that we obtain an understanding of the Corporation of the City of Hamilton’s organizational structure, including its components, and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit. Where component auditors will perform work on the financial information of such components, we are required to evaluate whether we, as group auditors, will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence.

As group auditors, the basis for servicing as group auditor is premised on the ability to obtain sufficient appropriate audit evidence regarding component financial information. The components upon which we will plan to perform audit procedures are listed below:
### Significant components

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamilton Utilities Corporation</td>
<td>None, KPMG Hamilton is also the component auditor.</td>
</tr>
<tr>
<td>Involvement of other auditors/KPMG member firms (“component auditor”)</td>
<td>Type of work to be performed on component financial information</td>
</tr>
<tr>
<td></td>
<td>Statutory audit of component financial statements</td>
</tr>
</tbody>
</table>

### Financial reporting risks

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

The financial reporting risks identified during our audit planning are listed below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Risk of material misstatement prior to consideration of internal controls</th>
<th>Summary of planned audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio investments and related income</td>
<td>Existence, accuracy and valuation of investments and related income</td>
<td>Performing substantive procedures</td>
</tr>
<tr>
<td>Tangible capital assets</td>
<td>Completeness, existence and classification of tangible capital assets between capital and operating</td>
<td>Performing substantive procedures</td>
</tr>
<tr>
<td>Taxation revenue</td>
<td>Completeness and accuracy of taxation revenue</td>
<td>Performing substantive procedures</td>
</tr>
<tr>
<td>User charges revenue</td>
<td>Completeness, occurrence and accuracy of revenue; valuation of related receivables</td>
<td>Testing selected relevant controls over cash receipts and performing substantive procedures</td>
</tr>
<tr>
<td>Government grants and contributions</td>
<td></td>
<td></td>
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<tr>
<td>-------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk of material misstatement prior to consideration of internal controls</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completeness of grant revenue and accuracy of timing of revenue recognition</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Summary of planned audit approach</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing substantive procedures</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures and payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of material misstatement prior to consideration of internal controls</td>
</tr>
<tr>
<td>Completeness, existence, accuracy and classification of expenditures and completeness of related accounts payable and accrued liabilities</td>
</tr>
<tr>
<td><strong>Summary of planned audit approach</strong></td>
</tr>
<tr>
<td>Testing selected relevant controls over payroll and non-payroll expenditures and performing substantive procedures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee future benefits (Pension obligation; Retirement benefits; Long-term disability; Sick Leave and WSIB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of material misstatement prior to consideration of internal controls</td>
</tr>
<tr>
<td>Completeness and accuracy of employee future benefits and related expenses</td>
</tr>
<tr>
<td><strong>Summary of planned audit approach</strong></td>
</tr>
<tr>
<td>Performing substantive procedures</td>
</tr>
<tr>
<td>Use of management’s expert – the Actuary</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Solid waste landfill liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of material misstatement prior to consideration of internal controls</td>
</tr>
<tr>
<td>Completeness and accuracy of liability and related expenses</td>
</tr>
<tr>
<td><strong>Summary of planned audit approach</strong></td>
</tr>
<tr>
<td>Performing substantive procedures, including review of application of assumptions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transfer of management of the HECFI facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of material misstatement prior to consideration of internal controls</td>
</tr>
<tr>
<td>Completeness and accuracy of liability and related expenses and disclosure</td>
</tr>
<tr>
<td><strong>Summary of planned audit approach</strong></td>
</tr>
<tr>
<td>Performing substantive procedures</td>
</tr>
</tbody>
</table>

**Fees and assumptions**

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fees are in accordance with our most recent successful proposal. These fees are based on the assumptions described in the engagement letter in the appendices to this report.
Timing of the audit

We have discussed the key audit deliverables with management and the expected dates indicated below have been agreed upon:

<table>
<thead>
<tr>
<th>Deliverables</th>
<th>Expected date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct interim audit field work</td>
<td>October 1 to 19, 2012</td>
</tr>
<tr>
<td>Present Audit Planning Report to the Audit, Finance and Administrations Committee</td>
<td>TBD</td>
</tr>
<tr>
<td>Conduct year-end audit field work</td>
<td>March 25 to April 30, 2013</td>
</tr>
<tr>
<td>Present the Audit Findings Report to the Audit, Finance and Administration Committee</td>
<td>June 2013</td>
</tr>
<tr>
<td>Provide audit opinion on financial statements</td>
<td>June 2013</td>
</tr>
</tbody>
</table>

Performance improvement observations

During the course of our audit, we may become aware of opportunities for improvements in financial or operational processes or controls. We will discuss any such opportunities with management and provide our recommendations for performance improvement.
Appendices

KPMG’s Audit Quality Framework
Current developments
Engagement letter
KPMG’s Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.

The seven key drivers of audit quality

<table>
<thead>
<tr>
<th>Driver</th>
<th>What it does</th>
<th>What it means to you</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tone at the top</strong></td>
<td>Audit quality is part of our culture and our values and therefore non-negotiable</td>
<td>Assures you that:</td>
</tr>
<tr>
<td></td>
<td>Allows the right behaviours to permeate across our entire organization and each of our engagements</td>
<td>- Our culture supports our promise to you of excellent service and a high quality audit—consistently</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- You’re receiving an independent, transparent, audit opinion</td>
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<td></td>
<td></td>
<td>- You’re receiving an efficient and high quality audit that will help you maintain stakeholder confidence in your financial statements.</td>
</tr>
<tr>
<td><strong>Association with the right entities</strong></td>
<td>Ethics above all</td>
<td>Provides you with:</td>
</tr>
<tr>
<td></td>
<td>Eliminates any potential independence and conflict-of-interest issues</td>
<td>- An engagement team handpicked for your business needs—a team with relevant professional and industry experience</td>
</tr>
<tr>
<td><strong>Clear standards and robust audit tools</strong></td>
<td>A solid rule book</td>
<td>- An audit engagement team whose qualifications evolve as your business grows and changes</td>
</tr>
<tr>
<td></td>
<td>Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG’s standards of quality</td>
<td></td>
</tr>
<tr>
<td><strong>Recruitment, development and assignment of appropriately qualified personnel</strong></td>
<td>People who add value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Helps us attract and retain the best people and reinforces the importance of developing their talents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assigns Partners’ portfolios based on Appendix “A” to Report FCS12107</td>
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</tr>
<tr>
<td>Driver</td>
<td>What it does</td>
<td>What it means to you</td>
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<tr>
<td>-----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Commitment to technical excellence and quality service delivery</td>
<td>their specific skill sets</td>
<td>Assist you with:</td>
</tr>
<tr>
<td></td>
<td>The right tools for the right job</td>
<td>• Assessing the effectiveness and efficiency of the audit</td>
</tr>
<tr>
<td></td>
<td>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</td>
<td>• Performing your governance role with confidence.</td>
</tr>
<tr>
<td>Performance of effective and efficient audits</td>
<td>We understand that how an audit is conducted is as important as the final result.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</td>
<td></td>
</tr>
<tr>
<td>Commitment to continuous improvement</td>
<td>Comprehensive and effective monitoring</td>
<td></td>
</tr>
<tr>
<td></td>
<td>We regularly solicit feedback from the audit committees of the entities we audit. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed entities are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accounting Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</td>
<td></td>
</tr>
</tbody>
</table>
The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today’s world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of the entities we audit and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work.
Current developments

Revised Standard on Government Transfers

Highlights
PSAB issued a revised standard for accounting for Government Transfers. This standard sets out standards on how to account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.

Effective date and transition
The standard is effective for fiscal periods beginning on or after April 1, 2012 however earlier adoption is encouraged. The standard may be applied retroactively or prospectively.

Implications
The standard will be applicable to the December 31, 2013 fiscal year. This standard could affect the timing of revenue recognition for certain government transfers. Retroactive application of this standard, if chosen, will be challenging since financial records and terms for government transfers received in prior years for capital purposes may not be available.
New Standard on Tax Revenue

Highlights
A new standard has been issued which establishes standards on how to account for and report tax revenue.

Effective date and transition
The standard is effective for fiscal periods beginning on or after April 1, 2012 however earlier adoption is encouraged.

Implications
This standard will be applicable to the December 31, 2013 fiscal year. This standard is not expected to impact the City.
New Standard on Financial Instruments

Highlights
A new standard has been issued establishing a standard on accounting for and reporting all types of financial instruments including derivatives.

Effective date and transition
The standard is effective for fiscal periods beginning on or after April 1, 2015 however earlier adoption is permitted. An entity early adopting this standard must also adopt the revised Foreign Currency Translation standard. PSAB intends to review the application of this standard for governments by December 31, 2013.

Implications
This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. Long term debt that has been purchased by the City (i.e., investments in own debentures) will have to be accounted for as an extinguishment of that debt. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type (credit, liquidity and market).
Revised Standard on Foreign Currency Translation

**Highlights**
A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

**Effective date and transition**
The standard is effective for fiscal periods beginning on or after April 1, 2015 however earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard. PSAB intends to review the application of this standard for governments by December 31, 2013.

**Implications**
Exchange gains and losses arising prior to settlement are recognized in the statement of re-measurement gains and losses.
New Standard on Liability for Contaminated Sites

Highlights
PS 3260 – Liability for Contaminated Sites was approved by PSAB in March 2010.

Effective date and transition
This standard is effective for fiscal years beginning on or after April 1, 2014 however earlier adoption is encouraged.

Implications
A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
Engagement letter
Mr. Roberto Rossini  
General Manager, Finance and Corporate Services  
City of Hamilton  
71 Main Street West  
Hamilton, ON  L8P 4Y5  

November 12, 2012  

Dear Mr. Rossini,  

The purpose of this letter is to outline the terms of our audit engagements commencing with the year ending December 31, 2012.  

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the “Engagement Letter”). The terms of this letter will apply to the specific engagements referenced herein as well as various audit engagements that may be requested from time to time.  

FINANCIAL REPORTING FRAMEWORK FOR THE FINANCIAL STATEMENTS  

The financial statements will be prepared and presented in accordance with Canadian accounting standards for the public sector (hereinafter referred to as the “financial reporting framework”) for the Corporation of the City of Hamilton (“the Entity”). For the program audits, the financial information will be prepared in accordance with a basis of accounting described in the notes to the financial information.  

The financial statements will include an adequate description of the financial reporting framework.  

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS  

Management acknowledges and understands that they are responsible for:  

(a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.  

(b) ensuring that all transactions have been recorded and are reflected in the financial statements  

(c) 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.  

(d) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.  

(e) providing us with additional information that we may request from management for the purpose of the audit.
(f) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence.

(g) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required.

An audit does not relieve management or those charged with governance of their responsibilities.

AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE FINANCIAL STATEMENTS

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above and

- to report on the financial statements.

We will conduct the audit of the financial statements in accordance with Canadian generally accepted auditing and relevant ethical requirements, including those pertaining to independence. (hereinafter referred to as applicable “professional standards”).

We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the financial statements 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 Entity's internal control.

- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.

- form an opinion on the Entity's financial statements based on conclusions drawn from the audit evidence obtained.

- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the Council. Refer to Appendix B for a listing of such matters and the form and timing of such communication.

AUDITORS' DELIVERABLES

The expected form and content of our audit report(s) is provided in Appendix A. However, there may be circumstances in which a report may differ from its expected form and content.
OTHER MATTERS

SEPARATE ENGAGEMENT LETTERS

This engagement letter does not cover our audit and reporting on the following entities:

- Hamilton Public Library
- Hamilton Entertainment and Convention Facilities Inc.
- Hamilton Performing Arts Foundation
- City Housing
- Hamilton Wentworth Retirement Fund Pension Plan
- Hamilton Municipal Retirement Fund Pension Plan
- Hamilton Street Railway Employees Pension Plan
- Hamilton Renewable Power Inc.
- CANUSA Games
- Canadian Football Hall of Fame and Museum

These services will be subject to the terms and conditions of separate engagement letters for each of these entities.

TAX ADVISORY SERVICES

Tax advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

FEES

Our fees for professional services to be performed under this Engagement Letter are in accordance with our most recent successful proposal.

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We are available to assist the Corporation of the City of Hamilton, upon request, with a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to serve the Corporation of the City of Hamilton and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements outlined are in accordance with the Corporation of the City of Hamilton’s requirements and if the above terms are acceptable to the Corporation of the City of Hamilton, please sign the duplicate of this letter in the space provided and return it to us.
Yours very truly,

Barry F. Frieday, John Pryke, Lois Ouellette
Partners responsible for the engagement and its performance, and for the reports that are issued on behalf of KPMG LLP, and who, where required, have the appropriate authority from a professional, legal or regulatory body
(905) 523-2212

Enclosure
cc: Audit, Finance and Administration Committee

************

The terms of the engagement set out are as agreed:

________________________________________
Mr. Roberto Rossini, General Manager,
Finance and Corporate Services

________________________________________
Date (dd/mm/yy)
INDEPENDENT AUDITORS’ REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of Hamilton ("the entity"), which comprise the consolidated statements of financial position as at December 31, 2012, the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Hamilton as at December 31, 2012, 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.
Appendix B – Matters to communicate

Matters required to be communicated under professional standards to the appropriate level of management include:

Engagement partner
- identity and role of the engagement partner

Fraud and non-compliance with laws and regulations
- any identified fraud or any information obtained that indicates that a fraud may exist.
- any identified non-compliance with laws or regulations or suspected non-compliance.

Control deficiencies
- any significant deficiencies in the Entity's internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances.
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention.

Misstatements
- if a misstatement is found in the opening balances that could materially affect the current period's financial statements.
- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated.
Appendix B – Matters to communicate (continued)

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

**Engagement partner**
- identity and role of the engagement partner

**Audit approach**
- an overview of the planned scope and timing of the audit.

**Fraud and non-compliance with laws and regulations**
- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the financial statements.
- any matters related to fraud that are, in our judgment, relevant to your responsibilities.
- any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

**Control deficiencies**
- any significant deficiencies, in writing, in the Entity's internal control

**Misstatements**
- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial. Furthermore, we request all uncorrected misstatements be corrected
- if we conclude that a possible material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

**Accounting practices**
- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures.

**Significant difficulties**
- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures.
Significant matters

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g., management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon), including when group management refuses to communicate to component management matters that are significant to the financial statements of the component.

- other significant matters arising from the audit, if any, that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the Entity's related parties

- instances where our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

- any limitations on the group audit, for example, where our access to information may have been restricted.

Management representations

- copies of written representations requested from management.

Going concern

- events or conditions identified that may cast significant doubt on the Entity's ability to continue as a going concern.

Reporting

- any expected modifications to the audit report.

- any expected emphasis of matter or other paragraphs in the audit report.

- management refuses to remove a scope limitation in the audit.

Other information

- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a document containing the audited financial statements and our audit report thereon ("other information") that we identified when reading such information, which management refuses to correct.

- our responsibilities with respect to other information in documents containing audited financial statements.

- any significant matters resulting from the procedures performed in accordance with professional standards on the other information.

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.
Appendix B – Matters to communicate (continued)

Matters required to be communicated under professional standards to the Council include:

*Fraud and non-compliance with laws and regulations*

- any identified non-compliance with laws or regulations or suspected non-compliance where we suspect that management or those charged with governance are involved.
The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the “Engagement Letter”). The Engagement Letter supersedes all written or oral representations on this matter.

1. Severability.
If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

2. Governing Law.
This Engagement Letter shall be subject to and governed by the laws of the province where KPMG’s principal office performing this engagement is located (without regard to such province’s rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

3. LLP Status.
KPMG LLP is a registered limited liability Partnership (“LLP”) established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or by any other person under that other partner’s direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm’s insurance exceeds the mandatory professional indemnity insurance requirements established by the various Institutes/Ordre of Chartered Accountants. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

4. Documents and Information.
Management’s cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all information provided by the Entity with all other member firms of KPMG International Cooperative (“KPMG International”) performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

5. Information Processing Outside of Canada.
Personal and/or confidential information (e.g. entries into KPMG’s time and billing system and into KPMG’s conflicts database) collected by KPMG during the course of this engagement may be processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party processors. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws.

6. Personal Information Consents and Notices.
Any collection, use or disclosure of personal information is subject to KPMG’s Privacy Policy available at www.kpmg.ca. KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. The Entity represents and warrants that: (i) it will obtain any consents reasonably required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice of the potential processing of such personal information outside of Canada (as described in paragraph 5 above). KPMG’s Privacy Officer noted in KPMG’s Privacy Policy is able to answer any individual’s questions about the collection of personal information required for KPMG to deliver services hereunder. The Entity consents to KPMG sending to the Entity, its officers, directors and employees, as applicable, electronic messages (including emails) relating to KPMG products and services and other matters of interest to the Entity.

7. Offers of Employment.
In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

8. Offering Documents.
If the Entity wishes to include or incorporate by reference the financial statements and our report thereon in an offering document, we will consider consenting to the use of our report and the terms thereof at that time. Prior to issuing any consent, comfort or advice letter, if any, we will be required to perform procedures as required by professional standards. Management agrees to provide us with adequate notice of the preparation of such documents.

9. Fee Arrangements.
KPMG’s estimated fee is based on the quality of the Entity’s accounting records, the agreed-upon level of preparation and assistance from the Entity’s personnel, and adherence to the agreed-upon timetable. KPMG’s estimated fee also assumes that the Entity’s financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management’s concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services, KPMG will review with the Entity any fees and expenses incurred in excess of KPMG’s estimate, following which KPMG will render the final billing.

KPMG’s invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG’s independence, it is important that KPMG’s bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG’s independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter. Canadian Public Accountability Board (CPAB) participation fees, when applicable, are charged to the Entity based on the annual fees levied by CPAB.

10. Legal Processes.
The Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to hereby acknowledge that KPMG may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to provide them with information and copies of documents in KPMG’s files including working papers and other work-product relating to the affairs of the Entity, its subsidiaries and affiliates. Except where prohibited by law, if a request or order is directly related to an inspection or investigation of KPMG’s audit of the Entity, KPMG will advise the Entity of the request or order. The Entity hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from, the Entity, its subsidiaries and affiliates.

When such an authority requests access to KPMG’s working papers and other work-product relating to the Entity’s affairs, KPMG will, on a request or order basis, refuse access to any document over which the Entity has expressly informed KPMG at the time of delivery that the Entity asserts privilege, except where disclosure of documents is required by law. The Entity must mark any document over which it asserts privilege as “privileged”. If and only if the authority requires such access to privileged documents pursuant to the laws of a jurisdiction in which express consent is required for such disclosure, then the Entity hereby provides its consent.
Where privileged Entity documents are disclosed, KPMG is directed to advise the authority that the Entity is permitting disclosure only to the extent required by law and for the limited purpose of the authority’s exercise of statutory authority. KPMG is directed to advise the authority that the Entity does not intend to waive privilege for any other purpose and that the Entity expects its documents to be held by the authority as privileged and confidential material (held securely, limited distribution, etc.). For greater certainty, the Entity and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and the Entity expressly relies upon the privilege protections afforded under statute and otherwise under law. The Entity agrees to reimburse KPMG, upon request, at standard billing rates for KPMG’s professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

11. **KPMG INTERNATIONAL MEMBER FIRMS.**

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International Cooperative (“KPMG International”) member firms participating in this engagement.

12. **CONNECTING TO THE ENTITY’S IT NETWORK.**

KPMG personnel are authorized to connect their computers to the Entity’s IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity’s IT Network or the Internet via the Network, while at the Entity’s premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

13. **DELIVERABLES OR COMMUNICATIONS.**

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not to be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.