SUBJECT: 2006 External Audit Plan and Audit Fees (FCS07021) (City Wide)

RECOMMENDATION:

(a) That Grant Thornton’s 2006 External Audit Plan be approved; and
(b) That the 2006 shortfall in corporate audit fees of $20,400 be absorbed in the tax operating budget surplus, if any, or funded from tax stabilization reserve.

EXECUTIVE SUMMARY:

During 2006 an External Audit Sub-Committee of the City’s Strategic Planning & Budgets Committee was established to approve the appointment of external auditors for the City of Hamilton and Hamilton Utilities Corporation for fiscal years 2006 to 2010 (Report FCS06046/CM06013). A cooperative request for proposal for external audit services was issued, a mandatory proponent information session was held, proposals were received, proposals were evaluated and sub-committee meetings were held between June and September.
Council at its meeting of September 13th, 2006 approved Report 06-001 of the External Audit Sub-Committee which contained the following recommendations:

1. Appointment of External Auditor for Fiscal Years 2006 to 2010 – City of Hamilton
   (a) That Grant Thornton LLP Chartered Accountants be appointed as External Auditors for the City of Hamilton;
   (b) That the term of the engagement be five years 2006 to 2010 for a contract fee of $1,355,107 plus applicable taxes;
   (c) That the engagement be subject to a satisfactory annual performance review; and
   (d) That the fees be reviewed annually to reflect changes in audit scope.

Grant Thornton, Chartered Accountants, audit approach and scope of audit work for the City of Hamilton and its related entities for the 2006 fiscal year is provided in their 2006 External Audit Plan Communication. They are making a presentation to the Committee on February 7th, 2007. The Audit Plan communicates to the oversight body Grant Thornton’s overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. New auditing standards from the Canadian Institute of Chartered Accountants (“CICA”) focus the audit on areas where there is greater risk of misstatement. Grant Thornton has tailored their audit of the City to several specific audit areas, including taxation, water and wastewater revenues, grants and subsidies, significant estimates, purchases and payables and employee compensation.

Grant Thornton 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.

**BACKGROUND:**

Grant Thornton was appointed the City's external auditor by Council at its meeting on September 13th, 2006 for fiscal years 2006 to 2010. Annually, the auditors present their audit plan to the audit committee of the City of Hamilton.

The City of Hamilton 2006 external audit plan communication from Grant Thornton provides more details of the roles and responsibilities of the auditors, the Audit and Administration Committee and City of Hamilton management and staff and the expected completion date of the 2006 audited financial statements. Grant Thornton’s initial communication on audit planning is being distributed to the Committee separately.

**ANALYSIS/RATIONALE:**

Management met with Grant Thornton to discuss the 2006 External Audit Plan and reaffirmed the commitment to completing the financial statements in time for the start of
the audit work on April 2nd, 2007. Staff have developed an internal 2006 Year End Plan assigning responsibilities to individual directors, managers and other staff.

The following table summarizes the 2005 and 2006 Audit Fees:

<table>
<thead>
<tr>
<th>Audit Requirement</th>
<th>2005 Audit Fee</th>
<th>2006 Audit Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Hamilton Consolidated Financial Statements</td>
<td>$55,200</td>
<td>$90,380</td>
</tr>
<tr>
<td>City of Hamilton Trust Funds</td>
<td>3,000</td>
<td>5,700</td>
</tr>
<tr>
<td>City of Hamilton Sinking Funds (note 1)</td>
<td>1,500</td>
<td>-</td>
</tr>
<tr>
<td>City of Hamilton Pension Funds</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Other audits (Provincial and Federal Government Programs) (note 2)</td>
<td>24,500</td>
<td>33,000</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>$96,200</strong></td>
<td><strong>$141,080</strong></td>
</tr>
<tr>
<td>HECFI</td>
<td>$15,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Hamilton Public Library Board</td>
<td>6,000</td>
<td>8,800</td>
</tr>
<tr>
<td>Housing Corporations</td>
<td>32,500</td>
<td>33,500</td>
</tr>
<tr>
<td>Tourism Hamilton</td>
<td>3,500</td>
<td>4,000</td>
</tr>
<tr>
<td>Business Improvement Areas</td>
<td>12,850</td>
<td>15,620</td>
</tr>
<tr>
<td>Other Audits (note 3)</td>
<td>6,500</td>
<td>32,000</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td><strong>$76,350</strong></td>
<td><strong>$108,920</strong></td>
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<td><strong>TOTAL</strong></td>
<td><strong>$172,550</strong></td>
<td><strong>$250,000</strong></td>
</tr>
</tbody>
</table>

**NOTES:**

1: 2006 audit of sinking funds is not required.
2: Net increase in scope of audit work in 2006 to include Federal Gas Tax and additional provincial Health, Child & Youth Services and Community Services programs.
3: Increase in the scope of audit work requested in proposal. Audits include Canadian Football Hall of Fame and Museum and CANUSA Games, Airport Agreement, Mohawk 4Ice Centre, Hamilton Renewable Power.

**ALTERNATIVES FOR CONSIDERATION:**
N/A.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

The 2006 audit fees of $250,000 represent external audit services for all of the City of Hamilton audits as per Grant Thornton’s audit proposal. The shortfall in the City’s 2006 operating budget for corporate audit fees of $20,400 will be reported in the tax operating budget variance report and absorbed from the tax operating budget surplus. If there is no surplus, then the audit fee shortfall will be funded from reserves.

**POLICIES AFFECTING PROPOSAL:**
N/A.
RELEVANT CONSULTATION:

The 2006 External Audit Plan from Grant Thornton and the City of Hamilton 2006 Year End Plan has been discussed with staff and management of all of the City’s departments and boards. Grant Thornton has prepared similar 2006 External Audit Plans for the Hamilton Public Library, HECFI, Housing and Tourism and they will be having discussions with the respective staff. City staff has advised the other organizations, including CANUSA Games, the Canadian Football Hall of Fame and Museum, the Hamilton Association of Business Improvement Areas, Tradeport, Mohawk 4Ice Centre and Hamilton Renewable Power Inc., of the approval of the auditors.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes □ No
The 2006 External Audit Plan Communication from the external auditors provides the City’s elected officials with information to carry out their oversight responsibilities for financial reporting. The subsequent audit of the financial statements ensures that public activities are reported and decisions at all levels of government are co-ordinated, efficient, effective and easily accessible to all citizens.

Environmental Well-Being is enhanced. □ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes □ No
The 2006 External Audit Plan is prepared to ensure fiscal accountability of the City to the ratepayers and contributes to Council’s strategic goals as a City that spends wisely and invests strategically. The External Audit Plan Communication from the external auditors reinforces the responsibilities of the elected officials and management in ensuring that the organizations financial resources are being protected and economic well-being is enhanced.

Does the option you are recommending create value across all three bottom lines? □ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes □ No