TO: Chair and Members  
Audit, Finance and Administration Committee  
WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: February 2, 2011

SUBJECT/REPORT NO:  
2010 External Audit Plan and Fees (FCS11019) (City Wide)

SUBMITTED BY:  
Antonio D. Tollis  
Treasurer  
Corporate Services Department

PREPARED BY:  
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SIGNATURE:

RECOMMENDATION

That the changes to the scope of audit work in the City of Hamilton 2010 External Audit Plan by Grant Thornton, as listed below, be approved:

(i) Audits of Ancaster and Locke Street Business Improvement Areas;
(ii) Audits of Province of Ontario programs - Child Care and Homelessness;
(iii) Audits of Ontario Bus Replacement Program and Canada Strategic Infrastructure Fund Agreements;
(iv) Audit work for changes to tangible capital assets; and,
(v) Audit of a new municipal financial reporting model that incorporates full accrual accounting.

EXECUTIVE SUMMARY

Council at its meeting of September 13, 2006, approved Item 1 of the Strategic Planning and Budget Report 06-008, which reads as follows:

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
1. Report 06-001 of the External Audit Sub-Committee (Item 8.1)

(a) Appointment of External Auditor for Fiscal Years 2006 to 2010 – City of Hamilton:

(i) That Grant Thornton LLP Chartered Accountants be appointed as External Auditors for the City of Hamilton;

(ii) That the term of the engagement be five years (2006 to 2010) for a contract fee of $1,355,107 plus applicable taxes;

(iii) That the engagement be subject to a satisfactory annual performance review; and,

(iv) That the fees be reviewed annually to reflect changes in the audit scope.

Grant Thornton’s audit approach, scope of the audit work for the City of Hamilton and its related entities for the 2010 fiscal year is provided in their Initial Communication on Audit Planning for December 31, 2010. Their Audit Plan communicates to the oversight body, Grant Thornton’s overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The 2010 audit standards continue to focus the audit on areas where there is greater risk of mis-statement. Grant Thornton has tailored their audit of the City to several specific audit areas, including: taxation, purchases and payables, grants and subsidies revenue, significant estimates for post-employment benefits and landfill closure liabilities, commitments, contingencies and tangible capital assets.

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.

Changes in the scope of the audit work from audits that were included in the original external audit services proposal for 2006 to 2010 are:

- audits of Ancaster and Locke Street Business Improvement Areas;
- audits of Province of Ontario programs - Child Care and Homelessness;
- audits of Ontario Bus Replacement Program and Canada Strategic Infrastructure Funding Agreements;
- audit work for changes to tangible capital assets; and
- audit of a new municipal financial reporting model that incorporates full accrual accounting.

Grant Thornton has proposed that the 2010 external audit fees be adjusted again this year to the 2008 level to reflect the current economic climate. The resulting savings are approximately $18,000 for 2010. Total savings from our contract with Grant Thornton are $26,500 over the past two years. The fees for the increase in the scope of the audit work will be partially off-set by the savings in the adjusted audit fees.
Alternatives for Consideration – Not Applicable.

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

**Financial:** The cost for the additional work required by Grant Thornton in the recommendation above of $21,000 would be off-set by the savings in the reduced fees of $18,000 for a net actual cost to the City of only $3,000.

**Staffing:** None.

**Legal:** None.

**HISTORICAL BACKGROUND (Chronology of events)**

Council at its meeting of September 13, 2006, approved Item 1 of the Strategic Planning and Budget Report 06-008, which read as follows:

1. Report 06-001 of the External Audit Sub-Committee (Item 8.1)

   (a) Appointment of External Auditor for Fiscal Years 2006 to 2010 – City of Hamilton:

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

Grant Thornton has satisfactorily completed the audits for 2006, 2007, 2008 and 2009. The 2010 audit is the final year of the five year External Audit Services contract with Grant Thornton.

**POLICY IMPLICATIONS**

None.

**RELEVANT CONSULTATION**
The 2010 Initial Communication on Audit Planning from Grant Thornton and the City of Hamilton 2010 Year End Plan has been discussed with management of the City’s Departments and Boards including:

- Corporate Services Department:
  - General Manager of Finance and Corporate Services
  - Treasurer
  - Director of Financial Services
  - Director of Financial Planning & Policy
  - Director of Taxation
  - Manager of Business Application Support
  - 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 and Manager of Accounting
- Hamilton Public Library – Director of Finance & Facilities

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

Grant Thornton has prepared similar 2010 External Audit Plans for HECFI, Hamilton Public Library, Housing and Tourism and they will be having discussions with the respective management and staff.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Grant Thornton’s audit approach and the scope of the audit work for the City of Hamilton and its related entities for the 2010 fiscal year is provided in their Initial Communication on Audit Planning for December 31, 2010. 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. The 2010 audit standards continue to focus the audit on areas where there is greater risk of mis-statement. Grant Thornton has tailored their audit of the City to several specific audit areas, including taxation, purchases and payables, grants and subsidies revenue, significant estimates for post-employment benefits and landfill closure liabilities, commitments, contingencies, and tangible capital assets.
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.

There is a change in the scope of the audit work and fees included in the original 2006 to 2010 Audit Proposal. The changes are detailed as follows:

- An audit of Locke Street Business Improvement Area was added to the requirements for 2007, 2008, 2009 and 2010.
- An audit of Ancaster Business Improvement Area was added to the requirements for 2009 and 2010;
- The Province of Ontario added audit requirements for two more of its programs, Child Care and Homelessness, for 2008, 2009 and 2010;
- The Agreement with the Province of Ontario for Ontario Bus Replacement Program requires audits for 2008, 2009 and 2010;
- The Agreement with the Government of Canada for Canada Strategic Infrastructure Fund – Hamilton Harbour requires audits for 2009 and 2010;
- A separate audit engagement was made with Grant Thornton for audit work for tangible capital assets for initial valuations and policies for 2007 and 2008. Audit work for changes to tangible capital assets was added to the requirements for 2009 and 2010;
- The adoption of new Public Sector Accounting Board Handbook sections, including PS1200, Financial Statement Presentation, required changes to municipal financial reporting to incorporate full accrual accounting for 2009 and 2010.

Grant Thornton has proposed that the 2010 external audit fees be adjusted again this year to the 2008 level to reflect the current economic climate. The resulting savings are approximately $18,000 for 2010. Total savings from our contract with Grant Thornton are $26,500 over the past two years. The fees for the increase in the scope of the audit work will be partially off-set by the savings in the adjusted audit fees. Therefore, the 2010 projections for external audit fees are not affected.

**ALTERNATIVES FOR CONSIDERATION**

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

There are no alternatives for consideration as Grant Thornton has performed satisfactorily over the first four years of the external audit services contract.

**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 2010 External Audit Plan is prepared to ensure that the audit of the financial statements is performed according to audit standards. The External Audit Plan Communication 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

None.