**CITY OF HAMILTON**

**CORPORATE SERVICES DEPARTMENT**  
*Treasury Services*  
*Financial Services Division*

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<th>TO:</th>
<th>Chair and Members Audit and Administration Committee</th>
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<td>WARD(S) AFFECTED:</td>
<td>CITY WIDE</td>
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**COMMITTEE DATE:** February 3, 2010

**SUBJECT/REPORT NO:**  
2009 External Audit Plan and Fees (FCS10009) (City Wide)

| SUBMITTED BY: | Antonio D. Tollis  
Treasurer  
Corporate Services Department |
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<td>PREPARED BY:</td>
<td>Brian McMullen 905-546-2424 ext 4467</td>
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**SIGNATURE:**

**RECOMMENDATION:**

That the changes to the scope of audit work in the City of Hamilton 2009 External Audit Plan by Grant Thornton, as shown below, be approved:

- audit of Locke Street Business Improvement Area;
- audits of Province of Ontario programs - Child Care and Homelessness;
- audit work for changes to tangible capital assets; and,
- audit of a new municipal financial reporting model that incorporates full accrual accounting.

**EXECUTIVE SUMMARY**

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:

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
(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 the audit scope.

Grant Thornton’s audit approach and the scope of the audit work for the City of Hamilton and its related entities for the 2009 fiscal year is provided in their 2009 Initial Communication on Audit Planning for December 31, 2009. 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 2009 audit standards continue to 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, purchases and payables, grants and subsidies revenue, significant estimates for post employment benefits and landfill closure liabilities, commitments and 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:

- audit of Locke Street Business Improvement Area;
- audits of Province of Ontario programs - Child Care and Homelessness;
- 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 2009 external audit fees be adjusted to the 2008 level to reflect the current economic climate. The resulting savings are approximately $8,500 on fees totalling $280,000. The fees for the increase in the scope of the audit work will be offset by the savings in the adjusted audit fees.

Alternatives for Consideration – Not Applicable

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

Financial: None. The external audit fees for the annual audits of the financial activities and balances are recorded in various budgets of City departments and Boards.
Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities. Values: Honest, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND** (Chronology of events)

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 the audit scope.

Grant Thornton has satisfactorily completed the audits for 2006, 2007 and 2008. Two years remain on the External Audit Services contract with Grant Thornton.

**POLICY IMPLICATIONS**

None.

**RELEVANT CONSULTATION**

The 2009 Initial Communication on Audit Planning from Grant Thornton and the City of Hamilton 2009 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, Accounts Payable and Accounts Receivable
  - Manager of Payroll & Pensions
  - Managers of Finance & Administration
  - Manager of Tax Accounting
The Finance & Administration staff of the Corporate Services Department coordinates the audit work with the City’s operating departments and divisions.

Grant Thornton has prepared similar 2009 External Audit Plans for HECFI, Hamilton Public Library, Housing and Tourism and they will be having discussions with the respective management and staff.

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<td>Manager of Current Budgets &amp; Fiscal Planning</td>
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<td>Manager of Capital Budget &amp; Development</td>
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<td>Hamilton Police Services – Chief Accountant</td>
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<td>HECFI – Corporate Controller and Manager of Accounting</td>
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<td>Hamilton Public Library – Director of Finance &amp; Facilities</td>
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**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 2009 fiscal year is provided in their 2009 Initial Communication on Audit Planning for December 31, 2009. 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 2009 audit standards continue to 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, purchases and payables, grants and subsidies revenue, significant estimates for post employment benefits and landfill closure liabilities, commitments and 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 for 2008 was added to the requirements and is needed for 2009.

- The Province of Ontario added audit requirements for two more of its programs, Child Care and Homelessness, for 2008. Audits are required for 2009, as well.

- 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. The 2009 audit work for changes to tangible capital assets is required.
• The adoption of new Public Sector Accounting Board Handbook sections, including PS1200, *Financial Statement Presentation*, requires changes to municipal financial reporting to incorporate full accrual accounting. The audit working papers and supporting documentation are being developed by City management and staff and will be available in March or April 2010. The new financial statements will be presented to Council in May or June 2010 after completion of the audit.

Grant Thornton has proposed that the 2009 external audit fees be adjusted to the 2008 level to reflect the current economic climate. The resulting savings are approximately $8,500. The fees for the increase in the scope of the audit work will be offset by the savings in the adjusted audit fees. Therefore, the External Audit Fee Budget is 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 three 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 2009 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 organizations 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.