Report to the Audit and Administration Committee - Communication of Audit Results

The Corporation of the City of Hamilton
Trust Funds of the City of Hamilton
Trust Funds – Homes for the Aged, City of Hamilton
Pension Fund for The Hamilton Municipal Retirement Fund Pension Plan
Pension Fund for The Hamilton-Wentworth Retirement Fund Pension Plan
Pension Fund for the Employees of The Hamilton Street Railway Company Pension Plan
For the year ended December 31, 2009
May 17, 2010

To the members of the Audit and Administration committee of The City of Hamilton

We are pleased to report that we have now substantially completed our audits of the financial statements of:

- The Corporation of the City of Hamilton,
- Trust Funds of the City of Hamilton,
- Trust Funds – Homes for the Aged, City of Hamilton,
- Pension Funds for The Hamilton Municipal Retirement Fund Pension Plan (HMRF),
- The Hamilton Wentworth Retirement Fund Pension Plan (HWRF), and
- Employees of The Hamilton Street Railway Company Pension Plan (HSR)

for the year ended December 31, 2009. We have attached our draft auditors’ report for the City of Hamilton. We will finalize this auditors’ report once we have the opportunity to discuss the results of our audit with you.

The report to the Audit and Administration committee has been prepared in accordance with the assurance recommendations issued by the Canadian Institute of Chartered Accountants (CICA) entitled “Communications with Those Having Oversight Responsibility for the Financial Reporting Process”. That standard recommends we communicate with the audit and administration committee various matters including: the overall audit strategy, our responsibility as auditors, any matters arising from the audit, misstatements, significant accounting policies, and any other matters that may be of interest to the audit committee.

We express our appreciation for the cooperation and assistance received from the management and staff of The City of Hamilton during the course of our audit. If you have any particular comments or concerns, please do not hesitate to raise them at our scheduled meeting.

Yours sincerely,

Grant Thornton LLP

Allister Byrne, FCA
Partner
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Status of the audit

We have substantially completed our audits of the Corporation of the City of Hamilton, the Trust Funds of the City of Hamilton, the Trust Funds – Homes for the Aged, City of Hamilton, HMRF, HWRF and HSR for the year ended December 31, 2009 and the results of these audits are included in this report.

As noted in the covering letter, we have attached our draft auditors’ report for the City of Hamilton as Appendix A. The following items need to be addressed/completed before that report is signed:

- Receipt of signed management representation letters (draft has been attached as Appendix B);
- Receipt of independence confirmation from actuarial specialists;
- Receipt of the responses to our legal enquiries; and
- Approval of the consolidated financial statements by the Audit and Administration Committee.
Audit results

Our audit identified the adjusted non-trivial differences noted below.

**Summary of adjustments**

Differences identified and adjusted in the consolidated financial statements by the City of Hamilton as a result of our audit procedures were as follows:

<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Revenues</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>To reclassify credit balances in Water &amp; Sewer AR</td>
<td>$ 673,057</td>
<td>$ 673,057</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>To record land purchase as TCA</td>
<td>1,289,520</td>
<td>-</td>
<td>-</td>
<td>(1,289,520)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>$ 1,962,577</td>
<td>$ 673,057</td>
<td>$-</td>
<td>$(1,289,520)</td>
</tr>
</tbody>
</table>

There were no unadjusted differences.
Report to the Audit and Administration Committee – Communication of Audit Results
The Corporation of the City of Hamilton
For the year ended December 31, 2009

Reportable matters

Internal control
Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting system provides timely, accurate and reliable financial information, and safeguards the assets of the entity.

Through our role as auditors of your consolidated financial statements we possess an understanding of the entity and its environment, including internal control. However, a financial statement audit is not designed to provide assurance on internal control. Professional standards do require us to communicate to the significant deficiencies and material weaknesses in internal control that have come to our attention in the course of performing the audit.

We are pleased to report that the prior year deficiency related to the tracking and reconciliation of subdivider deposits has been addressed by management.

There were no additional deficiencies noted during the current year audit.
**Significant new accounting policies**

The following significant new accounting policy was implemented by The City of Hamilton during the year:

<table>
<thead>
<tr>
<th>New Policy</th>
<th>Considerations &amp; Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS 1200 – Financial Statement</td>
<td>This standard applies to local governments for fiscal years beginning on or after January 1, 2009.</td>
</tr>
<tr>
<td><strong>Presentation</strong></td>
<td>This Section has been revised as a result of the CICA Public Sector Accounting Handbook requirement to adopt the full accrual basis of accounting for local governments.</td>
</tr>
<tr>
<td></td>
<td>This Section establishes standards for recognition, presentation and disclosure in government financial statements. The main features of the Section are as follows:</td>
</tr>
<tr>
<td></td>
<td>• Governments are required to present a statement of financial position, statement of operations, statement of changes in net debt and a statement of cash flows</td>
</tr>
<tr>
<td></td>
<td>• Financial statements should present net debt and accumulated surplus/deficit on the statement of financial position, annual surplus/deficit, the change in net debt and changes in cash flows</td>
</tr>
<tr>
<td></td>
<td>• Current year budget and actual figures are to be presented on both the statement of operations and the statement of changes in net debt</td>
</tr>
<tr>
<td></td>
<td>• Funds and reserves are to be reported in the notes or schedules when the government chooses to report on them.</td>
</tr>
<tr>
<td>PS 3150 – Tangible Capital Assets</td>
<td>PSAB has approved revisions to the Section PS 3150 – Tangible Capital Assets. As of January 1, 2009, this Section applies to all levels of government, including local governments. The most prominent change for local governments is the requirement to recognize and amortize all their tangible capital assets.</td>
</tr>
<tr>
<td></td>
<td>Revisions to the Section include:</td>
</tr>
<tr>
<td></td>
<td>• The definition of cost has been amended to clarify that cost is gross cost and capital grants are not to be netted against the cost of the related tangible capital asset. Guidance on the cost of the leased tangible capital assets is also provided.</td>
</tr>
<tr>
<td></td>
<td>• The 40-year guideline on the amortization period has been removed.</td>
</tr>
<tr>
<td></td>
<td>• There is additional guidance on the commencement and cessation of capitalizing carrying costs</td>
</tr>
<tr>
<td></td>
<td>• During the period of transition, local governments should follow Public Sector Guideline PSG-7, Tangible Capital Assets of Local Government.</td>
</tr>
</tbody>
</table>

**Sensitive accounting estimates and disclosures**

Management has the responsibility for applying judgement in preparing the accounting estimates and disclosures contained within the financial statements. The fact that estimates are used in the preparation of the financial statements is outlined in Note 1 to the financial statements. The following are particularly sensitive estimates and disclosures included within the financial statements:

1. Liabilities for employee benefits and other obligations
2. Liabilities for solid waste management facilities
3. Allowance for doubtful accounts
4. Contingent liabilities and public liability claims
5. Asset backed commercial paper (ABCP)
6. Tangible capital assets
Liability for employee benefits and other obligations:
The City has recognized liabilities in the financial statements for future employee benefits and pension obligations. Employee benefits include vested sick leave, workers safety and insurance, long term disability, vacation pay and retiree benefits.

The objective is to recognize a liability in the reporting period in which employees have provided the services that gives rise to the benefits. The amounts recorded by the City are determined based on actual entitlements less usage and an actuarial valuation for post employment benefits. The calculation of the liability for employee benefits requires management to make certain estimates, including rate of annual compensation increase, inflation rate and discount rate.

The liability is determined through actuarial valuation. As part of our audit, we review the reasonability of the assumptions used by the actuary and communicate with the actuary with respect to their independence and ability to provide information in accordance with the CICA’s Public Sector Handbook.

Liabilities for solid waste management facilities:
Accounting recommendations require that the costs for closure and post-closure costs relating to the City's landfill sites (both closed and open) be recognized as a liability. This liability is an estimate of how long the open landfill site will remain open, future diversion rates, and future costs associated with maintaining closed sites. Estimates are based on the best information available at the time the financial statements are prepared, and are reviewed for reasonability.

Allowance for doubtful accounts:
For tax revenue and other revenues, amounts are billed but may not be collected as of December 31, 2009. For uncollected accounts, management estimates the collectability of these receivables based on their age and considering the success of efforts to-date in communicating with the taxpayer or customer. As part of our audit, we review the age of the receivables and search for any subsequent receipts or relevant communications to assess management’s estimate for reasonability. Based on our analysis of taxes receivable, we have determined that management’s allowance for uncollectible receivables is reasonable.

Contingent liabilities and public liability claims:
Estimates are included in the financial statements when management does not have final information to make an adjustment. This occurs when union contract negotiations will likely result in a liability impacting the current fiscal year, but the details have not been finalized. Management will accrue for an estimated liability based on the best information available at the time the financial statements are prepared. Where it is not possible to properly estimate a future liability, management has stated this in the notes. Our audit work includes determining the nature of the contingency, reviewing the potential outcome with the legal department, and assessing the reasonability of the information provided.

Asset Backed Commercial Paper (ABCP)
In late 2007, there was extreme volatility in the global credit markets. Many issuers of asset-backed commercial paper were unable to roll over the paper when it matured, including the City of Hamilton and the City’s three pension funds. Certain banks and liquidity providers refused to provide liquidity.
support under the liquidity agreements on the basis that the situation did not meet the “market
disruption” definition in the agreements. As a result, the City of Hamilton and the pension funds could
not recoup the investments at the maturity dates.

The investments were restructured into new holdings in 2008, and management continues to provide
an allowance to reflect the uncertainty of recovering the full value of the investments. These estimates
were subject to audit and were determined to be appropriate.

As noted in the pension funds’ financial statements, the fair value of the ABCP represents an estimate
by the fund manager based on the information available to it at the time of the calculation. The
estimate of fair value reported may change materially in subsequent periods. Possible changes in
assumptions that could have a material impact on the valuation of the ABCP include but are not limited
to: the outcome of the restructuring plan, changes in the value of the underlying assets of the ABCP
conduits, the change in the mix of senior and subordinated floating rate notes received and changes in
risk adjusted interest rate spreads, discount rate assumptions and assumptions concerning credit
conditions.

Tangible Capital Assets
In accordance with the requirements of PS3150 Tangible Capital Assets, the City of Hamilton has
established an opening balance as at January 1, 2008 which has now been reflected in the statement of
financial position. In establishing this opening balance, there was no specific guidelines requiring every
municipality to follow the same method to inventory and establish the cost of tangible capital assets.
As such, there was a need for management to select policies that are reasonable and appropriate for the
City’s purposes. The City of Hamilton has selected methods for tracking tangible capital assets and
determining an opening inventory as at January 1, 2008.

Where there may have been a lack of historical records, a reasonable process was derived to estimate
the cost of assets order to meet the requirements of PS3150 Tangible Capital Assets.

For assets donated to the City, which can occur through transfers from developers, an estimate of the
fair value of the assets received is required. In these instances, management has developed methods of
estimating the fair value of the assets transferred to the City.

Capital asset activity in 2008 and 2009, covering additions and disposals, is based on actual amounts
expended or received.

Cooperation during the audit
We report that we received full cooperation from management and the employees of The City of
Hamilton. To our knowledge, we were provided access to all necessary records and other
documentation and any issues that arose as a result of our audit were discussed with management and
have been resolved to our satisfaction.

Consultations with other accountants
To our knowledge, management did not seek the advice or opinion of other external accountants on
financial reporting or accounting matters.
Fraud and illegal acts
Our inquiries of management did not reveal any fraud or illegal acts.

Independence
As external auditors of the Corporation of the City of Hamilton, we are required to be independent in accordance with Canadian professional standards. These standards require that we disclose to the audit and administration committee all relationships that, in our professional judgement, may reasonably be thought to bear on our independence. We have provided a letter to the audit committee, presented as Appendix C of this report, which confirms our independence with respect to The City of Hamilton.
Technical updates

**Accounting standards**
Recent changes in accounting standards have been summarized in Appendix D. The following summarizes the effect of these accounting standard changes on The City of Hamilton:

- **PS 3150 – Tangible Capital Assets** provides guidance with respect to recording and reporting the City’s information related to tangible capital assets. This year’s financial statement includes the effect of inventorying and valuing the City’s tangible assets.

- **PS 1200 – Financial Statement Presentation** provides guidance with respect to full accrual accounting. This year’s financial statements include a statement of financial position, statement of operation, statement of changes in net debt and statement of cash flows. Reserve funds are reported in the notes to the financial statements.
Appendix A – Draft auditors’ report

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

We have audited the consolidated statement of financial position of the Corporation of the City of Hamilton as at December 31, 2009 and the consolidated statement of operations, statement of net financial assets, and statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Hamilton as at December 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Budget figures are provided for comparative purposes and have not been subject to audit procedures. Accordingly, we do not express any opinion regarding the budget figures.

Hamilton, Ontario
May 17, 2010

Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants
Appendix B – Draft management representation letter
(sample of the City of Hamilton letter only)

May 17, 2010

Grant Thornton LLP
Chartered Accountants
Standard Life Centre
120 King Street
Suite 1040
Hamilton, Ontario
L8P 4V2

Dear Sir/Madam:

We are providing this letter in connection with your audit of the consolidated financial statements of the Corporation of the City of Hamilton as of December 31, 2009, and for the year then ended, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, operations, changes in net financial assets and the statement of cash flows of the Corporation of the City of Hamilton in accordance with Canadian generally accepted accounting principles.

We acknowledge that we are responsible for the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards so as to enable you to express an opinion on the consolidated financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the consolidated financial statements would influence the decision of a reasonable person relying on the consolidated financial statements.
We confirm, to the best of our knowledge and belief, as of May 17, 2010, the following representations made to you during your audit.

**Financial statements**

1. The consolidated financial statements referred to above present fairly, in all material respects, the financial position of the entity as at December, 31 2009 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Completeness of information**

2. We have made available to you all financial records and related data and all minutes of the meetings of council and committees of council.

3. There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements. The adjusting journal entries which have been proposed by you, are approved by us and will be recorded on the books of the entity.

4. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.

5. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated financial statements or as the basis of recording a contingent loss.

6. We have identified to you all known related parties and related party transactions, including revenues, expenditures, debt, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration.

**Fraud and error**

7. We have no knowledge of fraud or suspected fraud affecting the entity involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the consolidated financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the city’s financial statements communicated by employees, former employees, or others.

**Recognition, measurement and disclosure**

9. We believe that the significant assumptions used in arriving at the fair values of financial instruments as measured and disclosed in the consolidated financial statements are reasonable and appropriate in the circumstances.

10. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the consolidated financial statements.

11. All related party transactions have been appropriately measured and disclosed in the consolidated financial statements.
12. The nature of all material measurement uncertainties has been appropriately disclosed in the consolidated financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the consolidated financial statements.

13. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

14. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

15. With respect to environmental matters: at year end, there were no liabilities or contingencies that have not already been disclosed to you; liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements; and commitments have been measured and disclosed, as appropriate, in the consolidated financial statements.

16. The city has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the city’s assets nor has any been pledged as collateral.

17. We have disclosed to you, and the city has complied with, all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

18. The Goods and Services Tax (GST) transactions recorded by the city are in accordance with the federal and provincial regulations. The GST liability/receivable amounts recorded by the city are considered complete.

19. Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of Section PS3255 Post-Employment Benefits, Compensated Absences and Termination Benefits of the Canadian Institute of Chartered Accountants Public Sector Handbook.

20. There have been no events subsequent to the balance sheet date up to the date hereof that would require recognition or disclosure in the consolidated financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

Other

21. We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the city’s ability to continue as a going concern and have concluded that no such events or conditions are evident.

Yours very truly,

..........................................................................................
City Manager

..........................................................................................
Treasurer
Appendix C – Letter of independence

May 17, 2010

Audit and Administration Committee
Corporation of the City of Hamilton

Dear Members of the Audit and Administration Committee:

We have been engaged to audit the financial statements of the Corporation of the City of Hamilton, the Trust Funds of the City of Hamilton, the Trust Funds – Homes for the Aged, City of Hamilton, and the Pension Funds for The Hamilton Municipal Retirement Fund Pension Plan (HMRF), The Hamilton Wentworth Retirement Fund Pension Plan (HWRF) and the Employees of The Hamilton Street Railway Company Pension Plan (HSR) for the year ending December 31, 2009.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the City and Grant Thornton LLP that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute and applicable legislation, covering such matters as:

- holding a financial interest, either directly or indirectly, in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the audit engagement.
We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 22, 2009, the date of our last letter.”

We are not aware of any relationships between the City and Grant Thornton LLP that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from May 22, 2009 to May 17, 2010.

Invoices issued during this period to the City of Hamilton and related entities were as follows: assurance services relating to December 31, 2008 and March 31, 2009 year ends $75,482, assurance services relating to December 31, 2009 year ends $162,335.

GAAS requires that we confirm our independence to the audit committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 17, 2010.

This report is intended solely for the use of the audit committee, the board of directors, management, and others within the Company and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on June 2, 2010.

Yours sincerely
Grant Thornton LLP
Chartered Accountants

Allister Byrne, FCA
Partner
## Appendix D – Accounting and Auditing developments

<table>
<thead>
<tr>
<th>Public Sector Accounting Board</th>
<th>Effective date</th>
</tr>
</thead>
</table>
| **PS 1000 Financial Statement Concepts**  
This Section provides the conceptual framework for accounting by governments and other public sector entities under the scope of the CICA Public Sector Accounting Handbook by providing guidance on the characteristics of useful financial statements. | This Section is applicable in the current fiscal year. |
| **PS 1100 Financial Statement Objectives**  
This Section addresses objectives of government financial statements in the context of the scope of government financial statements, reporting financial position, reporting changes in financial position, reporting government operations, reporting the change in net debt, reporting cash flow and legislative control and government financial accountability. | This Section is applicable in the current fiscal year. |
| **Introduction to Statements of Recommended Practice (SORPs)**  
The introduction provides users with a background to Statements of Recommended Practice (SORPs). SORPs that do not form part of GAAP and are meant to provide guidance to a government or government organization that choose to provide supplementary information beyond that contained in its financial statements. | SORPs provide guidance and are not authoritative. Therefore there is no effective date. |
| **SORP 3 – Assessment of tangible capital assets**  
This Statement of Recommended Practice provides guidance for governments or government organization that chooses to report on the physical condition of their tangible capital assets. The guidance discusses the reporting options of tangible capital assets (individual, specific categories or group). | SORPs provide guidance and are not authoritative. Therefore there is no effective date. |
Canadian Auditing Standards (CASs)
The Auditing and Assurance Standard Board (AASB) is adopting the International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs). When they come into effect, CASs will constitute Canadian Generally Accepted Auditing Standards (GAAS). The financial statement auditing standards in the current CICA Handbook – Assurance remain in effect until the effective date of the CASs. Although the effective date of these standards is a year away, they are being made available, as they are developed, to provide auditors with adequate time to become familiar with them and implement them efficiently and effectively. Auditors may also choose to implement aspects of the CASs before their effective date as long as they still comply with the current standards. Below is a list of CASs that have been approved to date and may require a change in the nature, timing or extent in which we do our audit:

<table>
<thead>
<tr>
<th>Canadian Auditing Standards (CASs) issued by the CICA</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAS 230 – Audit Documentation</strong></td>
<td>Applies to audits of financial statements for periods commencing on or after December 15, 2009.</td>
</tr>
<tr>
<td>This Canadian Auditing Standard (CAS) deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The appendix lists other CASs that contain specific documentation requirements and guidance. The specific documentation requirements of other CASs do not limit the application of this CAS. Laws or regulations may establish additional documentation requirements. This CAS will replace Section 5145, Documentation. The primary difference from the existing standard is that the documentation completion date has been changed from 45 days from the report release date to 60 days from the audit report date, to be consistent with the International Standard. Firm policy will change when this standard comes into effect.</td>
<td></td>
</tr>
<tr>
<td><strong>CAS 260 – Communication with Those Charged with Governance</strong></td>
<td>Applies to audit of financial statements for periods commencing on or after December 15, 2009.</td>
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</tbody>
</table>
| This Canadian Auditing Standard (CAS) deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements. Although this CAS applies irrespective of an entity’s governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This CAS does not establish requirements regarding the auditor’s communication with an entity’s management or owners unless they are also charged with a governance role. This CAS will replace Section 5751, Communications with Those Having Oversight Responsibility for the Financial Reporting Process. The significant changes from the existing standard are as follows:  
  • Under Section 5751, all auditors have to confirm their independence and disclose relationships that bear on their independence. Under CAS 260, such communications will be required only of auditors of listed entities.  
  • Under Section 5751, when communicating matters relevant to their independence, auditors of entities with public accountability are required to communicate fees charged during the last year, distinguishing between fees for audit and non-audit services. Entities with public accountability include listed entities along with regulated financial institutions, rate-regulated enterprises, co-operative businesses, not-for-profit organizations, pension plans and governments and public sector entities. Under CAS 260, communications regarding fees for audit and non-audit services would be required only of auditors of listed entities.  
  • With the exception of Recommendations regarding independence communications, auditors of entities without public accountability are required only to consider communicating in accordance with the Recommendations in Section 5751. However, with the exception of the Requirements regarding independence communications, under CAS 260, all audits would be required to meet the Requirements. Independence communications will only apply to auditors of listed entities. |
| **CAS 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures** | Applies to audits of financial statements for periods commencing on or after December 15, 2009. |
| This Canadian Auditing Standard (CAS) deals with evaluating the reasonableness of accounting estimates used by management for financial reporting purposes and on auditing fair value measurements and disclosures contained in financial statements. |
Canadian Auditing Standards (CASs) issued by the CICA

This CAS will replace Sections 5305, Audit of Accounting Estimates, and 5306, Auditing Fair Value Measurements and Disclosures. The significant changes from the existing standards are as follows:

- **CAS 540** provides more requirements and application material on the auditor’s determination and documentation of misstatements and indications of possible management bias relating to individual estimates.

- **CAS 540** introduces new risk assessment procedures. For example, it requires the auditor to obtain an understanding of the processes, including relevant internal controls, used by management to make accounting estimates. The auditor must understand the assumptions underlying the estimate and how management has assessed the effect of estimation uncertainty. Estimation uncertainty means how susceptible a financial statement item is to an inherent lack of precision in its measurement.
  
  - In particular, the auditor must:
    - evaluate whether the significant assumptions made by management provide a reasonable basis for the accounting estimate;
    - if and how management has considered alternative assumptions or outcomes; and
    - why they have rejected them.

- **CAS 540** focuses the auditor’s work effort not only on accounting estimates that have a risk of material misstatement, but in particular on those that have high estimation uncertainty. It requires the auditor to use the information gathered from the risk assessment procedures to determine which accounting estimates have high estimation uncertainty and may therefore be significant risks that require special audit consideration.
  
  - If management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risk, **CAS 540** requires the auditor to consider whether it is practicable to develop a reasonable range of outcomes with which to evaluate the reasonableness of management’s estimate.

- **CAS 540** also requires the auditor to review the outcome of accounting estimates made in prior year financial statements. This is consistent with Section 5135, The Auditor’s Responsibility to Consider Fraud, but is not a requirement of Section 5305.

**CAS 560 – Subsequent Events**

This Canadian Auditing Standard (CAS) deals with the auditor’s responsibilities relating to subsequent events in an audit of financial statements.

This CAS will replace Section 6550, Subsequent Events. The significant change from the existing standard is as follows:

- Canadian standards previously described the audit report date as *the date the auditor identified and sought all audit evidence*. **CAS 560** specifies that the date of the auditor’s report is to be no earlier than *the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements*. Sufficient appropriate audit evidence is defined differently by **CAS 560**. It includes evidence that the entity’s complete set of financial statements has been prepared and that the directors or management have asserted that they have taken responsibility for them.

  - The date of approval of the financial statements is defined as the date on which the directors or management state that they have prepared the entity’s complete set of financial statements, including the related notes, and that they have taken responsibility for them.

*Therefore the date of the auditor’s report will be no earlier than the date of approval of the financial statements in final form by the directors or management.*

<table>
<thead>
<tr>
<th>CAS 540 Effective date</th>
<th>CAS 560 Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applies to audits of financial statements for periods commencing on or after December 15, 2009.</td>
<td></td>
</tr>
</tbody>
</table>
## Canadian Auditing Standards (CASs) issued by the CICA

<table>
<thead>
<tr>
<th>Subject</th>
<th>Requirements of CICA 5370</th>
<th>Revised requirements of CAS 580</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>All representations provided by management (written or oral, explicit or implicit, solicited or unsolicited)</td>
<td>Only written representations that have been provided in response to the auditor’s request</td>
<td>Applies to audits of financial statements for periods commencing on or after December 15, 2009.</td>
</tr>
<tr>
<td>Distinction</td>
<td>N/A</td>
<td>Written representations can be either “general” or “specific” based on their subject matter.</td>
<td></td>
</tr>
<tr>
<td>If a general written representation is not obtained</td>
<td>Either:</td>
<td>Disclaim an opinion</td>
<td></td>
</tr>
<tr>
<td>Who provides the written representations?</td>
<td>Management</td>
<td>Determine who the relevant party is, i.e., chief executive officer, chief financial officer, other equivalent person</td>
<td></td>
</tr>
<tr>
<td>Matters to obtain representations about</td>
<td>• items material to the financial statements</td>
<td>Obtaining specific written representations is a matter of professional judgment*.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• items that are significant to the engagement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• items relevant to management’s judgments and estimates that are material to the financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Exception: CAS 540 requires written representation from management regarding the reasonableness of significant assumptions used in making estimates.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## CAS 600 – Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

The Canadian Auditing Standards (CASs) apply to group audits. This CAS deals with special considerations that apply to group audits, in particular those that involve component auditors. This CAS will replace Section 6930, Reliance on Another Auditor. The CAS is significantly different from current standards, and requires increased work effort. It applies to engagements in both the private and public sectors.

Applies to audits of financial statements for periods commencing on or after December 15, 2009.