



Grant Thornton

Report to the Audit, Finance & Administration Committee – Initial communication on audit planning

City of Hamilton

For the year ended December 31, 2010



Grant Thornton

January 12, 2011

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To the members of the Audit, Finance & Administration committee of
The Corporation of the City of Hamilton

We're pleased to enclose our *Report to the Audit, Finance & Administration Committee – Initial communication on audit planning*. The purpose of this document, and our upcoming meeting to discuss its content, is to initiate effective two way communication with you regarding our financial statement audit engagement of The Corporation of the City of Hamilton ("the City") for the year ending December 31, 2010. This communication will assist the committee in understanding the terms of the audit engagement; our proposed audit strategy and the level of responsibility assumed by Grant Thornton LLP under Canadian auditing standards (CAS).

This communication has been prepared to comply with the requirements outlined in CAS 260 *Communication with those Charged with Governance*. The information in this document is intended solely for the information and use of the Audit, Finance & Administration Committee, Council and management. It is not intended to be distributed or used by anyone other than these specified parties.

If you have any particular comments, concerns or additional expectations that may require us to undertake additional work over and above that which is currently contemplated, please do not hesitate to raise them at our next scheduled meeting.

Yours sincerely,
Grant Thornton LLP

Melanie Dugard, CA
Principal

Contents

	Page
The City of Hamilton – Environmental scan – changes in the municipality and standards	1
Achieving effective governance	2
Quality assurance, independence and communication	3
Our audit approach	4
Audit timetable	8
Fee schedule	9
Appendix A – Audit engagement letter	10
Appendix B – PSAB Accounting developments	18
Appendix C – Auditing developments	19
Appendix D – Letter of independence	25

The City of Hamilton – Environmental scan – changes in the municipality and standards

The following is a summary of recent changes to the City's business environment and relevant accounting and auditing standards. We have considered these factors in preparing the 2010 audit plan for The City of Hamilton.

We consider all relevant factors when preparing an audit plan specifically tailored to your municipality

Municipal-specific changes and business environment

As part of our audit planning, we have discussions with management and staff in various departments to determine if there have been any significant changes that would impact our audit approach. We noted no significant changes in the processing of tax revenues, employee compensation, or within the purchasing department. Our planning for the other audits performed as part of our contract with the City did not identify any other significant matters impacting our approach for the 2010 audit of the City.

Accounting Standards

Accounting standards issued by the Accounting Standards Board which may affect the City for the current and future years include:

- PS 3800 Withdrawal of Government assistance
- PS 3260 Liability for contaminated sites
- PS 3520 Tax Revenue

Further detail of the changes to accounting standards, including management's preliminary comments on their applicability to the City, are included in Appendix B. If you have any questions about these changes we invite you to raise them during our next meeting. We will be pleased to address your questions.

Auditing standards

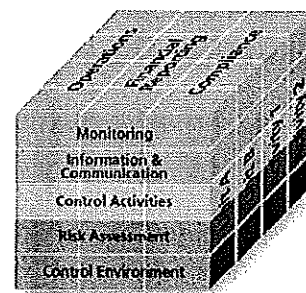
The Auditing and Assurance Standard Board (AASB) has adopted the International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs). These CASs are in effect for the year ended December 31, 2010. Our audit plan and resulting audit strategy comply with the new CASs and as a result you may note a change in our audit procedures related to group audits, auditing estimates, use of experts and communications with those charged with governance. The most significant change is the wording of our standard report and when we date the audit report.

Auditing standards issued by the AASB that may change the nature, timing and extent of our audit procedures on The City of Hamilton and our communication with those charged with governance include:

- CAS 210 Agreeing the Terms of Audit Engagements
- CAS 250 The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements
- CAS 260 Communications with Those Charged with Governance
- CAS 501 Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures
- CAS 505 External Confirmations
- CAS 540 Auditing Accounting Estimates Including Fair Value Accounting Estimates, and Related Disclosures
- CAS 560 Subsequent Events
- CAS 570 Going Concern
- CAS 580 Written Representations
- CAS 700 The Independent Auditor's Report on General Purpose Financial Statements
- CAS 705 Modifications to the Opinion in the Independent Auditor's Report
- CAS 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- CAS 710 Comparative information – Corresponding Figures and Comparative Financial Statements

Further detail of the changes to auditing standards and their applicability to the City are included in Appendix C. If you have any questions about these changes we invite you to raise them during our next meeting. We will be pleased to address your questions.

Achieving effective governance



There are several fundamental components of effective governance. The Audit, Finance & Administration Committee plays a key role in achieving strong governance, particularly with respect to financial reporting.

The Audit, Finance & Administration committee helps set the tone for the City by emphasizing honesty, ethical behaviour and fraud prevention

Roles in ensuring strong financial reporting

Role of the Audit, Finance & Administration committee	<ul style="list-style-type: none"> • Help set the tone for the City by emphasizing honesty, ethical behaviour and fraud prevention • Oversee management, including ensuring that management establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting • Directly oversee the work of the external auditors including reviewing, discussing and approving audit plan
Role of management	<ul style="list-style-type: none"> • Prepare financial statements in accordance with Canadian GAAP for public sector entities • Design, implement and maintain effective internal controls over financial reporting processes • Exercise sound judgment in selecting and applying critical accounting principles • Safeguard assets • Prevent, detect and correct errors • Provide representations to external auditors • Assess quantitative and qualitative impact of misstatements discovered during the audit on fair presentation of the financial statements
Role of Grant Thornton LLP	<ul style="list-style-type: none"> • Provide an audit opinion that the financial statements are in accordance with Canadian GAAP for public sector entities • Conduct our audit in accordance with Canadian Auditing Standards • Maintain independence and objectivity • Be a resource to the Audit, Finance & Administration committee and management • Implement and effective two way communication process that reports matters of interest to the Audit, Finance & Administration committee and obtains input from the committee on audit risk matters

Quality assurance, independence and communication

Grant Thornton LLP has a robust quality control program

Quality assurance

Grant Thornton LLP has a robust quality control program that forms a core part of our client service. We combine internationally developed audit methodology, advanced technology, rigorous review procedures, mandatory professional development requirements, and the use of specialists to deliver high quality audit services to our clients. In addition to our internal processes, we are subject to inspection and oversight by standard setting and regulatory bodies. We are proud of our firm's approach to quality assurance and would be pleased to discuss any aspect with you at your convenience.

Independence

We have a rigorous process where we continually monitor and maintain our independence. We are required to communicate this annually to the Audit, Finance & Administration committee of the City in writing and have attached our letter of independence as Appendix D. The process of maintaining our independence includes, but is not limited to the identification of threats to our independence and putting into place safeguards to mitigate those threats. For example, we evaluate the independence threat of any non-audit services provided to The City of Hamilton.

Communication with the Audit, Finance & Administration committee

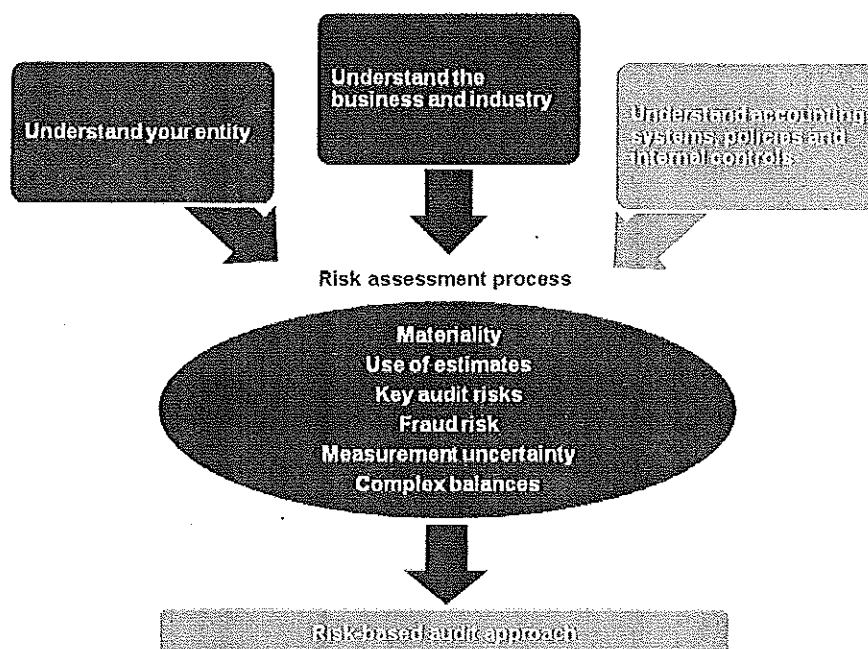
Effective and timely communication is key to quality service. In conducting our audit we will communicate as required with the Audit, Finance & Administration committee so that issues and concerns are addressed in a timely and productive manner. We also require the Audit, Finance & Administration committee's input and perspective on various risk assessment matters such as fraud risk, compliance with laws and regulations and we welcome the Audit, Finance & Administration committee's view on the City's system of internal controls.

We encourage the members of the Audit, Finance & Administration committee to contact us at any time if questions or concerns arise.

Throughout the audit process we encourage the Audit, Finance & Administration committee to contact us if there are any questions or concerns

Our audit approach

An understanding of your municipality and your business drives the Grant Thornton LLP audit approach. The audit methodology is risk based and specifically tailored to The City of Hamilton as depicted below:



Our tailored audit approach results in procedures designed to respond to an identified risk. The greater the risk of material misstatement associated with the account, transaction or balance, the greater audit emphasis placed in terms of audit verification and analysis.

Other communications

As a result of our audit process we will communicate in our “results report” information on the following matters:

- Misstatements, other than trivial errors;
- Fraud;
- Misstatements that may cause future financial statements to be materially misstated;
- Illegal or possibly illegal acts, other than those considered inconsequential; and
- Material weaknesses and significant deficiencies in internal control over financial reporting.

Internal control

Our audit includes gaining an understanding of the City’s internal control over financial reporting. Our understanding will focus on processes associated with the identified financial statement risk areas (see below). The audit team uses this understanding to determine the nature, extent and timing of our audit procedures.

Our understanding may also result in valuable internal control findings for your consideration. Please note that the objectives of a financial statement audit are different from fiduciary control objectives. Therefore, management and the Audit, Finance & Administration committee cannot rely on our findings to discharge their responsibilities in this area.

Risk assessment

Our risk assessment process has identified the following areas where we will focus our attention:

Risk area	Planned audit procedures
Taxation	<p>Test the existence of taxation and other receivables at December 31, 2010.</p> <p>Recalculation of the net taxable assessment based on verified assessment rolls and approved levies.</p> <p>Assess adequacy of allowance for doubtful accounts by testing subsequent receipts, reviewing management estimates and examining support for the value of underlying property.</p>
Purchases and payables	<p>Analytical assessment of expenses based on expectations</p> <p>Review supporting documentation and management estimates with respect to the completeness and accuracy of significant year-end accruals.</p>
Provisions for employee benefits and landfill closure/post-closure costs	<p>Review assumptions used by management, and any available independent reports.</p> <p>Recalculation of the present value calculation for the future liability.</p>
Grants and subsidies	<p>Review of the allocation of funds between fiscal periods to determine if it is appropriate.</p> <p>Review of grant terms to determine if any deferrals, receivables or payables are appropriate.</p>
Commitments and contingencies	<p>Verify accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers.</p> <p>Examination of supporting documentation and discussions with management.</p>

Risk area	Planned audit procedures
Capital Assets	<p>Review of supporting documentation for capital asset additions with respect to the validity of the additions.</p> <p>Review of disposals to determine if any gain/loss is calculated appropriately.</p> <p>Recalculation of depreciation expense, as well as deemed dispositions for pooled assets.</p> <p>Review of capital project costs to determine if any additional costs should be capitalized.</p>

Materiality

The purpose of our audit is to provide an opinion as to whether your financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with Canadian accounting standards for public sector entities as of December 31, 2010. Therefore, materiality is a critical auditing concept and as such we apply it in all stages of the engagement.

Applying the concept of materiality at the planning and execution stage of the engagement recognizes that the audit team cannot verify every balance, transaction or judgment made in the financial reporting process. During audit planning, we make a preliminary assessment of materiality for purposes of developing our audit strategy, including determining the extent of our audit procedures. During the completion stage, we consider not only the quantitative assessment of materiality, but also qualitative factors, in assessing the impact on the financial statements, our audit opinion and the matters reported to the Audit, Finance & Administration committee.

Fraud considerations

We are responsible for planning and performing the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement caused by error or by fraud. Our audit procedures comply with the requirements of CAS 240 *Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements*. CAS 240 heightens the auditors' awareness of the potential for fraud when planning and executing audits and it emphasizes the need for professional scepticism during the audit. In addition, the auditing standard requires us to communicate with you on matters related to fraud including obtaining your perspective on the risk of fraud within the City and whether you are aware of or suspect any fraudulent activity. If our audit procedures identify fraud or we suspect fraud, we will report such matters to you.

Fraud can occur in any organization, at any time, and can be perpetrated by anyone.

The following provides a summary of some of the fraud-related procedures we plan to perform during the audit:

- Discuss amongst the engagement team where the financial statements may be susceptible to material misstatement due to fraud.
- Gather information to identify the risks of material misstatement due to fraud, including our understanding of internal control and making detailed inquiries to senior management, internal audit and members of the Audit, Finance & Administration committee.
- Using the information gathered in our risk assessment process.

In forming our opinion on the financial statements of the City we plan to use work of the following component auditors:

We will coordinate our audit efforts with the component auditors and discuss/communicate relevant audit matters such as materiality, risk assessment, area of audit focus, timing and required information for our audit of the financial statements. Our risk assessment and quality control process will vary depending on the significance of the component and may include a detailed review of their working papers and, if necessary, performing supplemental audit procedures.

We will review and consider the internal audit reports issued in the year and assess the consequences of their findings on our audit approach.

We intend to use the work of experts for the following:

- Landfill retirement obligations,
- Verification of the fair value of asset backed commercial paper, and
- Employee future benefit liability.

Client assistance and readiness are integral to the successful meeting of our targeted report release date. As presented further below, it is also critical in meeting our agreed fee. To facilitate the communication process, we have provided management with a letter detailing expected assistance and the critical milestone dates.

We are committed to executing our audit in a most effective, efficient and timely manner. We will provide the following deliverables to the Audit, Finance & Administration committee:

- Initial communication on audit planning,
- Audit report on the financial statements of the City,
- Communication of audit results, and
- Management letter that provides our observations and recommendations regarding internal controls based on matters identified during the course of our audit

**We are committed to
executing our audit in a
most effective, efficient
and timely manner**

Audit timetable

October 2010	Audit planning
December 2010	Information technology processes and controls updated
December 31, 2010	Date for bank and tax confirmations
February 2011	Meeting with Audit, Finance & Administration Committee and presentation of Report to the Audit, Finance & Administration Committee – Initial Communication on Audit Planning
March 28-April 21, 2011	Year-end visit
May 2011	Preliminary clearance to be provided on draft consolidated financial statements
May 2011	Meeting with the Audit, Finance & Administration Committee and presentation of Report to the Audit, Finance & Administration Committee – Communication of Audit Results

Fee schedule

Fee proposal considerations

Upfront and periodic discussions are central to our approach in dealing with fees. Our goal is to avoid surprises by having early and frank communication. We wish to provide The City of Hamilton with a competitive price and fair value, while also allowing sufficient audit hours to conduct an effective audit and deliver quality service.

We have established a proposed fee for the audit for the year ended December 31, 2010 that is based on the level of activity and the anticipated complexity of the audit of the City of Hamilton's financial statements, and is in accordance with our quoted fee provided under RFP C6-10-06.

The proposed fee is based on receiving the following from management:

- Draft financial statements including the notes to the financial statements,
- All working papers and schedules as outlined in our requirements letter,
- Trial balance together with reconciled control accounts,
- All books and records made available to us when requested, and
- Use of the City's staff to help us locate information and provide explanations.

Our ability to deliver the services outlined in the agreed timetable and our proposed fee will depend upon these schedules being available/tasks being completed by the due dates. If there are any variances to the above plan, we will discuss them with you and agree to any additional fees before costs are incurred, wherever possible.

Any unforeseen work outside the scope of this proposal will be billed separately after discussion with appropriate City management.

October 25, 2010

City of Hamilton
71 Main Street West
Hamilton, ON L8P 4Y5

Dear Sir/Madam:

Thank you for reappointing Grant Thornton LLP ("Grant Thornton", "we", "our") as auditors of the Corporation of the City of Hamilton ("the City", "you" or "your") for the year ending December 31, 2010.

You have requested that we audit the consolidated financial statements of the Corporation of the City of Hamilton which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of operations, consolidated statement of changes in net debt and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the consolidated financial statements.

The audit will not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

We will perform the audit in accordance with Canadian generally accepted auditing standards. These 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

In making our risk assessments, we consider internal control relevant to the City's preparation 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 City's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the consolidated financial statements that we have identified during the audit.

Management's responsibilities

Our audit will be conducted on the basis that management and those charged with governance acknowledge and understand that they have responsibility:

- a) For the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards.
- b) For 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; and
- c) To provide us with:
 - i. Access to all information of which management is aware, that is relevant to the preparation of the consolidated financial statements such as records, documentation and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and those charged with governance written confirmation concerning representations made to us in connection with the audit. Those representations will include:

Financial statements

- a) communicating that all responsibilities, as set out in the terms of this engagement letter, for the preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards, in particular, the financial statements are fairly presented;
- b) communicating belief that significant assumptions used in making accounting estimates, including those measured at fair value are reasonable;

- c acknowledging that all events subsequent to the date of the consolidated financial statements and for which Canadian public sector accounting standards require adjustment or disclosure have been adjusted or disclosed;

Completeness of information

- d providing us with and making available complete financial records and related data, and copies of all minutes of meetings of council and committees of council;
- e acknowledging that all transactions have been recorded and are reflected in the financial statements;
- f providing us with information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements;
- g providing us with information relating to any illegal or possibly illegal acts, and all facts related thereto;
- h acknowledging that all related party relationships and related party transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards;

Fraud and error

- i the design and implementation of internal controls to prevent and detect fraud and error;
- j an assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- k providing us with information relating to fraud or suspected fraud affecting the City involving:
 - i. management;
 - ii. employees who have significant roles in internal control; or
 - iii. others, where the fraud could have a material effect on the financial statements;
- l providing us with information relating to any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, analysts, regulators, or others;
- m communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole;

Recognition, measurement and disclosure

- n providing us with its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the consolidated financial statements;
- o providing us with any plans or intentions that may affect the carrying value or classification of assets or liabilities;
- p providing us with an assessment of all areas of measurement uncertainty known to management that are required to be disclosed in accordance with MEASUREMENT UNCERTAINTY, CICA HANDBOOK – ACCOUNTING Section 1508;
- q providing us with information relating to claims and possible claims, whether or not they have been discussed with the City's legal counsel;

- r providing us with information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
- s providing us with information on whether or not the City has satisfactory title to assets, liens or encumbrances on assets, and assets pledged as collateral;
- t providing us with information relating to compliance with aspects of contractual agreements that may affect the consolidated financial statements;
- u providing us with information concerning subsequent events; and

Written confirmation of significant representations

- v providing us with written confirmation of significant representations provided to us during the engagement on matters that are:
 - i directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements; and
 - ii not directly related to items that are material to the consolidated financial statements but are significant, either individually or in the aggregate, to the engagement.

Management agrees to make available draft consolidated financial statements, including appropriate note disclosures and any accompanying other information in time to allow for the audit to be completed within the proposed timeframe. In addition, management agrees to inform us of any factors or circumstances that come to their attention during the period from the date of the auditor's report to the date financial statements are issued that may impact the consolidated financial statements; including their disclosures.

It is agreed that for any electronic distribution of your financial statements and our report thereon, management is solely responsible for the accurate and complete reproduction of the financial statements and our report thereon.

While the report may be sent to the City electronically by us for your convenience, only the signed (electronically or manually) report constitutes the City's record copy.

If management intends to publish or otherwise reproduce our report (or otherwise make reference to Grant Thornton LLP) in a document that contains other information, management agrees to (a) provide Grant Thornton with a draft of such document to read, and (b) obtain our approval for inclusion of our report, before the document is finalized and distributed. Management also agrees that if our name is to be used in connection with the financial statements, it will attach our auditors' report when distributing the financial statements to third parties.

We look forward to full cooperation from your staff during our audit.

Reporting

Unless unanticipated difficulties are encountered, our report will be substantially in the following form:

INDEPENDENT AUDITOR'S 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, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of operations, consolidated statement of changes in net debt and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation 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 City'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 financial statements.

We believe that the audit evidence we have obtained 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 financial position of The Corporation of the City of Hamilton as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The form and content of our report may need to be amended in the light of our audit findings.

Other services

Any additional services that you may request and we agree to provide will be the subject of separate written arrangements.

Other matters

Privacy and confidentiality

Grant Thornton is committed to the protection of personal information. During the course of planning, performing and reporting on the results of our audit of the City's financial statements, partners and employees assigned to this engagement will need to obtain, use and disclose personal information in the possession of, or under the control of, the City. The City is responsible for obtaining, when required under law or regulation, consent from those parties that provided the City with their personal information for Grant Thornton to obtain, use and disclose it for its required purposes.

When a provincial institute is entitled to access to our working papers or other work-product relating to your affairs, we will use all reasonable efforts to refuse access to any document over which you have expressly informed us that you assert privilege, except where production is required by law or requested by a provincial Institute of Chartered Accountants pursuant to its statutory authority. You must mark any document over which you assert privilege as privileged. Any legal or other out-of-pocket expense incurred by us in asserting privilege on your behalf will be for your account.

We may also be required to provide information relating to our fees for audit services and you also consent to us providing this information.

Use of electronic communications

During the course of our engagement(s), we may need to electronically transmit confidential information to each other and to outside specialists or other entities engaged by either Grant Thornton or the City. Electronic methods include telephone, cell phones, e-mail and fax. These technologies provide a fast and convenient way to communicate. However, all forms of communications have inherent security weaknesses and the risk of compromised confidentiality cannot be eliminated. The City agrees to the use of electronic methods to transmit and receive information.

Working papers/reports

All materials, reports and work created, developed or performed by Grant Thornton, including its working papers during the course of the audit are the property of Grant Thornton.

Fees and expenses

Any fee estimates by Grant Thornton LLP take into account the agreed-upon level of preparation and assistance from your personnel and others (such as specialists, internal auditors and secondary auditors upon whom we plan to rely), if any. Grant Thornton undertakes to advise management on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause fees to exceed our estimates. Bills will be rendered on a regular basis as the engagement progresses. Accounts are due when rendered.

We retain the right to suspend or terminate our service in the event of non-payment, and you will be obligated to compensate us for all time expended and to reimburse us for out-of-pocket expenses through the date of termination.

Interest on overdue accounts

All accounts outstanding over 30 days will be charged interest at the rate of 1.5% per month (18% per annum) until paid.

Taxes

All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. Any such taxes or duties shall be identified and charged separately on our billings.

Other

If, in our opinion our professional obligations require it, we may resign from the engagement prior to completion. Should the City not fulfill its obligations set out herein and in the absence of rectification by the City within 10 days, Grant Thornton upon written notice to you, may terminate its performance and will not be responsible for any loss, cost or expense resulting from such early termination.

Limitation of liability

In any action, claim, loss or damage arising out of the engagement, the City agrees that Grant Thornton's liability will be several and not joint and several and the City may only claim payment from Grant Thornton of Grant Thornton's proportionate share of the total liability based on degree of fault. Any action against Grant Thornton must be commenced on or before the date which is the earlier of: i) eighteen months from the date on which our audit report is provided to you and, ii) the date by which an action must be commenced under any applicable legislation other than limitation legislation. In no event shall Grant Thornton be liable to the City whether the claim be in tort, contract or otherwise, for an amount in excess of the professional fees paid by the City for this engagement. In no event shall Grant Thornton be liable to the City, whether a claim be in tort, contract or otherwise for any consequential, indirect, lost profit or similar damages, or failure to realize expected savings.

Grant Thornton will use all reasonable efforts to complete within any agreed upon time-frame the performance of the services described above. However, Grant Thornton shall not be liable for failures or delays in performance that arise from causes beyond its control, including the untimely performance or non-performance by the City of its obligations.

Governing law

This engagement will be governed by the laws of Ontario. The City and Grant Thornton LLP agree to submit any unresolved dispute or any litigation arising as a result of or in relation to this letter to the exclusive jurisdiction of the Courts of Ontario.

Survival of terms

This engagement letter will continue in force for subsequent audits unless terminated by either party by written notice prior to the commencement of the subsequent year's audit. The City and Grant

Thornton LLP agree that the limitation of liability paragraph shall survive the termination of this engagement contract.

We are proud to serve as your auditors and we appreciate your confidence in our work. If you have any questions about the contents of this letter, please raise them with us. Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Yours sincerely,
Grant Thornton LLP

Melanie Dugard, CA
Principal

The services and terms as set forth in this letter are agreed to.

The Corporation of the City of Hamilton

By:

(Title)

(Date)

Appendix B – PSAB Accounting developments

Public Sector Accounting Board	Effective date
<p>Withdrawal of Government assistance – Application of CICA Handbook – Accounting Section PS 3800</p> <p>The section will be removed as IFRS standard IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> will be applicable to government business enterprises and other government entities who choose to apply IFRS. For those other government organizations following the PSA Handbook, there is sufficient guidance on this matter elsewhere in the Handbook.</p>	<p>Withdrawal of section is effective for fiscal years beginning on or after January 1, 2011.</p>
<p>PSAB Section 3260 Liability for contaminated sites</p> <p>This Section establishes the recognition criteria, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites that either are not in use or resulted from unexpected environmental events (such as a toxic spill or natural disaster).</p>	<p>This section applies to fiscal years beginning on or after April 1, 2014. Earlier adoption is encouraged.</p>
<p>PSAB Section 3510 Tax Revenue</p> <p>This Section establishes standards for the recognition, measurement and disclosure of tax revenue in government financial statements.</p>	<p>This section applies to fiscal years beginning on or after April 1, 2012. Earlier adoption is encouraged.</p>

Appendix C – Auditing developments

Canadian Auditing Standards (CASs) issued by the CICA	
<p>CAS 210 – Agreeing the Terms of Audit Engagements</p> <p>This CAS will replace Section 5110, Terms of the Engagement. Changes from the current standard are as follows:</p> <ul style="list-style-type: none"> the auditor must establish whether the preconditions for an audit are present and if they are not present the auditor is required to discuss the matter with management the auditor has to agree the terms of the engagement with management or those charged with governance, not both parties include in the engagement letter the identification of the applicable financial reporting framework include in the engagement letter the expected form and content of any reports to be issued and a statement that there may be circumstances in which the report may differ from its expected form and content the requirement in section 5110 that the written agreement describe specific information that management is responsible to provide to the auditor is not in CAS 210 When the financial reporting standards are supplemented by law or regulation, the auditor is required to: <ul style="list-style-type: none"> Discuss with management the nature of the additional requirements and agree whether: <ol style="list-style-type: none"> the additional requirements can be met through additional disclosures in the financial statements; or the description of the applicable financial reporting framework in the financial statements can be amended accordingly. 	Applicable in the current fiscal year.
<p>CAS 250 – The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements</p> <p>This CAS will replace Section 5136, Illegal Acts. Under the new requirements, the auditor would be required to:</p> <ul style="list-style-type: none"> Obtain an understanding of the legal and regulatory framework and how the entity complies with that framework; Perform further audit procedures to identify non-compliance with other laws and regulations that may have a material effect on the financial statements When the auditor becomes aware of a possible instance of non-compliance, obtain an understanding and evaluate the possible effect on the financial statements; also this must be discussed with management and where appropriate those charged with governance 	Applicable in the current fiscal year.

Canadian Auditing Standards (CASs) issued by the CICA	
<p>CAS 260 – Communication with Those Charged with Governance</p> <p>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:</p> <ul style="list-style-type: none"> • only auditors of listed entities have to confirm their independence and disclose relationships that bear on their independence • communications regarding fees for audit and non-audit services would be required only of auditors of listed entities • identify the appropriate persons with whom to communicate • establish a communication process (form, timing, and expected general communication) • communicate on a timely basis 	Applicable in the current fiscal year.
<p>CAS 501 – Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures</p> <p>This CAS will replace Sections 6030, Inventories, and 6560, Communications with Law Firms. Under the new requirements, there are litigation related differences as follows:</p> <ul style="list-style-type: none"> • Expands the auditor's requirement to send legal letters to where the auditor "believes a claim may exist" • Decreased guidance in respect to dispute resolution between an entity's legal counsel and the entity. • Explicit requirements when management refuses to give <p>Reduced requirements relating to segment information include the need to obtain management representations on segments has been removed.</p>	Applicable in the current fiscal year.
<p>CAS 505 – External Confirmations</p> <p>This CAS will replace Section 5303, Confirmations. External confirmations can now be obtained in electronic or "other" medium.</p>	Applicable in the current fiscal year.
<p>CAS 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</p> <p>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:</p> <ul style="list-style-type: none"> • the auditor is required 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 • management must adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risk • if they do not, the auditor is required to consider whether it is practicable to develop a reasonable range of outcomes with which to evaluate the reasonableness of management's estimate • the auditor is required to review the outcome of accounting estimates made in prior year financial statements. <p>Depending on the risks and complexity surrounding estimates, the use of a specialist may be required.</p>	Applicable in the current fiscal year.

Canadian Auditing Standards (CASs) issued by the CICA	
<p>CAS 560 – Subsequent Events</p> <p>This Canadian Auditing Standard (CAS) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements.</p> <p>This CAS will replace Section 6550, Subsequent Events. The significant change from the existing standard is as follows:</p> <ul style="list-style-type: none"> Canadian standards previously described the audit report date as <i>the date the auditor identified and sought all audit evidence</i>. 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. <ul style="list-style-type: none"> 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. <i>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.</i> When a matter is noted after the audit report that may change the content of the disclosures, CAS 560 now requires an inquiry with management on how they intend to address the matter in the FS. If the FS are amended after release, the auditor is required to review the steps taken by management to inform anyone who received the previous statements. Additional options for dual dating reports that are not available in the current standards. 	Applicable in the current fiscal year.
<p>CAS 570 – Going Concern</p> <p>No current exact standard has been replaced, but components of Section 5510, Reservation in the Auditor's Report have been replaced. New requirements include:</p> <ul style="list-style-type: none"> Detailed analysis of management's assessment of the entity's ability to continue as a going concern. Performance of procedures to determine whether a material uncertainty exists regarding the going concern. Appropriate disclosures of uncertainties/events/ or conditions that place uncertainty to the ability to continue as a going concern. 	Applicable in the current fiscal year.

Canadian Auditing Standards (CASs) issued by the CICA

CAS 580 – Written Representations

This Canadian Auditing Standard (CAS) deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.

This CAS will replace Section 5370, Management Representations. The significant changes from the existing standard are as follows:

Subject	Requirements of CICA 5370	Revised requirements of CAS 580
Application	All representations provided by management (written or oral, explicit or implicit, solicited or unsolicited)	Only written representations that have been provided in response to the auditor's request
Distinction	N/A	Written representations can be either "general" or "specific" based on their subject matter.
If a general written representation is not obtained	Either: <ul style="list-style-type: none">• Issue a qualified opinion• disclaim an opinion	Disclaim an opinion
Who provides the written representations?	Management	Determine who the relevant party is, i.e., chief executive officer, chief financial officer, other equivalent person
Matters to obtain representations about	<ul style="list-style-type: none">• items material to the financial statements• items that are significant to the engagement• items relevant to management's judgments and estimates that are material to the financial statements	Obtaining specific written representations is a matter of professional judgment. *Exception: CAS 540 requires written representation from management regarding the reasonableness of significant assumptions used in making estimates.

Applicable in the current fiscal year.

Canadian Auditing Standards (CASs) Issued by the CICA	
<p>CAS 700 - The Independent Auditor's Report on General Purpose Financial Statements This CAS will replace Section 5400, The Auditor's Standard Report, and Auditing Guidelines 21, 40 & 45.</p> <p>There are significant differences on content and structure of audit report. The main difference is that the framework is described in the report.</p> <p>There is a distinction made with respect to fair presentation framework and compliance framework and the auditor's responsibility in assessing appropriateness of each.</p> <p>Financial statements can be prepared in accordance with two financial reporting frameworks. Guidance is provided on the form of the report when this is the case.</p> <p>Guidance is also provided relating to audit reports when the audit is conducted in accordance with auditing standards of a specific jurisdiction and CAS.</p> <p>Also, the date should not be before evidence has been obtained info supporting financial statements and notes, and that management has accepted responsibility for them.</p>	Applicable in the current fiscal year.
<p>CAS 705 – Modifications to the Opinion in the Independent Auditor's Report This CAS will replace Section 5510, Reservations in the Auditor's Report.</p> <p>There are now more rigorous requirements regarding resignation from the engagement if pervasive scope limitations or GAAP departures are present. The format of report when modifications of the opinion are present will change. Specific guidance is provided in the CAS with regard to this format.</p> <p>CAS now requires that circumstances leading to modification of opinion be communicated with those charged with governance.</p> <p>Emphasis of matter concept is introduced in the CAS. This provides an outlet, for example, to include discussion around contingencies even through sufficient audit evidence has been obtained to conclude that presentation and disclosure is in accordance with the framework adopted.</p> <p>The concept of disclaimer of opinion is introduced when GAAP departures are considered material and pervasive and the auditor is not able to obtain sufficient appropriate audit evidence as to the effect on the financial statements.</p>	Applicable in the current fiscal year.

Canadian Auditing Standards (CASs) Issued by the CICA	
<p>CAS 706 – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</p> <p>This CAS will replace Section 5701, Other Reporting Matters. The new concepts of an "emphasis of matter" and "other matters" paragraph have been introduced to the audit report.</p> <p>Emphasis of matter – when auditor considers it necessary to draw attention to a matter disclosed or presented in the financial statements, when it is fundamental to the users' understanding of the financial statements. Sufficient and appropriate audit evidence must have been obtained about the matter.</p> <p>Other matter – when auditor considers it necessary to communicate a matter other than those disclosed or presented in the financial statements, where it is relevant to the users' understanding of the audit.</p> <p>If auditor expects to include either of these paragraphs in their report, it must be communicated with those charged with governance.</p>	Applicable in the current fiscal year.
<p>CAS 710 – Comparative Information – Corresponding Figures and Comparative Financial Statements</p> <p>This CAS will replace Section 5701, Other Reporting Matters and Auditing Guideline 8, Auditor's Report on Comparative Financial Statements.</p> <p>The auditor must determine whether the financial statements include comparative information required by the applicable reporting framework and whether the information has been classified appropriately.</p>	Applicable in the current fiscal year.

Appendix D – Letter of independence

Dear Audit, Finance & Administration Committee Members:

We have been engaged to audit the financial statements of The City of Hamilton (the City) for the year ending December 31, 2010.

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

Hamilton Police Services Board
Hamilton Tourism Inc.
The Hamilton Entertainment and Convention Facilities Inc.
The Hamilton Public Library Board
The Hamilton Street Railway Company
City Housing Hamilton Corporation
Ancaster Business Improvement Area
Barton Street Village Business Improvement Area
Concession Street Business Improvement Area
Downtown Hamilton Business Improvement Area
International Village Business Improvement Area
King Street West Business Improvement Area
Locke Street Business Improvement Area
Main Street West Esplanade Business Improvement Area
Downtown Stoney Creek Business Improvement Area
Ottawa Street Business Improvement Area
Waterdown Business Improvement Area
Westdale Business Improvement Area
Dundas Business Improvement Area
Flamborough Recreation Sub-Committees
Hamilton Utilities Corporation, and
Hamilton Renewable Power Inc.

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:

- 1 holding a financial interest, either directly or indirectly, in a client;
- 2 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;
- 3 personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- 4 economic dependence on a client; and
- 5 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 January 1, 2010.

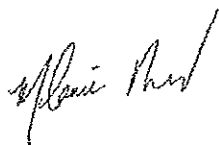
We are not aware of any relationships between the City, its related boards/entities, listed above, and Grant Thornton LLP that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from January 1, 2010 to January 12, 2011.

We confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of January 12, 2011.

This report is intended solely for the use of the Audit, Finance & Administration committee, management, and others within the City and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter.

Yours sincerely,
Grant Thornton LLP



Melanie Dugard, CA
Principal

