

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Treasury Services – Financial Services Division

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: February 13, 2012	
SUBJECT/REPORT NO: 2011 External Audit Plan (FCS12016) (City Wide)	
SUBMITTED BY: Antonio D. Tollis Treasurer Corporate Services Department	PREPARED BY: Brian McMullen 905-546-2424 ext. 4467
SIGNATURE:	

RECOMMENDATION

- (a) That the changes to the scope of audit work in the City of Hamilton's 2011 External Audit Plan, as listed below, be approved:
 - (i) Ontario Employment Assistance Service by the Ministry of Training, Colleges and Universities.
- (b) That the City of Hamilton's 2011 External Audit Plan in Grant Thornton's Initial Communication on Audit Planning, attached as Appendix 'A' to report FCS12016, be approved.

EXECUTIVE SUMMARY

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

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

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

Grant Thornton's contract was extended for an additional year under the same terms and conditions as the existing contract. There are no significant changes in the scope of the audit work in the 2011 External Audit Plan from the 2010 External Audit Plan.

Grant Thornton has proposed that the 2011 external audit fees be adjusted again this year to the 2008 level to reflect the current economic climate. The resulting savings are approximately \$30,000 for 2011 audits. This savings is partially offset by the fees for the increase in the scope of the audit work from the original submission of \$22,000. Total savings from our contract with Grant Thornton are \$57,000 over the past three years.

Grant Thornton's audit approach, scope of the audit work for the City of Hamilton and its related entities for the 2011 fiscal year is provided in their Initial Communication on Audit Planning for the year ended December 31, 2011. Their Audit Plan communicates to the oversight body, Grant Thornton's overall audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The 2011 audit standards continue to focus the audit on areas where there is greater risk of mis-statement. Grant Thornton has tailored their audit of the City to several specific audit areas, including: taxation, purchases and payables, employee compensation, grants and subsidies revenue, significant estimates for post-employment benefits and landfill closure liabilities, commitments, contingencies and tangible capital assets.

Grant Thornton will be discussing the audit work required on the financial statements for HECFI, Library, Housing, Tourism and Business Improvement Areas with the respective boards or oversight bodies.

Alternatives for Consideration – Not Applicable

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

Financial:

The cost for changes in the scope of audit work since the original proposal submission by Grant Thornton net of savings from the reduction in fees results in a net savings of \$8,000. The additional work not included in the original submission by Grant Thornton of \$22,000 is offset by the savings in the reduction in fees of \$30,000.

Staffing:

None.

Legal:

None.

HISTORICAL BACKGROUND (Chronology of events)

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

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

Grant Thornton has satisfactorily completed the audits for 2006 to 2010. The contract has been extended for another year. Request for Proposal for External Audit Services C12-12-11 was issued on November 25, 2011 and closed on January 17, 2012.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The 2011 Initial Communication on Audit Planning from Grant Thornton and the City of Hamilton 2011 Year End Plan has been discussed with management of the City's Departments and Boards including:

- Corporate Services Department:
 - General Manager of Finance & Corporate Services
 - City Treasurer
 - Director of Financial Services
 - Director of Financial Planning & Policy
 - Director of Taxation
 - Manager of Business Application Support, Accounts Payable & Accounts Receivable
 - Manager of Payroll & Pensions
 - Managers of Finance & Administration
 - Manager of Tax Accounting
 - Manager of Current Budgets & Fiscal Planning
 - Manager of Capital Budget & Development
- Hamilton Police Services – Chief Accountant
- HECFI – Corporate Controller & Manager of Accounting
- Hamilton Public Library – Director of Finance & Facilities

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

Grant Thornton has prepared similar 2011 audit planning documents for HECFI, Hamilton Public Library, Housing and Tourism and they will be having discussions with the respective management and staff.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Grant Thornton's audit approach and the scope of the audit work for the City of Hamilton and its related entities for the 2011 fiscal year is provided in their Initial Communication on Audit Planning for the year ended December 31, 2011. The Audit Plan communicates to the oversight body, Grant Thornton's overall audit responsibilities

and audit approach in accordance with Canadian generally accepted auditing standards. The 2011 audit standards continue to focus the audit on areas where there is greater risk of mis-statement. Grant Thornton has tailored their audit of the City to several specific audit areas including: taxation, purchases and payables, employee compensation, grants and subsidies revenue, significant estimates for post-employment benefits and landfill closure liabilities, commitments, contingencies, and tangible capital assets.

Grant Thornton will be discussing the audit work required on the financial statements for HECFI, Library, Housing, Tourism and Business Improvement Areas with the respective boards or oversight bodies.

The changes in the scope of audit work to the 2011 External Audit plan include an additional audit for the Ontario Employment Assistance Service by the Ministry of Training, Colleges and Universities for 2011.

Changes made to the external audit plans in previous years from the original Audit Proposal are detailed as follows:

- An audit of Locke Street Business Improvement Area was added to the requirements for 2007 to 2011;
- An audit of Ancaster Business Improvement Area was added to the requirements for 2009 to 2011;
- An audit of King Street West Business Improvement Areas was not required for 2010 and 2011;
- The Province of Ontario added audit requirements for its programs: Child Care for 2008 to 2011, Homelessness for 2008 to 2011 and Creative Communities Prosperity Fund for 2010;
- The Agreement with the Province of Ontario for Ontario Bus Replacement Program required audits for 2008 and 2009;
- The Agreement with the Government of Canada for Canada Strategic Infrastructure Fund – Hamilton Harbour requires audits for 2009 to 2011;
- A separate audit engagement was made with Grant Thornton for audit work for tangible capital assets for initial valuations and policies for 2007 and 2008. Audit work for changes to tangible capital assets was added to the requirements for 2009 to 2011;

- The adoption of new Public Sector Accounting Board Handbook sections, including *PS1200, Financial Statement Presentation*, required changes to municipal financial reporting to incorporate full accrual accounting for 2009 to 2011.

Grant Thornton has proposed that the 2011 external audit fees be adjusted again this year to the 2008 level to reflect the current economic climate. The resulting savings are approximately \$30,000 for 2011. Total savings from our contract with Grant Thornton are \$57,000 over the past three years. The fees for the increase in the scope of the audit work of \$22,000 will be offset by the savings in the reduction in audit fees. Therefore, the 2011 projections for external audit fees are not affected.

ALTERNATIVES FOR CONSIDERATION

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

There are no alternatives for consideration as Grant Thornton has satisfactorily performed the external audit services contract.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ♦ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost-effective manner:
- ♦ The 2011 External Audit Plan is prepared to ensure that the audit of the financial statements is performed according to audit standards. The External Audit Plan Communication from the external auditors reinforces the responsibilities of the elected officials and management in ensuring that the organization's financial resources are being protected and economic well-being is enhanced. The audit of the financial statements ensures an independent review of the management's fiscal accountability of the City's resources to the ratepayers.

APPENDICES / SCHEDULES

Appendix 'A' - Grant Thornton's report to the Audit, Finance & Administration Committee
– Initial Communication on Audit Planning.

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

The City of Hamilton
For the year ended December 31, 2011

January 12, 2012

Grant Thornton LLP
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Hamilton, ON
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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, 2011. 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 business, regulations and standards	2
Achieving effective governance	4
Quality assurance, independence and communication	5
Our audit approach	6
Client service team	11
Audit timetable	12
Fee schedule	13
Appendix A – Accounting developments	14
Appendix B – Auditing developments	16
Appendix C – Letter of independence	17

The City of Hamilton – Environmental scan – changes in business and standards

The following is a summary of recent changes to the municipality's business environment, regulatory environment in which it operates, and relevant accounting and auditing standards. We have considered these factors in preparing the 2011 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 that would impact our overall audit strategy. 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 2011 audit of the City.

Canadian standards

Accounting standards

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

- Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation and Section PS 1201 Financial statement presentation
- Section PS 3260 Liability for contaminated sites
- Section PS 3510 Tax Revenue
- Section PS 3410 Government Transfers, revised
- Withdrawal of Government assistance – Application of CICA Handbook – Accounting Section PS 3800

Further detail of the changes to accounting standards and their applicability to the City, are included in Appendix A. 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 year ended

December 31, 2011. 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 450 – Evaluation of Misstatements Identified During the Audit
- CAS 620 – Using the Work of an Auditor's Expert

Further detail of the changes to auditing standards and their applicability to The City of Hamilton, are included in Appendix B.

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.

Roles in ensuring strong financial reporting

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

<p>Role of the Audit, Finance & Administration Committee</p>	<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
<p>Role of management</p>	<ul style="list-style-type: none"> • Prepare financial statements in accordance with Canadian GAAP for public sector organizations • 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
<p>Role of Grant Thornton LLP</p>	<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 an 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 of Hamilton in writing and have attached our letter of independence as Appendix C. The process of maintaining our independence includes, but is not limited to

- 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; and
- Confirming the independence of our engagement team members.

Communication with the Audit, Finance & Administration Committee

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

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 municipality'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.

Our audit approach

An understanding of the municipality drives the Grant Thornton LLP audit approach. The audit methodology is risk based and specifically tailored to the City 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, 2011.</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	Verify accuracy and reasonableness of amounts and disclosures, with reference to correspondence with lawyers. Examination of supporting documentation and discussions with management.
Capital assets	Review of supporting documentation for capital asset additions with respect to the validity of the additions. Review of disposals to determine if any gain/loss is calculated appropriately. Recalculation of depreciation expense, as well as deemed dispositions for pooled assets. Review of capital project costs to determine if any additional costs should be capitalized.
Employee compensation	Review the calculation of salary and wage accruals to determine if the amounts were calculated appropriately. Analytical assessment of employee-related expenses based on expectations.

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, 2011. 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 municipality 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.

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

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

- 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.

Use of work of internal audit

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

Use of experts

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

- Landfill closure obligations,
- Verification of the fair value of asset backed commercial paper and master asset vehicles, and
- Employee future benefit liability

Client assistance and readiness

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 will provide 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**

Deliverables

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

Client service team

We have assembled a team of outstanding professionals to demonstrate our commitment to quality and service to the City. Below are the senior members of our team, should you need to contact us.

Engagement member	Role	Phone	Email
Melanie Dugard	Engagement principal	(289) 313-3378	Melanie.Dugard@ca.gt.com
Joanne Rogers	Concurring partner	(416) 360-2379	Joanne.Rogers@ca.gt.com
Barb Carnegie	Audit manager	(289) 313-3386	Barbara.Carnegie@ca.gt.com
Graeme Morissey	Audit senior	(289) 313-3356	Graeme.Morissey@ca.gt.com

Audit timetable

December 19 – 23, 2011	Audit planning and update of information technology processes and controls
December 31, 2011	Date for bank and tax confirmations
February 2012	Meeting with Audit, Finance & Administration Committee and presentation of Report to the Audit, Finance & Administration Committee – Initial Communication on Audit Planning
March 26 – April 20, 2012	Year-end visit
May 2012	Preliminary clearance to be provided on draft financial statements
May 2012	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 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, 2011 that is based on the level of activity and the anticipated complexity of the audit of the City'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.

Appendix A – Accounting developments

Public Sector Accounting Board	Effective date
<p>Section PS 3450 Financial instruments, Section PS 2601 Foreign currency translation and Section PS 1201 Financial statement presentation</p> <p>Section PS 3450 <i>Financial instruments</i> is a new section that establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.</p> <p>Section PS 2601 <i>Foreign currency translation</i> revises and replaces Section PS 2600 <i>Foreign currency translation</i>.</p> <p>Section PS 1201 <i>Financial statement presentation</i> revises and replaces Section PS 1200 <i>Financial statement presentation</i>.</p> <p>The issuance of these new sections also includes consequential amendments to</p> <ul style="list-style-type: none"> • <i>Introduction to accounting standards that apply only to government not-for-profit organizations</i> • Section PS 1000 <i>Financial statement concepts</i> • Section PS 1100 <i>Financial statement objectives</i> • Section PS 2125 <i>First-time adoption by government organizations</i> • Section PS 2500 <i>Basic principles of consolidation</i> • Section PS 2510 <i>Additional areas of consolidation</i> • Section PS 3060 <i>Government partnerships</i> • Section PS 3070 <i>Investments in government business enterprises</i> • Section PS 3230 <i>Long-term debt</i> • Section PS 3310 <i>Loan guarantees</i> • Section PS 4200 <i>Financial statement presentation by not-for-profit organizations</i> <p>PSG-6 <i>Including results of organizations and partnerships applying fair value measurement</i> was withdrawn as a result of the issuance of these sections.</p>	<p>The new requirements are all required to be applied at the same time.</p> <p>For governments, the sections are effective for fiscal years beginning on or after April 1, 2015.</p> <p>For government organizations, the sections are effective for fiscal years beginning on or after April 1, 2012.</p> <p>Earlier adoption is permitted.</p>
<p>Section PS 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.</p> <p>Earlier adoption is encouraged.</p>

Public Sector Accounting Board	Effective date
<p>Section PS 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>
<p>Section PS 3410 Government Transfers, revised</p> <p>This Section replaces the existing Section PS 3410, <i>Government Transfers</i>. This Section establishes standards for recognition, presentation and disclosure for government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.</p>	<p>This section applies to fiscal years beginning on or after April 1, 2012. Earlier adoption is encouraged.</p>
<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 choosing 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>

Appendix B – Auditing developments

Canadian Auditing Standards (CASs) issued by the CICA	Effective date
<p>CAS 450 – Evaluation of Misstatements Identified During the Audit</p> <p>This CAS, combined with CAS 320, replaces Section 5142, Materiality. The significant changes from the existing standard are as follows:</p> <ul style="list-style-type: none"> the auditor is required to request that management correct all the misstatements accumulated during the audit in all cases, regardless of whether the financial statements are materially misstated. This differs from the current guidance in Section 5142 in that auditors previously encouraged management to correct all non-trivial misstatements. if management refused to correct known misstatements, the auditor is required to obtain an understanding of management's reasons for not making the corrections. the auditor is also required to request to those charged with governance that uncorrected misstatements be corrected. 	<p>Applies to audit of financial statements for periods commencing on or after December 15, 2009.</p>
<p>CAS 620 – Using the Work of an Auditor's Expert</p> <p>This CAS will replace Section 5049, Use of Specialists in Assurance Engagements. The significant change from the existing standard is that the requirements in determining the need for an auditor's expert are now more explicitly defined.</p>	<p>Applies to audits of financial statements for periods commencing on or after December 15, 2009.</p>

Appendix C – Letter of independence

January 12, 2012

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, 2011.

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
Tourism Hamilton Inc.
The Hamilton Entertainment and Convention Facilities Inc.
The Hamilton Public Library Board
The Hamilton Street Railway Company
CityHousing 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 12, 2011.

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 12, 2011 to January 12, 2012.

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, 2012.

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