

A photograph of a wind farm at sunset. The silhouettes of numerous wind turbines are visible against a bright orange and yellow sky that transitions to a deep blue at the top. The turbines are arranged in rows across a dark, rolling landscape.

ASSURANCE AND ADVISORY
BUSINESS SERVICES

APRIL 28, 2006

 **ERNST & YOUNG**

Quality In Everything We Do

City of Ottawa

Audit Results and Communications

Report to the Corporate Services and Economic Development Committee

Year Ended December 31, 2005

April 28, 2006

Corporate Services and Economic Development Committee
City of Ottawa

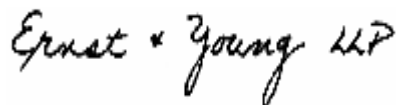
Dear Committee Members:

We are pleased to present the results of our audit of the consolidated financial statements of the City of Ottawa (the "City"). The audit was designed to express an opinion on the 2005 consolidated financial statements. We receive the full support and assistance of the City's personnel in conducting our audit.

We are in the final stages of completing our audit procedures and expect to have completed our work by the date of our meeting with you.

This report is a by-product of our audit of the 2005 consolidated financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Committee in fulfilling its responsibilities. We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

ERNST & YOUNG LLP



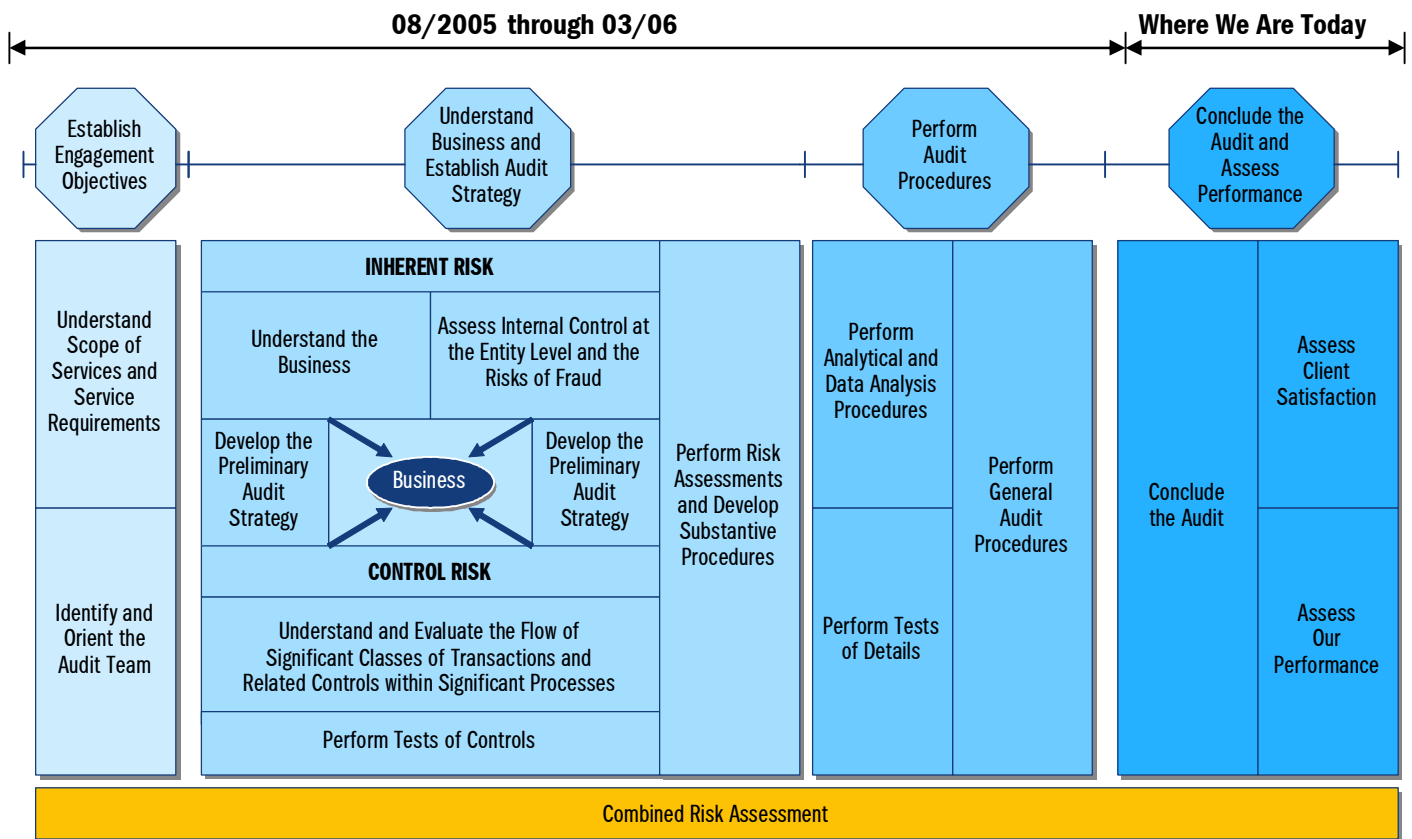
André A. Bussière, CA, Partner
Deanna Monaghan, CA, CPA, Partner

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2005 Audit Results and Communications

THE ERNST & YOUNG AUDIT APPROACH



SUMMARY OF WHAT WE AGREED TO DO

As communicated to the Corporate Services and Economic Development Committee during our planning process, our audit plan represented an approach responsive to our understanding of the City and its environment, including its internal control and, our assessment of risks of material misstatement of the 2005 consolidated financial statements. Specifically, we designed our audit to:

- Express an opinion on the consolidated financial statements of the City.
- Issue a written communication to the Committee describing the audit results and the significant issues identified during our audit.
- Issue a management letter that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of our audit.

STATUS UPDATE

Currently, we are in the final stages of our audit, which is consistent with our original timetable presented during audit planning. The following activities remain open as of the date of this report:

- Review financial disclosures in the City's 2005 Annual Report.
- Issue of a management letter after we have received comments from the City's management.

ITEMS OF SIGNIFICANCE DISCUSSED WITH MANAGEMENT

Key issues and risk areas we identified and addressed as part of our audit included the following:

Key Issue / Risk Area	Summary of Procedures and Findings
Landfill Closure Liability	The City's landfill closure and post closure provision represents the present value of the expected landfill closure and post closure costs based on management's best estimate of the costs to be incurred to perform the required work to close and maintain closed sites. We have recomputed the valuation and noted a difference of \$3.8 million which is attributed to the revised discount rate from 5% to 4.5% and an error in the formula. The difference has been adjusted in the financial statements and is reflected as an adjusted audit difference in the summary of audit differences.
Significant Accounting Estimates – Employee Benefit Costs	<p>Mercer consultants prepared an actuarial valuation of the City of Ottawa's non-pension post retirement and post employment obligations for accounting purposes as at October 1, 2004 (the date of the data) and extrapolated those results to December 31, 2005.</p> <p>We reviewed the valuation methods and assumptions used by Mercer to prepare the valuation and found the method used was acceptable under Canadian GAAP as per PS handbook 3250 and the assumptions used were reasonable.</p>
Significant Accounting Estimates – Allowance for doubtful accounts	We reviewed the adequacy of the allowance for doubtful accounts and have found it to be understated by \$1.1 million. This difference has been brought to the summary of audit differences. The majority of the difference relates to contested charges arising from municipal access agreements with telecom companies for the use of City property for network installations. Recent court decisions have made these charges invalid. Accordingly, collection by the City is not likely.
Significant Accounting Estimates – Tax Rebates	<p>The City allows rental and commercial vacancy rebates. A rebate is also available to registered charitable organizations given that they are exempt of property taxes.</p> <p>In the past, the City has accrued for these rebates based on an estimate of the total claims which cannot be tabulated before the audit completion date. In the prior year, management's best estimate was low compared to the actual total rebates subsequently paid. However, historically, the difference between management's accrual and the amount actually paid has not been significant.</p> <p>Given the difficulty in estimating these rebates in prior years, management considered not accruing an amount in 2005 and instead, chose to record the expense when it was due and paid in 2006. This practice is not acceptable under Canadian GAAP and under the PS handbook's definition of a liability as the amount can be reasonably estimated based on past history and experience. The estimated under-accrual for 2005 has been determined to be \$7 million for vacancy rebates and \$3.1 million for charitable rebates. These amounts less 4.8 million recoverable from school boards were adjusted by management as disclosed in our summary of audit differences.</p>

2005 AUDIT RESULTS
AND COMMUNICATIONS

Key Issue / Risk Area	Summary of Procedures and Findings
Balances with Ottawa Community Housing Corporation	Ottawa Community Housing Corporation ("OCHC") is consolidated in the City's financial statements. At December 31, 2005, the inter-entity balances between the City and OCHC did not agree by approximately \$1.5 million. This matter will be resolved and the inter-entity balance will be corrected and reflected as a charge in the City's 2006 financial statements. We have included the amount to our summary of audit differences.
PSAB - New Accounting Rules	<p>During fiscal 2005, the City adopted a new accounting policy resulting from newly issued standard for Contingent liabilities, Section PS 3300. This new Section establishes recognition and disclosure standards dealing with contingent liabilities in government financial statements. It applies to federal, provincial, territorial and local governments.</p> <p>The City implemented this new accounting rule on a prospective basis. Accruals of \$17.3 million as of December 31, 2005 were made based on estimates by in-house claims adjusters and pending legal cases. We reviewed these estimates and found that the provided amount was reasonable.</p>
New Public Private Partnerships	In 2005, the City entered into eight Private Public Partnerships. We have reviewed the material agreements and considered the appropriateness of the accounting for these transactions. One of these agreements qualified as a capital lease. However, in recording the liability, the payment obligations were not discounted to reflect the interest costs. The resulting overstatement of approximately \$6 million was adjusted by management as disclosed in our summary of audit differences.
Nortel Subleases	In 2003, the City assumed Nortel's capital lease obligation relating to the 100 Constellation property. The City was paid an incentive of \$25 million which consisted of \$16.3 million (the difference between original lease rate and the current market lease rate) and \$9.1 million (present value of City's subleases on 3 properties with lease terms until 2007). The incentive benefit amount is being recognized or amortized over the term of the original Nortel lease. In 2005, the amortization of the benefit was overstated by \$2.9 million. This amount has been brought to the summary of audit differences.

ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We are required to communicate our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. We also are required to communicate sensitive accounting estimates. The table below summarizes these communications.

Area	Accounting Policy	Judgments and Sensitive Estimates	E&Y Comments on Quality of Accounting Policy and Application
Retirement allowance and sick leave accrual Property assessment appeals Landfill retirement and post closure expense accrual Allowance for doubtful accounts - property, payments-in-lieu and business tax arrears Allowance for doubtful accounts Legal Claims accrual	Provide allowance for non-collectible accounts, and tax appeals and accrue for estimated future payments for costs incurred in the current year. (i.e. site restoration costs and payroll benefits to be paid in the future).	Provisions are based on account aging plus identified specific accounts compared to past experiences and current trends. Estimated tax appeals and costs requiring future payments are calculated based on management's best estimate given available information and historical experience.	Provisions are consistent with the prior year policy and municipal practice. We have reviewed management's estimates and have determined their assumptions and conclusions to be reasonable, subject to the items described in the previous section.

REQUIRED COMMUNICATIONS

CICA Handbook Section 5751 and other professional standards require the auditor to communicate certain matters that may assist the Committee in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to the City.

Area	Comments
Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS) The financial statements are the responsibility of management. Our audit was designed in accordance with Canadian generally accepted auditing standards to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing, and extent of testing performed.	Upon completion of our remaining audit procedures, we currently expect to issue an unqualified opinion on the City's consolidated financial statements for the year ended December 31, 2005.
Our Judgments About the Quality of the Company's Accounting Principles We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in the City's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.	We believe the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements complies with Canadian generally accepted accounting principles ("GAAP") and are reasonable in relation to Ontario municipal practice.

2005 AUDIT RESULTS
AND COMMUNICATIONS

Area	Comments
<p>Sensitive Accounting Estimates and Disclosures</p> <p>The preparation of the financial statements requires management to make judgments in formulating accounting estimates and preparing note disclosures. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments.</p> <p>We determine that the Committee is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding their reasonableness.</p>	<p>The accounting estimates we considered as sensitive are those related to the valuation of the landfill obligation, legal contingencies, the provision for employee future benefits, and allowance for doubtful accounts and property tax rebates. We have provided our views in the preceding section titled "Accounting Policies, Judgments and Estimates".</p>
<p>The Adoption of, or a Change in an Accounting Principle</p> <p>We determine that the Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.</p>	<p>During fiscal 2005, the City was required to adopt the accounting standard on Contingent liabilities, Section PS 3300.</p> <p>We have provided our views surrounding the adoption and application of this new guidance in the preceding section titled "Accounting Policies, Judgments and Estimates".</p>
<p>All Material Alternative Accounting Treatments Discussed with Management</p> <p>We report to the Committee all alternative accounting treatments within GAAP for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including the acceptability of the policies or methods ultimately retained by management.</p>	<p>There were no significant alternative accounting treatments discussed with management.</p>
<p>Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</p> <p>We determine that the Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>	<p>We are not aware of any significant unusual transactions recorded by the City or of any significant accounting policies used by the City related to controversial or emerging areas for which there is a lack of authoritative guidance.</p>
<p>Significant Audit Adjustments</p> <p>We provide the Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment, either individually or in the aggregate, have a significant effect on the City's financial statements.</p>	<p>All accounting differences identified during the audit were discussed with management and unrecorded accounting differences individually or in the aggregate are not significant to the financial statements. We have attached to this report our Summary of Audit Differences ("Appendix B").</p>
<p>Unadjusted Audit Differences Considered by Management to Be Immaterial</p> <p>We inform the Committee about unadjusted audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.</p>	<p>The unrecorded accounting differences are not significant to the financial statements. They are well below the materiality level set for the audit of \$25 million.</p> <p>Refer to "Summary of Audit Differences" ("Appendix B").</p>

2005 AUDIT RESULTS
AND COMMUNICATIONS

Area	Comments
Fraud and Illegal Acts We report to the Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause another than trivial misstatement of the financial statements.	We are not aware of matters that require communication. Refer to "Fraud Considerations" section for more information about our procedures related to fraud.
Significant Weaknesses in Internal Control We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses were identified. Control deficiencies found will be documented in a management letter.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion only relates to the financial statements and accompanying notes. However, we also review other information in the Annual Report for consistency with the audited financial statements.	Once it is complete, we will review the City's Annual Report for consistency between the audited financial statements and other sections of that document.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Consultation with Other Accountants	None of which we are aware.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Committee.	All related party transactions of which we are aware are disclosed in the financial statements.
Matters Relating to Component Entities of the City When the financial statements of a city (the primary entity) include financial information from financial statements of a component entity or an entity whose financial information from financial statements is included with those of the primary entity, the auditor communicates with the Committee those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.

2005 AUDIT RESULTS
AND COMMUNICATIONS

Area	Comments
<p>Fees and Related Regulatory Disclosures</p> <p>Under our professional standards, we are required to disclose to the Committee the total fees charged for audit and non-audit services provided by us and by our related businesses or practices to the City and its related entities.</p>	<p>Total agreed fees of \$174,000 were charged by Ernst & Young for the following audit services to the City:</p> <ul style="list-style-type: none"> • Audit of the City of Ottawa • Audit of the Pineview Golf Course • Audit of the Business Improvement Areas • Audit of the Ottawa Public Library Board • Audit of the Ottawa Sinking Fund • Audit of the City of Ottawa Superannuation Fund <p>Ernst & Young also charged approximately \$38,000 for audit related services during 2005.</p>
<p>Independence</p> <p>We communicate, at least annually, the following to the Committee:</p> <ul style="list-style-type: none"> • Disclose, in writing, all relationships between Ernst & Young and our related entities and the City and its related entities that, in our professional judgment, may reasonably be thought to bear on independence; • Confirm in writing that, in our professional judgment, we are independent of the City within the meaning of the Ontario Institute of Chartered Accountants; and • Discuss our independence with the Committee. 	<p>We are required to confirm our independence to audit committees pursuant to CICA 5751. The Standard requires us to make a written communication regarding our independence even if we conclude that there are no matters that may reasonably be thought to bear on independence. ("Appendix A")</p>

FRAUD CONSIDERATIONS IN A FINANCIAL STATEMENT AUDIT

Handbook Section 5135 (CICA 5135), *The Auditor's Responsibility to Consider Fraud* was issued to heighten the awareness of auditors to the potential for fraud when planning and executing audits. CICA 5135 also emphasizes the need for increased professional skepticism throughout the audit engagement. These amendments do not change our responsibilities as auditors. Under CICA 5135, we are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud. We approach all audits with an understanding that fraud could occur in any company at any time, and could be perpetrated by anyone. The following provides a summary of the principal procedures required under CICA 5135 and the results of our procedures.

ENGAGEMENT TEAM DISCUSSION

CICA 5135 requires, as part of planning the audit, that there be a discussion among the audit team members, which includes all significant locations. The discussion should allow key members of the team to share thoughts and ideas about how and where they believe the client's financial statements might be susceptible to material misstatement due to fraud. A key element of this discussion, which is led by the partner in charge of the audit, is to emphasize the importance of maintaining the proper mindset throughout the audit regarding the potential for fraud. We conducted our engagement team discussion during our planning meeting in the fall and updated our discussion after the completion of our interim procedures.

GATHERING INFORMATION NEEDED TO IDENTIFY RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

CICA 5135 requires auditors to perform certain procedures to obtain information that is used to identify risks of material misstatement due to fraud. These procedures include:

- Inquiring of management and others within the organization about the risks of fraud. Inquiries are made of management, internal audit, and other operational and financial personnel within the organization, focusing on such areas as the individual's knowledge of fraud or suspected fraud and understanding about specific risks of fraud in the organization. Further, inquiries are made regarding the oversight activities of the Corporate Services and Economic Development Committee regarding management's assessment of the risks of fraud, whether programs and controls have been established at the organization to mitigate the risk of fraud, how multiple locations within an organization are monitored for fraud, and how management communicates to employees its views on business practices and ethical behavior;
- Inquiring about matters raised from the City procedures for complaints (including 'whistleblowers') regarding accounting, internal accounting controls or auditing matters;
- Considering unusual or unexpected relationships that have been identified in performing analytical procedures in planning the audit;
- Considering whether fraud risk factors exist; and
- Considering other information gathered throughout the audit.

We have made inquiries of senior management and the Auditor General. We have also performed analytical review procedures and conducted engagement team discussions (as described above), with the purpose of considering whether fraud risk factors exist.

IDENTIFYING, ASSESSING AND RESPONDING TO FRAUD RISKS

As a result of the information gathered from the procedures above, we identify and assess specific fraud risks. Our response to the assessment of the risks of material misstatement of the financial statements due to fraud is influenced by the nature and significance of the risks identified and the organization's programs and controls that address these identified risks. For each identified fraud risk, our audit response generally would include a combination of tests of controls and substantive tests responsive to the identified risks. Additionally, our response to fraud risks might include a change in the timing or nature of audit procedures, or we might decide that the extent of testing needs to be expanded in certain areas. We concluded there were no fraud risks identified during the audit that would have a potential material impact on the City's consolidated financial statements.

MANDATORY PROCEDURES TO ADDRESS THE RISK OF MANAGEMENT OVERRIDE

Fraudulent financial reporting often involves management override of controls that otherwise appear to be operating effectively. CICA 5135 includes the certain mandatory procedures to address the risk of management override of controls, such as testing journal entries and other adjustments, evaluating the business rationale of significant unusual transactions and reviewing accounting estimates and evaluating for biases that could result in material misstatement due to fraud, including a retrospective review of significant prior year estimates.

Testing Journal Entries and Other Adjustments

CICA 5135 requires us to test journal entries and other adjustments. CICA 5135 acknowledges that management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding established controls that otherwise appear to be operating effectively. Fraudulent financial reporting often involves the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries or making inappropriate adjustments to amounts reported in the financial statements that are not reflected in formal journal entries (such as in consolidating adjustments, report combinations, or reclassifications).

Our testing of journal entries and other adjustments is an important audit procedure that requires careful planning and execution. Our testing includes both journal entries recorded in the general ledger and other adjustments posted outside of the general ledger. Although our tests generally include all types of journal entries (e.g., standard, nonstandard, system, manual), our emphasis is on identifying and testing entries processed outside of the normal course of business.

Our approach to testing journal entries and other adjustments in accordance with CICA 5135 generally includes the following:

- Obtaining an understanding of the financial statement close process and controls over journal entries and other adjustments;
- Assessing the design and implementation of controls over journal entries and other adjustments;
- Identifying and selecting journal entries and other adjustments for testing; and
- Inquiry of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We reviewed all significant standard and non-standard journal entries and adjustments recorded as part of the financial statement close process and our testing procedures did not identify any problems.

EVALUATING AUDIT EVIDENCE

We assess the risk of material misstatement due to fraud throughout the audit. We are mindful of conditions that may be identified during fieldwork that change or support a judgment regarding the assessment of fraud risks, such as discrepancies in the accounting records, conflicting or missing evidential matter, and/or problematic or unusual relationships between the auditor (including internal audit) and management. No such matters were noted during our audit that affected our assessment of the risk of material misstatement due to fraud or caused us to reconsider our response to identified fraud risks.

APPENDIX A – INDEPENDENCE

April 28, 2006

To the Members of the Corporate Services and Economic Development Committee (the “Committee”) of the City of Ottawa

We have been engaged to audit the consolidated financial statements of the City of Ottawa (the “City”) for the year ended December 31, 2005.

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

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

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) 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;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

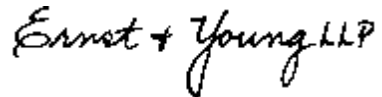
We are not aware of any relationships between the City and us that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from January 1, 2005 to the date of this letter.

GAAS require that we confirm our independence to the Committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of the date of this letter.

This report is intended solely for the use of the Committee and 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 at our upcoming meeting.

Yours very truly,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

André A. Bussière, CA, Partner
Deanna Monaghan, CA, CPA, Partner

APPENDIX B – SUMMARY OF AUDIT DIFFERENCES

During the course of our audit, we accumulated the following unrecorded and recorded audit differences:

Unrecorded Differences	Overstatement (Understatement) of Change in Total Municipal Position
2005 Sinking Fund Surplus Not Recorded in 2005	\$ (963,000)
Overstatement of 2005 Lease Incentive Revenue	2,917,000
Unadjusted Difference in Account with OCHC	1,514,000
Underprovided Doubtful Accounts	1,118,000
Net Effect of 2004 Unadjusted Differences	<u>(1,528,000)</u>
Net Unrecorded Differences	<u>\$ 3,058,000</u>
Recorded Differences	
Landfill Closure Accrual	\$ 3,854,000
Road Work Capital Costs Payable	7,985,000
Interest Accrual on Bylaw 81-92	1,029,000
Capital Lease Obligation Overstatement	(6,000,000)
Vacancy and Charitable Rebate Accruals	5,359,000

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