



City of Ottawa

2008 Financial statement audit plan



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Members of the Corporate Services and Economic Development Committee
Corporation of the City of Ottawa

August 13, 2008

Dear Members of the Committee:

We are pleased to meet with you to discuss our audit approach and current year audit plan for the City of Ottawa. We are providing the enclosed materials so you can familiarize yourselves with them prior to our meeting.

Our audit is designed to express an opinion on the 2008 consolidated financial statements as of December 31, 2008. We are currently completing the planning phase of our audit. We will consider the City of Ottawa's current and emerging business risks, assess those that could materially affect the consolidated financial statements and align our procedures accordingly. The plan will be responsive to your needs and will maximize audit effectiveness so we can deliver the high quality audit you expect.

The City of Ottawa selected Ernst & Young to perform its 2008 audit and we appreciate your confidence. Our commitment to quality will be reflected in every aspect of our work.

We appreciate this opportunity to meet with you. If you have any questions or comments, please call Deanna Monaghan at (613) 598-4305.

Very truly yours,

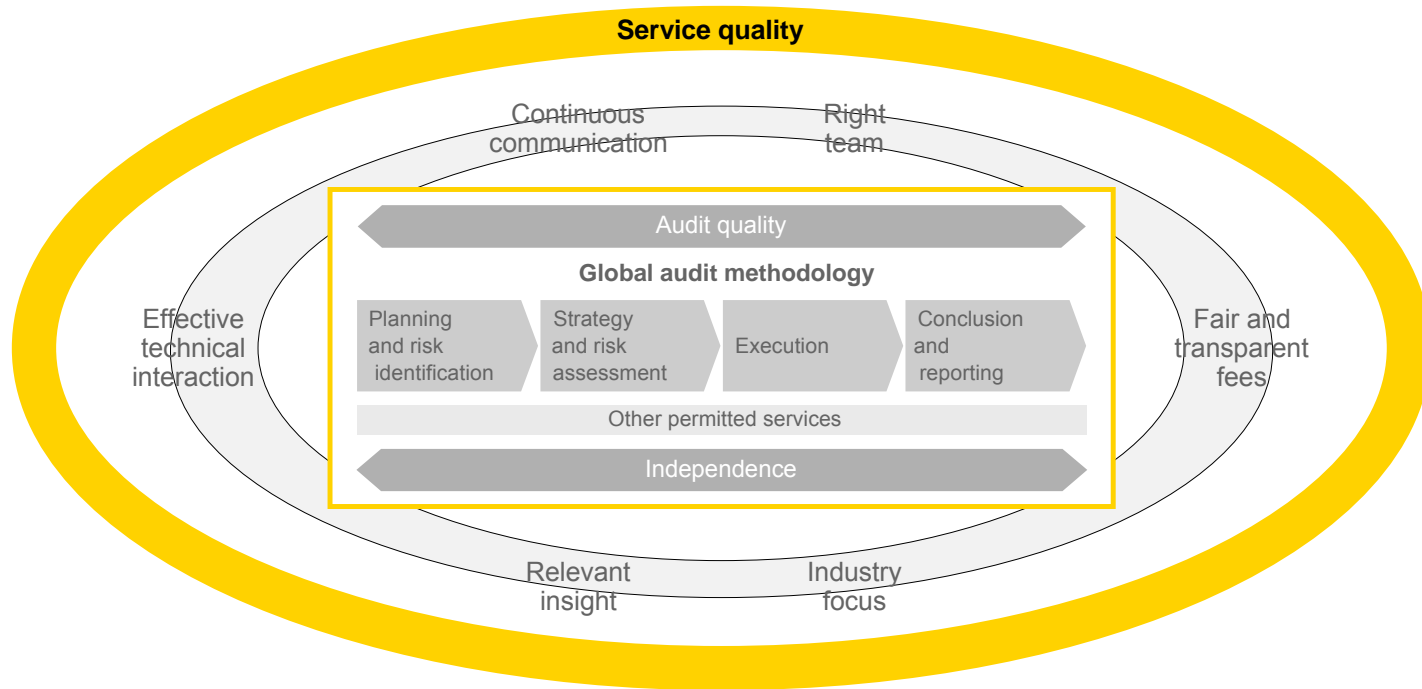
Ernst & Young LLP

Chartered Accountant
Licensed Public Accountants

Agenda

- ▶ Our client service commitment to the City of Ottawa
- ▶ Required communications
- ▶ Deliverables
- ▶ Global audit methodology
 - Overview of the audit process
 - Materiality
 - Accounting and auditing developments
 - Critical policies, estimates and areas of emphasis
 - Fraud considerations and the risk of management override
- ▶ Fair and transparent fees
- ▶ Appendix A — Timing of required communications

Our client service commitment to City of Ottawa



Not adversarial



Maintaining our objectivity



Not cozy

Our service commitment

Ernst & Young is committed to delivering consistent high-quality client service to the City of Ottawa. Our service commitment is centered on our most critical objective of performing a high-quality audit of the City’s consolidated financial statements. Additionally, we strive to provide “Quality In Everything We Do” and recognize that service quality extends well beyond execution of our audit methodology. It is driven by the quality of our team and the effectiveness and value of our communications with management and the audit committee. Our overall service commitment to the City of Ottawa [the “City”] is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Required communications with committee

- ▶ Handbook Section 5751 and other professional standards require the auditor to communicate certain matters to the Committee that may assist the Committee in overseeing management's financial reporting and disclosure process. Appendix B presents the requirements and the timing of these communications. This communication plan will facilitate open and frequent communications with the Committee throughout the year, while ensuring that we meet our professional and regulatory requirements. The following table addresses certain required communications that are discussed with you at the planning stage.

Required communications with audit committee

	Required communications
Area	Comments
<p>Audit and Non-Audit Services Provided by the Auditor The auditor communicates with the audit committee the audit and non-audit services the auditor is providing to the entity and its related entities.</p>	<ul style="list-style-type: none"> ▶ Refer to the “Deliverables” section.
<p>Auditors’ Responsibilities under Generally Accepted Auditing Standards (GAAS)</p>	<p>Management is responsible for the preparation of the consolidated financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.</p> <p>The auditor's responsibility is to express an opinion on the consolidated financial statements based on an audit thereof. An audit is performed to obtain reasonable but not absolute assurance as to whether the consolidated financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the consolidated financial statements will not be detected (particularly intentional misstatements concealed through collusion) even though the audit is properly planned and performed.</p> <p>The audit includes:</p> <ul style="list-style-type: none"> ▶ obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the consolidated financial statements may contain misstatements that, individually or in the aggregate, are material to the consolidated financial statements taken as a whole; ▶ examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements; ▶ assessing the accounting principles used and their application; and ▶ assessing the significant estimates made by management. <p>When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls.</p> <p>The auditor will express an opinion as to whether the consolidated financial statements present fairly in all material respects, in accordance with generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.</p>

Required communications with audit committee

	Required communications
Area	Comments
<p>Our Overall Audit Strategy The auditor communicates with the audit committee aspects of the overall audit strategy:</p> <ul style="list-style-type: none"> ▶ the general approach to the audit; ▶ areas of the consolidated financial statements identified by the auditor, management or the audit committee as having a high risk of material misstatement, and the auditor's response thereto; ▶ the materiality and audit risk levels on which the audit is based; ▶ the preliminary assessment of internal control, the planned extent of audit work related to internal control and the effect of any control reliance on year-end procedures; ▶ other specific items likely to be of particular interest to the committee, including any extensions of the scope of the audit requested by the committee or management; ▶ the effects of new developments in accounting standards, or legislative or regulatory requirements, on the entity's financial reporting; ▶ other areas of concern that the committee or management identifies; ▶ the relevance of management representations to the audit evidence gathered by the auditor and the need to obtain certain management representations in writing; ▶ the timing of the audit. 	<ul style="list-style-type: none"> ▶ Refer to the "Overview of the Audit Process" section ▶ Refer to the "Critical Policies, Estimates & Areas of Emphasis" section ▶ Refer to the "Materiality " section ▶ For purposes of our audit of the consolidated financial statements, our audit scope is developed after considering inherent and control risks and the effectiveness of the City's internal controls. A variety of factors are considered when establishing individual audit scopes for the City including size, specific risks, the volume and types of transactions processed, changes in the business environment, internal audit activity, corporate monitoring controls in place, and other factors. We also consider the overall degree of commonality in processes at the City's locations and the degree of centralization of operations. ▶ Refer to the "Critical Policies, Estimates & Areas of Emphasis" section ▶ Refer to the "Accounting and Auditing Developments" section ▶ None other areas of concern have been brought to our attention ▶ Refer to our engagement letter ▶ Refer to the "Appendix B" section

Deliverables

Audit deliverables

Opinions

- ▶ Express an opinion on the consolidated financial statements of the City of Ottawa
- ▶ Express opinions and complete specified procedures on separate statements for certain City programs and funds in accordance with local/municipal requirements.
- ▶ Express opinions on annual financial statements of OC Transpo Benefit Trust, OC Transpo Benefit Benefit Plans and Pineview Municipal Golf Course.

Internal control communications

- ▶ Issue a written communication to management and the audit committee describing significant weaknesses 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

Other services

- ▶ Perform translation of the French consolidated financial statements and financial highlights included in the annual report of the City of Ottawa

Global audit methodology

Overview of the audit process



Important planning matters for audit committee consideration

- ▶ Business and industry risk considerations
- ▶ Materiality
- ▶ Accounting and auditing developments
- ▶ Critical policies, estimates and areas of emphasis
- ▶ Fraud considerations and the risk of management override
- ▶ Using the work of others

Materiality

- ▶ At the conclusion of the audit, we formulate our opinion on the consolidated financial statements of the City of Ottawa as to their fair presentation in all material respects in accordance with Canadian generally accepted accounting principles.
- ▶ Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.
- ▶ Based on the 2008 budget, we estimate the materiality for the audit of the 2008 consolidated financial statements to be \$23M (\$22M in 2007), which represents 1% of budgeted revenues. The 2008 preliminary materiality level will be reviewed on an ongoing basis throughout our 2008 audit. Should actual results vary significantly from the budget, the materiality level may be adjusted in order to recognize this change in circumstances.

Accounting and auditing developments

Accounting and auditing developments	Summary	Effect on the City
<p>PS 2700 Segment Disclosures:</p>	<ul style="list-style-type: none"> ▶ In January 2006, PSAB approved PS 2700 which prescribes disclosures for government summary consolidated financial statements. ▶ The objective of requiring disclosures on governmental segments is to help users of consolidated financial statements better understand the different types of activities in which governments are engaged. ▶ The guidance in this Section is intended to start with the consolidated financial statements and separate out key financial information into segments in order to provide relevant information for the accountability and decision-making purposes, while ensuring that the information is consistent with the consolidated statements. ▶ This section is effective for fiscal years beginning on or after April 1, 2007. 	<ul style="list-style-type: none"> ▶ Management of the City of Ottawa will incorporate the required disclosures into the December 31, 2008 consolidated financial statements.

Accounting and auditing developments

Accounting and auditing developments	Summary	Effect on the City
<p>PS 3150 Tangible Capital Assets</p>	<ul style="list-style-type: none"> ▶ In September 2006, PSAB approved Section PS 3150 Tangible Capital Assets as it relates to local governments. ▶ This section establishes standards on how to account for and report tangible capital assets in government consolidated financial statements. ▶ Tangible capital assets represent a significant investment for local governments. Financial information about the stock and use of those assets is now required to be provided in the consolidated financial statements of local governments. ▶ This section is effective for years beginning on or after January 1, 2009. 	<ul style="list-style-type: none"> ▶ The City has commenced steps towards complying with this new standard. We have met with City representatives and are working with the team to provide our input and feedback, on a timely basis, throughout the process.
<p>Impact of International Reporting Standards</p>	<ul style="list-style-type: none"> ▶ On February 13, 2008 the Canadian Accounting Standards Board (“AcSB”) confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards (IFRS). The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. 	<ul style="list-style-type: none"> ▶ The City of Ottawa does not currently meet the AcSB’s definition of a publicly accountable enterprise. As such, no formal implementation steps will be undertaken by the Corporation of the City of Ottawa until a PSA handbook section is finalized.

Critical policies, estimates and areas of emphasis

Executive summary

Critical policies and estimates	Critical accounting policy	Ernst & Young comments
Revenue		
Net taxes available for municipal purposes, fees and user charges and government grants	✓	We will conduct substantive procedures on the tax revenues. We will assess the accuracy of the balances.
Assets		
Cash and Short Term Investments	✓	Year end balances will be confirmed and we will substantively test balances to verify that their actual value is not lower than their carrying value
Accrued Liabilities		
Employee Benefit Costs	✓	We will review the 2008 valuation methods and assumptions used by the actuaries. We will conclude as to whether the method used was in compliance with Canadian Generally Accepted Accounting Principles as per PS handbook 3250 and the assumptions used are reasonable.
Property Tax Accruals	✓	We will review management's property tax appeals analysis to estimate the likely property tax appeal liability at year end.
Capital Lease Obligations	✓	We will read any new lease and/or public private partnership agreements and determine the appropriateness of the accounting for these transactions.
Other		
Pension accounting	✓	We will review the current pension obligation and pension asset for both pension plans. We will determine if the appropriate amounts are recorded and that the methods used are compliant with PS handbook 3250.

Critical policies, estimates and areas of emphasis

Executive summary

Additional areas of emphasis	Summary	Ernst & Young comments
North-South Light Rail Transit	<ul style="list-style-type: none"> ▶ During fiscal 2007, two statements of claim were filed against the City for \$177M and \$40M respectively. ▶ As at December 31, 2007, no amount was accrued for these legal claims as management did not feel that it was possible to reasonably estimate the liability. Disclosure of the legal contingency related to the North-South light rail litigation was included in the Notes to the 2007 consolidated financial statements. 	<ul style="list-style-type: none"> ▶ Per discussions with City of Ottawa management, there have been no new developments on the light rail litigation. Management will continue to monitor the litigation over the coming months and will review the need for an accrual and continued disclosure in the December 31, 2008 consolidated financial statements.
Retirement Benefits	<ul style="list-style-type: none"> ▶ According to PS 3250, actuarial gains and losses should be amortized over the expected average remaining service life of the related employee group. ▶ In 2007, the City did not follow the requirements of PS 3250 which resulted in an audit difference being reported to the Committee. 	<ul style="list-style-type: none"> ▶ Management will comply with PS 3250 for any future actuarial gains and losses in 2008. ▶ In addition, management will arrange to have a formal valuation and/or extrapolation of all retirement benefits to support the amounts recorded in the 2008 consolidated financial statements.

Critical policies, estimates and areas of emphasis

Executive summary

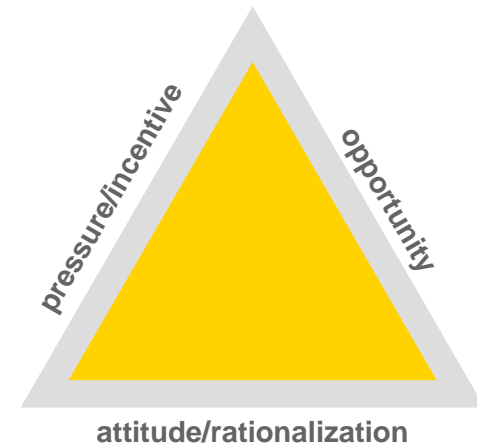
Area of emphasis	Summary	Ernst & Young comments
Solid Waste Landfill and Post-Closure Liability		
	<ul style="list-style-type: none"> ▶ PS 3270 requires that the City's consolidated financial statements recognize a liability for closure and post-closure care of its landfill sites based on usage of the site. The section indicates that a comprehensive review of capacity should be performed at least every three years. 	<ul style="list-style-type: none"> ▶ The management of the City will arrange to have updated assessments of the capacity and closure/post-closure costs of its landfills prior to the end of the current fiscal year.
Public Private Partnerships and other lease agreements		
	<ul style="list-style-type: none"> ▶ The City is party to a number of long-term lease agreements including those related public/private partnerships (P3s) entered into by the City. These agreements have potential accounting implications such as accounting for capital lease obligations. 	<ul style="list-style-type: none"> ▶ The management of the City has informed us that, to-date, no new P3 agreements have been entered into in fiscal 2008. ▶ Management will continue to monitor all new leases entered into by the City to assess the related accounting implications on a timely basis.

Fraud considerations and the risk of management override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or by fraud (CICA Section 5135, *The Auditor's Responsibility to Consider Fraud*).

Our audit procedures will encompass the requirements of CICA 5135: brainstorming, gathering information to facilitate the identification of and response to fraud risks and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).

- ▶ We evaluate the risk of management override using the fraud triangle and consider the actions management has taken to respond to those risks.
- ▶ We consider, among other things:
 - Code of conduct/ethics
 - Effective and independent oversight by the committee (consider AICPA Antifraud Paper for Audit Committees — January 2005)
 - Process for dealing with whistle-blower allegations
 - Adequacy of internal audit activity
 - Entity's risk assessment processes
- ▶ Role and oversight responsibilities of the the committee:
 - Management's assessment of the risks of fraud
 - Programs and controls to mitigate the risk of fraud
 - Process for monitoring multiple locations for fraud
 - Management communication to employees on its views on business practices and ethical behavior



Occupational Fraud and Abuse, by Joseph T. Wells, CPA, CFR
(Obsidian Publishing Co, 1997);

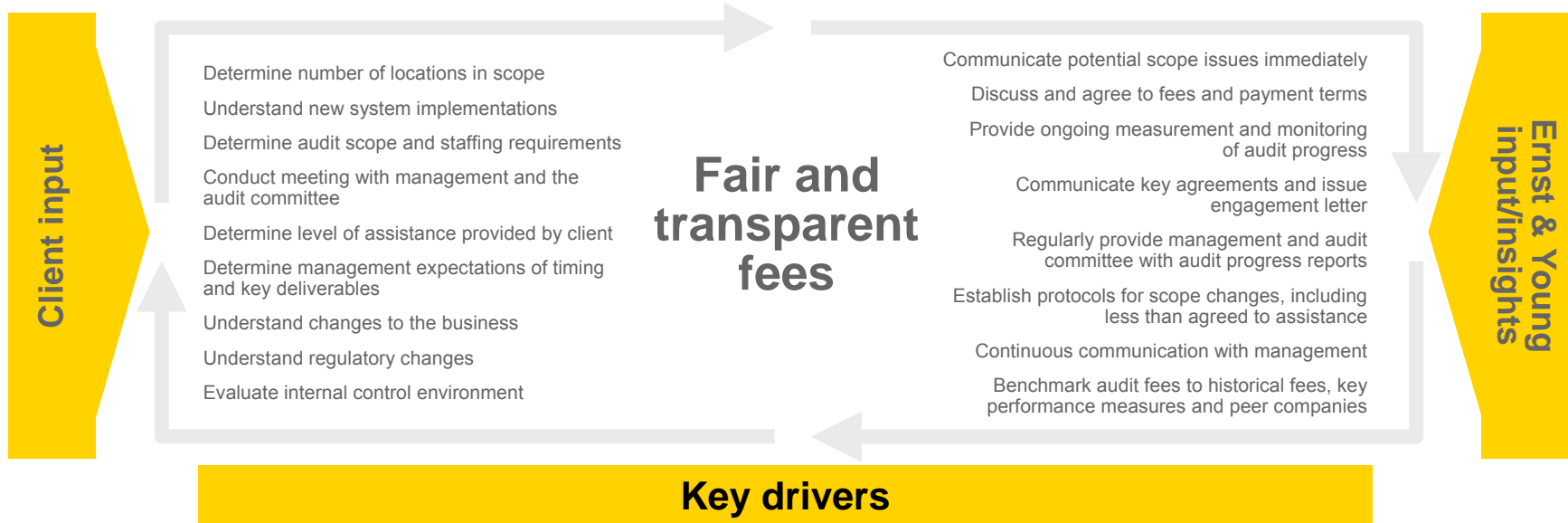
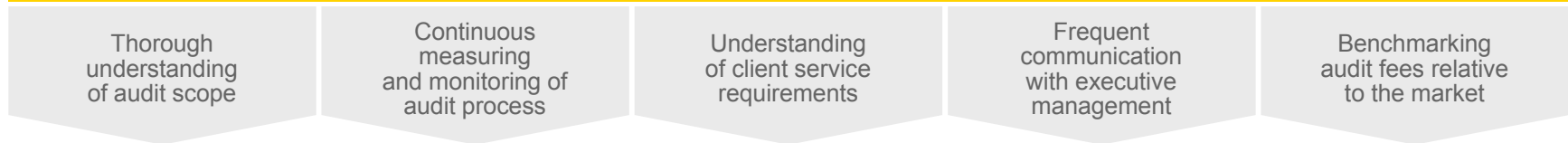
Fraud Examination, by W. Steve Albrecht (Thomson South-Western Publishing, 2003)

Fair & Transparent Fees

Guiding principles

Quality In Everything We Do (right resources to perform audit work)	Fair audit fee arrangement
Transparent, open communications	Early/continual involvement by management/oversight committee

How we do it



Fair & Transparent Fees

Engagement Name	2008 audit fees	2007 audit fees
City of Ottawa Consolidated	\$ 160,500	\$ 154,500
City of Ottawa - Library Schedule	\$ 2,200	\$ 2,080
Pineview Municipal Golf Course	\$ 10,500	\$ 10,000
Business Improvement Areas (13)	\$ 15,000	\$ 14,000
City of Ottawa Sinking fund	\$ 11,500	\$ 11,000
Endowment Fund (no longer required)	\$ N/A	\$ 5,500
City of Ottawa - Superannuation fund	\$ 11,500	\$ 11,000
OC Transpo Pension Plan	\$ 10,000	\$ 9,500
OC Transpo Benefit Trust	\$ 10,500	\$ 10,000
Total	\$ 231,700	\$ 227,580
Somerset Chinatown	\$ 2,800	\$ 2,600
Municipal Funding Agreement - Gas Tax	\$ 9,750	\$ 9,360
In House Waste Collection	\$ 12,000	\$ 11,440
Public Health	\$ 4,650	\$ 4,470
Healthy Babies/Healthy Children Settlement forms	\$ 3,600	\$ 3,430
Smoke Free Ontario	\$ 3,600	\$ 3,430
AIDS Bureau settlement forms	\$ 3,600	\$ 3,430
Rent Bank	\$ 5,500	\$ 5,300
Long Term Care Section II, IV and VII of Annual reconciliation	\$ 4,650	\$ 4,470
Long Term Care Trust Funds	\$ 4,650	\$ 4,470
Annual Program Expenditure Reconciliations (3)	\$ 14,600	\$ 14,040
Grand Total	\$ 301,100	\$ 294,020

Appendix A - Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Communications required on all audits		
Audit and non-audit services provided to the entity and related entities		X
Our responsibility under GAAS, including other information in documents containing audited financial statements		X
Overall audit strategy - Overview of planned scope and timing of the audit		X
Communication of independence matters		X
Material alternative accounting treatments discussed with management		X
Representations the auditor requests from management		X
Major issues discussed with management in connection with initial or recurring retention	X	
Significant audit adjustments		X
Unrecorded audit differences considered by management to be immaterial		X
Our judgments about the quality of the Company's accounting principles		X
Disagreements with management	X	
Consultations with other accountants	X	
Serious difficulties encountered in dealing with management when performing the audit	X	
The adoption of, or a change in, an accounting principle	X	
Methods of accounting for significant unusual transactions and for controversial or emerging areas, and their effect	X	
Sensitive accounting estimates		X

Appendix A - Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Communications required on all audits (cont'd)		
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Significant weaknesses identified during our audit		X
Related party transactions identified that are not in the normal course of operations		X
Matters relating to component entities of the Company		X
Additional communications required on audits of public clients		
Fees and Related Regulatory disclosures		X
Audit committee pre-approval of services		X
Critical accounting policies and practices		X
Other material written communications with management		X
Use of the Audit Report and our responsibilities for other information in documents containing the audited financial statements		X

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Strong independent assurance provides a timely and constructive challenge to management, a robust and clear perspective to audit committees and critical information for investors and other stakeholders. The quality of our audit starts with our 60,000 assurance professionals, who have the experience of auditing many of the world's leading companies. We provide a consistent worldwide audit by assembling the right multidisciplinary team to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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